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Commission

SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report
CZECH REPUBLIC
Eva Fraňková

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Czech Republic based on available information as of December 2018. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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This report provides an overview of the social enterprise landscape in the Czech Republic based on available information as of December 2018. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Eva Fraňková from Masaryk University was in charge of producing the report.

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Countries included in the three social enterprise mappings by the European Commission

| No | Country | TYPE | 2014 | 2016 | 2018-19 |
|----|---------------------------------------|--------|------|------|---------|
| 1 | Albania | Fiche | - | - | ✓ |
| 2 | Austria | Report | ✓ | - | ✓ |
| 3 | Belgium | Report | ✓ | ✓ | - |
| 4 | Bulgaria | Report | ✓ | - | ✓ |
| 5 | Croatia | Report | ✓ | - | ✓ |
| 6 | Cyprus | Report | ✓ | - | ✓ |
| 7 | Czech Republic | Report | ✓ | - | ✓ |
| 8 | Denmark | Report | ✓ | - | ✓ |
| 9 | Estonia | Report | ✓ | - | ✓ |
| 10 | Finland | Report | ✓ | - | ✓ |
| 11 | France | Report | ✓ | ✓ | - |
| 12 | Former Yugoslav Republic of Macedonia | Fiche | - | - | ✓ |
| 13 | Germany | Report | ✓ | - | ✓ |
| 14 | Greece | Report | ✓ | - | ✓ |
| 15 | Hungary | Report | ✓ | - | ✓ |
| 16 | Iceland | Fiche | - | - | ✓ |
| 17 | Ireland | Report | ✓ | ✓ | - |
| 18 | Italy | Report | ✓ | ✓ | - |
| 19 | Latvia | Report | ✓ | - | ✓ |
| 20 | Lithuania | Report | ✓ | - | ✓ |
| 21 | Luxembourg | Report | ✓ | - | ✓ |
| 22 | Malta | Report | ✓ | - | ✓ |
| 23 | Montenegro | Fiche | - | - | ✓ |
| 24 | The Netherlands | Report | ✓ | - | ✓ |
| 25 | Norway | Fiche | - | - | ✓ |
| 26 | Poland | Report | ✓ | ✓ | - |
| 27 | Portugal | Report | ✓ | - | ✓ |
| 28 | Romania | Report | ✓ | - | ✓ |
| 29 | Serbia | Fiche | - | - | ✓ |
| 30 | Slovakia | Report | ✓ | ✓ | - |
| 31 | Slovenia | Report | ✓ | - | ✓ |
| 32 | Spain | Report | ✓ | ✓ | - |
| 33 | Sweden | Report | ✓ | - | ✓ |
| 34 | Switzerland | Report | ✓ | - | - |
| 35 | Turkey | Fiche | - | - | ✓ |
| 36 | United Kingdom | Report | ✓ | - | ✓ |

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List of acronyms

- > **ANNO** Association of Non-governmental Non-profit Organisations of the Czech Republic
- > **ARES** Access to Registers of Economic Subjects
- > **BKB** Bike Kitchen Brno (case study)
- > **CACR** Cooperative Association of the Czech Republic
- > **CR** Czech Republic
- > **CS** Česká spořitelna (bank)
- > **CSA** Community supported agriculture
- > **CSO** Czech Statistical Office
- > **CSOB** Česká obchodní banka (bank)
- > **CSR** Corporate Social Responsibility
- > **CVNS** Centre for Non-profit Sector Research
- > **DB** Diakonie Broumov (case study)
- > **DIY** Do-It-Yourself
- > **EaSI** Employment and Social Innovation programme of the European Commission
- > **EIF** European Investment Fund
- > **ERDF** European Regional Development Fund
- > **ESF** European Social Fund
- > **IOP** Integrated Operational Programme
- > **IROP** Integrated Regional Operational Programme
- > **LAG** Local Action Group
- > **MFRD** Ministry for Regional Development
- > **MIT** Ministry of Industry and Trade
- > **MoLSA** Ministry of Labour and Social Affairs
- > **NPO** Non-profit Organisation
- > **OPE** Operational Programme Employment
- > **OPHRE** Operation Program Human Resources and Employment
- > **PBC** Public Benefit Company

- > **SME** Small and Medium Enterprises
- > **TAČR** Technology Agency of the Czech Republic
- > **TESSEA** Thematic Network of Social Economy
- > **WISE** Work Integration Social Enterprise

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Executive summary

Background

The historical roots of social enterprises in the Czech Republic extend back to the emergence of worker cooperatives, mutuals, and associations in the mid-19th century. These organisations focused e.g. on financial, consumer and production mutual aid and self-help. At their peak before World War II, more than 16,500 active cooperatives operated in Czechoslovakia. During the communist regime (1948-1989), some associations and cooperatives survived but lost their autonomy and democratic bottom-up structure. The regime left an impact on Czech cooperatives and non-profit organisations even after its demise. Bottom-up left-wing discourses became discredited, and uncritical pursuit of private property, free market, and profit became a key feature of the post-communist political agenda. However, associations, cooperatives and religious organisations did revive after the Velvet Revolution of 1989. The latter have expanded their activities to include humanitarian and social work, and their potential within the social enterprise sphere has grown in the wake of a recent government move to return land and buildings (seized by the communist regime) to Czech churches.

The concepts of social economy and social enterprise have slowly entered the public sphere only after 2000. The pace has picked up after the entry of the Czech Republic into the EU in 2004, and especially during the last decade. The main driver has been the availability of European funding, which in the Czech Republic is mostly administered by the Ministry of Labour and Social Affairs (MoLSA). Although EU funding has to date supported mostly work integration social enterprises (WISEs), the spectrum of social enterprises in the Czech Republic reaches more broadly and includes environmentally and community oriented initiatives. The challenge for the future lies in taking a broader view and to furnish support not only for WISEs, but for other types of social enterprises, their umbrella and support groups, and perhaps also local municipality activities in this sphere.

Concept, legal evolution and fiscal framework

Based on the EU operational definition, social enterprises in the Czech Republic have adopted eight different legal forms. From all of these, however, only one can be interpreted as an *ex lege* social enterprise: the social cooperative. All others qualify as *de facto* social enterprises, namely: associations, public benefit companies, institutes, foundations, church legal persons, cooperatives (other than social cooperatives), and limited liability companies. Alongside the EU operational definition, a Czech definition of social enterprise was developed by TESSEA ČR (formerly a network of academics and practitioners, recently transformed into a membership organisation). A broad range of stakeholders has accepted this, including MoLSA. The Czech definition aligns with the

EU operational definition to a large extent, the main difference deriving from the explicit presence of an environmental and local dimension in the Czech set of principles.

Regarding the legal framework, advances toward a law on social enterprise have progressed since 2014, with the current proposal soon-expected to enter the inter-ministerial debate. Other legislation thus continues to play a significant role in regulating Czech social enterprises, e.g. the new Civil Code that came into power in 2014 and brought significant changes to several non-profit legal forms, and that also, albeit very generally, defines the status of public benefit. A special law on public benefit status that had undergone preparation has not received approval, and the Income Tax Act only defines the more narrow term “publicly beneficial taxpayer.” Generally, Czech non-profit organisations (NPOs) can pursue economic activities by law, granted they play a secondary role and they reinvest profits to fulfil the general interest mission. No special fiscal benefits apply for social enterprises in the Czech Republic, above all due to the lack of their legal recognition. Neither do any codified fiscal benefits fit start-up activities. Generally, fiscal arrangements and benefits relevant for social enterprises are those available to “publicly beneficial tax-payers;” those related to donations to non-profit entities; and those related to active employment policies, especially employment of people with disabilities.

Mapping

Based on a combination of expert estimations and proportions of individual legal forms as revealed in several recent surveys, the total estimated number of potential social enterprises in the Czech Republic has grown slightly since 2014, reaching almost 3,800 in 2018. Out of eight legal forms identified when applying the EU operational definition to Czech conditions, the only category supposedly composed of solely social enterprises is the social cooperative; however only about 30 of them existed in 2018. Another legal form with quite a high proportion of potential social enterprises is the public benefit company (PBC) with about 50% of all PBCs estimated to fulfil the social enterprise characteristics. Estimates show that PBCs simultaneously represent the most numerous group in absolute terms (around 1,500). For the rest of the legal forms, the estimated percentage fall significantly lower—though in absolute terms, cooperatives, associations, church legal persons and limited liability companies still represent significant numbers of social enterprises (several hundred). The estimated numbers of both foundations and institutes are negligible. Worth noting, however, is that several Czech surveys and stakeholders (whom refer to the TESSEA definition), estimate a significantly lower number of social enterprises in the Czech Republic, about 400-600 in total.

Regarding the fields of activities and other characteristics of both *ex lege* and *de facto* potential social enterprises in the Czech Republic, only partial data shed light on non-

profits and cooperatives. Richer material stems from several recent surveys of Czech social enterprises as defined by TESSEA. However, these are not structured according to legal forms, and most represent only a certain part of Czech social enterprises, mainly WISEs. According to these surveys, the two most common target groups are people with health disabilities and the long-term unemployed—after all, these two groups receive systematic support for work integration from public resources. Quite often, social enterprises aim to combine more target groups and a broad spectrum of economic activities. This becomes apparent in one of the case studies presented in this report, the Etincelle group. According to the surveys, Czech social enterprises mostly function as small businesses with around 15 employees and annual turnover around 170,000 EUR, more than half of them generating profit within the last year or two.

Ecosystem

Key actors of the Czech social enterprise ecosystem include the MoLSA; several public bodies; the umbrella group TESSEA ČR; several regional and municipal networking and supporting initiatives; several universities active both in topical research and education; two mainstream banks developing programs targeting social enterprises; and several business incubators. Despite a numerous and broad range of active actors, the sector as a whole still lacks general political and public support on the one hand, and strong representative bodies and lobbying power on the other.

Specific funding for social enterprises in the Czech Republic has (until recently) come mainly from public sources (mostly grant schemes administered by MoLSA). MoLSA has recently announced changes in the form of this support—the current grant scheme will close in mid-2019 and plan a shift towards loans. In addition to support measures targeting social enterprises, general support schemes (e.g. for SMEs) can also lend support to social enterprises via the network of regional innovation centres or the Technology Agency of the Czech Republic (TAČR) which supports applied research. Strategic financial support has also reached NPOs in the Czech Republic. In addition, WISEs often utilize financial support to employ people with health disabilities and use other employment policy tools available to all legal forms. Although specific sources of public procurement fall short for social enterprise, the overall supportive context seems to be improving.

Perspectives

Social enterprises (especially WISEs) have flourished in the Czech Republic in the last couple of years. The definitions and principles of social enterprise developed by TESSEA and MoLSA have come to a relative consensus, and the available public funding schemes (mostly from the EU ESF programme) have boosted their development. However, some issues create difficulties for social enterprises, such as the slow process of legal definition, uncertainty around the future of public financial support, the lack of a broader political support and inadequate recognition by the wider public. Opportunities identified by the stakeholders consulted for the purpose of this study lie in the creation of a national strategy and action plan that might support the sector both internally (by encouraging stakeholder debates), and externally (by promoting and developing more systemic and prioritised activities).

Another challenge comes in acknowledging and finding support for the whole spectrum of activities and potential of social enterprises. After all, both traditional (i.e. work integration) and nascent fields of engagement of social enterprises (i.e., local food production and distribution, ethical gastronomy, zero-waste shops, etc.), cultivate promising approaches and examples of good practice. The environmental, community and possibly also municipal social enterprises could thus thrive along with the more recognised social enterprises involved in social and charitable work.

The four case studies presented in this report demonstrate some of these new trends. Diakonie Broumov, a recycling and re-use public benefit company, employs local disadvantaged people; the Etincelle group works as a WISE that runs integration bistros and cafés, but also operates a social farm and other activities; the Fair & Bio coffee-roasting plant combines work integration with an environmental and fair trade focus; and finally the Bike Kitchen association represents the most radical grass-root initiative through running a DIY bike workshop and providing informal community space. As expressed in the motto of one of these social enterprises: “To be normal is to be diverse.”




CZECH
REPUBLIC

1

BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

The historical roots of social enterprises in the Czech Republic extend back to the emergence of worker cooperatives, mutuals, and associations in the mid-19th century. During the communist regime (1948-1989), some associations and cooperatives survived but lost their autonomy and democratic bottom-up structure. The regime left an impact on Czech cooperatives and non-profit organisations (NPOs) even after its demise. Bottom-up left-wing discourses became discredited, and uncritical pursuit of private property, free market, and profit became a key feature of the post-communist political agenda. However, associations, cooperatives and religious organisations did revive after the Velvet Revolution of 1989. The concepts of social economy and social enterprise have slowly entered the public sphere only after 2000. The pace has picked up after the entry of the Czech Republic into the EU in 2004, and especially during the last decade. The main driver has been the availability of European funding, which in the Czech Republic is mostly administered by the MoLSA. Although EU funding has supported mostly work integration social enterprises (WISEs) to date, the spectrum of social enterprises in the Czech Republic reaches more broadly and includes environmentally and community oriented initiatives.



The historical roots¹ of social enterprises in the Czech Republic extend back to the emergence of worker cooperatives, mutual type organisations, and associations in the mid-19th century (Feierabend 1952, Dohnalová 2009, Hunčová 2010, Bednářiková and Francová 2011, Kotýnková 2013, Švihlíková and Hunčová 2018). Among others, these organisations originally focused on financial, consumer and production mutual aid and self-help. Within the multi-lingual and multi-national Habsburg Empire, they helped to form Czech cultural and economic identity and gradually developed an ethos of grassroots economic solidarity (Feierabend 1952). Their activities intensified towards the end of the century and reached their peak after World War I. In the 1920s and 1930s, the number of associations and cooperatives increased in all spheres: from credit, agricultural, housing, energy, consumer, and producer cooperatives to student organisations, sport clubs, associations of national minorities, etcetera. (Feierabend 1952, Dohnalová 2009). In 1937, about 16,670 active cooperatives had registered in Czechoslovakia (Feierabend 1952, table 30).

After World War II, the communist regime took form in February 1948. While some of the associations and cooperatives survived this change, their activity lost certain important elements, above all their autonomy from the state and their democratic bottom-up structure. Surviving associations had to conform to the guiding role of the Communist Party. This implied their absorption under one umbrella communist-controlled organisation called the National Front, which spoke for them, channelled finance to them and controlled their activities. These associations abounded in the fields of sports and culture, but watchdog and advocacy organisations were banned. Cooperatives had to produce goods according to centralized production plans, and free elections of board members became impossible. The cooperative ethos no longer emerged from authentic discussion and promotion. On the other hand, a strong sector of state-controlled production cooperatives integrated people with physical and mental disabilities, which partially survived after the fall of the communist regime. They provided the grounds, to a certain extent, for what we now call Work Integration Social Enterprise (WISE).

Inevitably, **the totalitarian regime heavily influenced the development of the Czech cooperatives and non-profit organisations (NPOs) even after its demise in 1989.** In general, bottom-up left-wing discourses became discredited, as the terms “communal” and “voluntary” conflated in many people’s minds with “Communist” and “State-ordained.” By 1989, the term “cooperative” became deeply discredited. In many people’s minds, it became synonymous with “unified agricultural cooperative,” an organisational form uniformly foisted upon often unwilling peasants in the 1950s (frequently by threats and measures of structural violence). Thus, in reaction

(1) The text regarding the roots of social enterprises in the Czech Republic is partly based on section 2 in Fraňková *et al.* (2018), and partially also on Johannisova *et al.* (2017).

to the communist experience, the Velvet revolution in 1989 led to a sea change in governmental policies often promoting another extreme: an uncritical pursuit of private property, free market, and profit. Most state-owned enterprises became privatised, as did many assets whose ownership had newly shifted from state to local municipalities. After 1989, many post-socialist cooperatives, like other Czech enterprises, also faced difficult economic conditions, including loss of government re-distribution measures, collapsing markets for their products and increasing competition from abroad. In addition, some (unified agricultural cooperatives and housing cooperatives) became further weakened by new rather antagonistic laws passed in the early 1990s toward the cooperative organisational form, facilitating asset privatisation by their members.

Under these conditions, many cooperatives collapsed and terminated their activities (especially producer cooperatives), were subsumed under larger entities or switched to a different legal form and became joint stock companies, etcetera. **The cooperative ethos has slowly revived in on-the-ground cooperatives and in the post-socialist cooperative umbrella groups.** An added issue in the late 1990s came with the precocious emergence of hundreds of credit cooperatives, enabled by new and over-lenient legislation, some of which obviously had a criminal background and many of which went bust within a few years of their inception. This not only tarnished the memory of pre-war credit cooperatives, but also led to overly strict legislation leading to the demise of most remaining credit cooperatives, pressuring the remaining ones to grow and change their legal structure to a commercial bank.

Only recently, with the emergence of a new generation, has the cooperative legal structure started gaining popularity again. However, **not all new cooperatives comply with social enterprise characteristics as defined by the EU operational definition.** In many cases, new organisations choose cooperatives as a legal form due to their expediency; with the exception of credit cooperatives, legal regulation remains loose and lenient in this form. Interestingly, while a new legal form explicitly addresses social enterprises (the social cooperative), some new social enterprises choose the cooperative legal structure (and not necessarily the social cooperative form) because it enables democratic governance. With the possible exception of producer cooperatives, traditional Czech cooperative umbrella groups have struggled in re-igniting interest in the mutual aid and community support traditions of the cooperative movement. A few older cooperatives, though, have been inspired by this tradition and have modified their activities to aim for other goals than profit. For example, one East-Bohemian consumer cooperative, *Konzum*, with more than 100 retail outlets, has sourced from a plethora of small local suppliers in order to support employment and economic plurality in their region. Thus, in the cooperative sphere, social enterprises may spring from both recent (not always social) cooperatives and from those established before 1989, or even before the Communist takeover in 1948.

18 | Background: social enterprise roots and drivers

As regards NPOs, associations experienced both an expansion of numbers and activities and a transformation of function and organisational forms after the democratic revolution in 1989. For the first time in many years, associations could be founded freely, and many new associations appeared after 1989, including environmental and social advocacy and watchdog groups. Funding flowed not only from government (for the more traditional sports and cultural associations) but also from Western funders, often U.S. foundations, who helped associations expand into relatively novel fields like education, environmental and social work. Other new types of mutual grass-roots organisations, such as self-help groups, also emerged in this period. **Nascent social enterprises were able to utilise a new legal form—the public benefit company—that became codified in the 1990s** and facilitated the emergence of non-profit or not-for-profit non-membership organisations with paid staff, governed by a board of trustees. At the same time, over-lenient legislation governing NPOs in the 1990s enabled some tax dodging and swindling by entities taking advantage of the latter, partly smearing the image of NPO in the eyes of the public. Also, the Communist top-down rule of associations under the National Front brought in its wake a mistrust of networking and delegating among Czech NPOs, and for decades after 1989 this weakened effective non-profit lobbying efforts in key areas like legislation.

Despite these issues, both associations and public benefit companies (some of the latter transformed by the well-meaning but heavy-handed new civil code into “institutes,” see sections 2.1.2 and 2.2 for details) have continued to develop, and in many cases developed trading activities even before the recognition of the “social enterprise” concept in the 2000s, thus forming another basis (in addition to cooperatives) for the social enterprise sector.

The 1989 revolution also heavily influenced the sphere of Czech religious organisations. Male monasteries, forbidden under Communism, became reinstated. The largest church institution, the Catholic Church, as well as some of the (much smaller) protestant churches and some newly-emerging non-traditional churches, used their new-found freedom to found church legal persons working predominantly in the sphere of humanitarian aid and social work. Some of these later spun off to become independent social enterprises, such as *Diakonie Broumov* (for details see the first case study in appendix 3), which has branched into reuse and recycling of clothes and other household waste and employs over 150 people in a marginalised border region. A successful not-for-profit Catholic radio and television station also continue operating, funded by grassroots contributions from church members. Although statistics suggest that church persons played a minor role in the sphere of social enterprise to date (see section 3 for details), their future role may develop more prominently, especially given that the state made a recent legal move to hand over a large part of their former (pre-1948) assets to all registered churches (see section 2.2 for details). This economic

power could come to use for not-only-for profit ends, however, it remains to be seen if this hope will materialise.

As regards the concepts of social economy and social enterprise, the terms remained unknown before the year 2000. **In 2002, as the first post-communist country, the Czech Republic² hosted a conference devoted to social economy.** However, public awareness measured quite low at the time, and grew very slowly during the first decade of the new millennium despite some pioneering publications that only reached a small audience (Johanisova 2005).

This slow pace has accelerated **after the entry of the Czech Republic into the EU in 2004, and especially during the last decade. An interest in both the concept and practice of social enterprises has grown palpably**, along with a significant development of the whole social enterprise infrastructure in the Czech Republic. The availability of European funding has greatly driven these changes, which in the Czech Republic is mostly administered by the MoLSA. MoLSA launched several public grant schemes supporting social enterprises between 2009 and 2013, providing a substantial amount of investment and non-investment financial support to emerging social enterprises. These public grant schemes have generated interest in social enterprise and led to creating around 150 new social enterprises, though they exclusively targeted WISEs. This **reinforced the traditional Czech focus on work integration of disadvantaged individuals**—the dominant target group of social enterprises are people with health disabilities (P3–People, Planet, Profit 2015). The 2014–2020 programme period brought a new round of support again mainly channelled to WISEs. Encouragingly, a new type of social enterprise introduced in 2017 has also become eligible for funding: the environmental social enterprise (see sections 2.1 and 4.2 for details).

Alongside direct support to social enterprises, **EU funding also helped to create or strengthen the existing supporting infrastructures such as the work of several umbrella organisations**, especially the Thematic Network of Social Economy (TESSEA), further networking initiatives and sharing examples of good practice. All these activities contributed to growing recognition of social enterprise and its role in society. Due to this growing trend, during the last few years conventional enterprises have demonstrated growing interest in support of social enterprise (e.g. banks/investors, business accelerators etc.).

In parallel with these efforts, disenchanted entrepreneurs have recently set up their own movements and published texts promoting not-only-for profit entrepreneurship,

(2) The Czech Republic emerged in 1993 from a federation of Czechs and Slovaks - Czechoslovakia, which had existed as an independent country, emancipated from the Habsburg Empire, since 1918 (with the exception of a period of occupation by Germany in 1939 - 1945).

such as the *Decent Company*, a conglomerate of younger and middle-aged people with experience in limited liability companies and joint stock companies. They wish to transcend the narrow profit motive espoused by business entities and experiment with different kinds of socially and environmentally responsible business operations and approaches. Some have explored the re-discovery of the cooperative business model.


In addition, the **goals and structures of many other emerging entities bring them close to the EU definition of social enterprise though they may slip under the radar of existing databases**. These entities have varied legal forms (or, in some cases, remain unincorporated) and spring from differing ideological sources, though they share common ground in rejecting the only-for-profit model and seek to provide general interest services, environmental benefits, or services to particular disadvantaged groups. These include community gardens, community-supported-agriculture groups, parent-supported nursery and kindergarten groups as well as communal primary schools, a public interest lawyers' office supported by members' private practice, an apple-juice plant geared to supporting local landrace fruit growers, intentional communities, a cooperative art gallery, social farms, a cooperative newspaper, social squats (which, however, the Czech state does not favour), organic buying groups, and etcetera. Research by the Masaryk University in Brno, thus far unpublished, has tried to delve into these little-charted territories (Johanisova *et al.* 2016). Another sphere thus far ignored in the Czech social enterprise discourse is the role of small municipalities in promoting and supporting social enterprises. Small villages in the Czech Republic operate retail outlets, provide public spaces, operate woodchip-burning heating plants, etcetera. However, their qualification as social enterprises remains up for debate.

The problematic legacy of the Communist era led to: a mistrust of the general public towards cooperatives and NPOs, lack of enthusiasm for networking and umbrella groups, and imperfect regulation (e.g. truncating the successful legal form of the public benefit company). However, **the last 30 years have witnessed a re-rooting and expansion of the social economy and the bottom-up emergence, of various strands of social enterprise yet to undergo adequate analysis by researchers**. EU funding has supported a certain segment of this sphere to date, mostly WISEs, and much research has gravitated toward entities involved in this area. According to stakeholders consulted in the framework of this study, the future of the sector will require a broader view and an evolution of policies to support other types of social enterprises as well as their umbrella and support groups, and perhaps even the contributing activities of municipalities.

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

Based on the EU operational definition, social enterprises in the Czech Republic have adopted eight different legal forms: social cooperative (the only *ex lege* social enterprise), and seven others that qualify as *de facto* social enterprises: associations, public benefit companies, institutes, foundations, church legal persons, cooperatives (other than social cooperatives), and limited liability companies. Alongside the EU operational definition, a Czech definition of social enterprise also developed. The Czech definition aligns with the EU operational definition to a large extent, the main difference deriving from the explicit presence of an environmental and local dimension in the Czech set of principles. Regarding the legal framework, advances toward a law on social enterprise have progressed since 2014, with the current proposal expected to enter the inter-ministerial debate soon. Other legislation thus continues to play a significant role in regulating Czech social enterprises, e.g. the new Civil Code that came into power in 2014 and brought significant changes to several non-profit legal forms. Generally, Czech NPOs can pursue economic activities by law, granted they play a secondary role and they reinvest profits to fulfil the general interest mission. No special fiscal benefits apply for social enterprises and related start-up activities. Relevant fiscal benefits are those available to “publicly beneficial tax-payers;” those related to donations to non-profit entities; and those related to employing people with disabilities.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways; their balanced combination matters most when identifying the boundaries of the social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them for the purpose of the current phase of the study (see appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in the Czech Republic

In order to depict the universe of social enterprises in the Czech Republic, this report abides by a legal/institutional approach, grouping social enterprises based on their legal forms. According to several studies (EC 2014, Dohnalová *et al.* 2015, OECD 2016, TESSEA 2018) and own investigation, **social enterprises adopted the following legal forms in the Czech Republic:**

- > association
- > public benefit company
- > institute
- > foundation

- > church legal person
- > social cooperative
- > cooperative (other than social cooperative)
- > limited liability company

From all these types, **only one legal form explicitly dedicates itself toward social enterprises and thus can be interpreted as *ex lege* social enterprise: the social cooperative**. Section 2.2.1 describes this legal form, and table 3 analyses its compliance with the EU operational definition. All other legal forms fall under the *de facto* umbrella– while not all entities using the particular legal form qualify as social enterprises, a significant portion do indeed abide by similar principles. These include: associations, public benefit companies, institutes, foundations, church legal persons and cooperatives (other than social cooperatives). While most limited liability companies operate as mainstream enterprises, social enterprises use even this form relatively frequently in the Czech Republic, meriting their inclusion in this analysis.

Social enterprises in the Czech Republic reportedly sometimes adopt another three legal forms: endowment funds,³ joint-stock companies, and general partnerships. However, their numbers remain so marginal (a few single units) that these legal forms do not receive further analysis in this report. The legal form of a self-employed individual does not qualify as a social enterprise according to the EU interpretation, though in the Czech context such entities are entitled to receive related funding. Thus, this legal form falls in the grey zone.

Before describing each legal form in detail, two more general issues come to mention: the definition of public benefit, and the regulation of economic activities of NPOs in the Czech Republic.

Definition of public benefit

The status of public benefit is generally defined in the new Civil Code 89/2012, § 146–150. Not exclusive to specific legal forms, it typically interprets non-profit and church organisations as publicly beneficial. However, business entities (as defined in the Business Corporations Act 90/2012, especially the social cooperative) qualify as publicly beneficial if their founding documents provide a main claim to generating public benefit. Nevertheless, this definition remains only very general, as an awaited special law on public benefit had originally sought approval alongside the new Civil Code and did not come through.

This special law on public benefit status had been in preparation for almost a decade. However, in 2013 it failed approval by the Senate and has not been discussed in

(3) An “endowment fund” is a new addition to the Czech spectrum of non-profit legal entities introduced with the new Civil Code, similar in its conception to the British public or private trust.

Parliament again, even if other laws using the status gained approval with validity from 1 January 2014. Further discussions at the Ministry of Finance and other authorities led to a change as of 1 January 2018 whereby the status has been cancelled from all laws. The main purpose of the planned status aimed to simplify and clarify the definition of non-profit organisations in the Czech Republic, differentiate between the status of public benefit (i.e. general, societally beneficial purpose), and the status of mutual benefit (i.e. purpose primarily beneficial for a group of members), and relate specific fiscal and other benefits to these statuses. In the absence of such clarification, the non-profit sector in legal terms has fragmented to individual legal forms; in a fiscal context, **the Income Tax Act 586/1992** in its update from 2013 (no. 344/2013) **defines its own (more narrow) term of a “publicly beneficial tax-payer”** (see section 2.3. for details).

Economic activities of non-profit organisations

In general, Czech non-profit organisations can undertake economic activities. However, the conditions differ slightly for each legal form. Generally, a distinction between primary and secondary activities is crucial. Primary activities include those of a publicly beneficial, charitable, or voluntary character. The secondary activities are expected to generate profit to support the primary activities. As such, they should never override the primary ones, and if any profit surfaces it must fully reinvest in fulfilling the organisation’s main purpose(s) as espoused in its statute rather than get distributed to private persons. Hence, **most economic activities of non-profit organisations that operate as social enterprises take on a secondary nature** as described above.

Even as part of their primary activities, non-profit entities can generate a certain income or receive money for goods and/or services they provide. Public benefit companies and institutes are explicitly designed to provide paid services with one important limitation: access to such services must be equitable and non-discriminatory (see table 4 for details). In the case of foundations, the lack of mention of primary economic activities implies that they are neither expected nor forbidden. Primary economic activities face the most limits in associations, since the law states explicitly that business or other profit-making activities cannot form the primary activity of an association. Still, associations can receive payments for their activities, provided they fulfil a certain need or to follow community interests (e.g. payments for leisure activities for children, social services for people with disabilities, etc.). In general, **non-profit organisations can receive revenues from both primary and secondary activities, though primary activities must always fulfil the organisational purpose without intention to generate profit.**

Aside from public benefit companies, Czech non-profit entities can also establish and run a company to undertake commercial activities. This model proves quite common,

as illustrated in two of the case studies presented in this report: the *Diakonie Broumov* and the *Etincelle* group (see appendix 3 for details).

2.1.3. *De facto* social enterprises⁴

Association

Associations present by far the most common form of non-profit organisation in the Czech Republic. These membership organisations hold general assemblies, whose members constitute the highest governing body. They act as non-profit organisations oriented in either mutual or public interest as specified in the statute designating their main activities. They do not pay tax on profits from this activity (and supporting activities), as it is expected to feed back into the organisation. Since 1 January 2014, an association qualifies as a legal entity, based on the voluntary association of at least three persons led by a common interest. Associations span different sectors such as health, sports, education, social inclusion, and the environment. They can take different forms ranging from advocacy groups to hobby related groups. These include, for instance, the delivery of social and educational services. Associations can conduct trading activities, provided that the profits earned help achieve the association's goals. Accordingly, they can qualify as a social enterprise if they engage in delivering general-interest services and if a part of their income surfaces from their own trading activities.

Public Benefit Company

The engagement of non-profit organisations in economic activities paved the way for the adoption of a new law in 1995, Act no. 248/1995 on Public Benefit Companies (PBC) and therefore a new type of legal entity. This legal form mainly aims to provide publicly beneficial services under predetermined conditions that must apply identically for all beneficiaries. The “publicly beneficial services” are not further specified in the law; hence, it falls on the competence of a judge approving the registration of a particular PBC to decide if its aims and activities as defined in the founding documents are eligible. In practice, these include a very broad range of services from environmental protection, regional development, cultural initiatives and historic sites regeneration to a broad spectrum of social services for various disadvantaged groups, families, elderly people and etcetera. The profits gained by public benefit companies must reinvest into providing those services. Such companies can earn income by charging acceptable prices for the services provided and by accepting funding and donations from the state and private sources.

(4) The characteristics of particular legal forms in this section are based on OECD (2016: 35-36), Dohnalová (2015: 13-17), TESSEA (2018) and legal documents as listed in Table 4.

From this definition, it seems that public benefit companies combine both economic activities and publicly beneficial aims—as such, they may be described as social enterprises. What remains questionable is their level of democratic governance, and the fact that their economic activities can only play a secondary or supplementary role. For this reason, **an on-going discussion among legal and NPOs experts considers if PBCs appropriately function as social enterprises in the Czech Republic**. It is impossible to define the major types of activities undertaken by the PBCs in the country due to lack of data. As outlined in the law, they clearly have the expectation to “offer the public services which are of public benefit,” though their level of economic activity can measure low in practice.

Even if PBCs did not emerge in the context of social enterprises at the time of their introduction in the mid-1990s, they would have the potential to serve as such in the current context. However, a new Civil Code discontinued their development (Act no. 89/2012), which came into power on 1 January 2014. According to this new law, while existing PBCs can continue their operations, new ones cannot surface. Moreover, **new Civil Code abolished the previous law on PBCs, making the operation of the existing PBCs somewhat peculiar** (see section 2.2 for details). The new Civil Code introduces a new legal form—the “institute”— as a PBC’s successor, though it differs slightly in definition.

Institute

Under the new Civil Code, **the new legal form of “institute”, or “registered institute” (*zapsaný ústav*) replaced the previous form of public benefit company (PBC)**. This legal entity paves the way for operating a “socially or economically useful” activity. While this definition appears ambiguous, the legal context makes clear that its main purpose is to provide general interest services to the public. By law, the services of an institute stay available to everyone equally, under predetermined conditions. The institute is in fact a non-profit organisation; it is legally close to foundations, whose legal conditions partly apply to it. The term “institute” to describe former public benefit companies seems inaccurate, since the word *ústav* embodies a much wider concept that also applies to entirely unrelated public institutions (e.g. *Historical Institute of the Czech Academy of Sciences*). As with PBCs, in practice, institutes embrace a wide spectrum of activities including education and research, organisation of cultural events, running community, social and information centres, providing various advisory, social and health services, and others.

Foundation

A foundation demonstrates a legal entity created in support of the general interest or a charitable purpose related to a specific community. Like an association, **a foundation acts as a non-profit entity, conducting economic trade only as a secondary**

activity in support of its main aim. It can utilize the financial support of institutions promoting general or charitable interest as specified in its founding document.

Church legal person/Religious organisation

After the democratic revolution in 1989 until the beginning of 2000s, a brief regulation of churches' economic activities took place. Fundamental legal changes occurred from 2002 onward. In 2005, the concept of "registered legal person" was introduced as a substitute for the earlier notion of religious legal entity; the novelization in 2005 also brought a deepened typology of church legal entities and specified in more detail the conditions for their economic activities. Corporations registered under Act no. 3/2002 on churches and religious communities can include churches and religious societies, religious institutions or church juridical persons founded for the purpose of professing religious beliefs or providing equipment or charitable services. **Examples of such legal persons include charitable institutions (e.g. day-care centres for disabled children, homeless shelters), religious orders and religious communities.**

Cooperative

Cooperatives are regulated by the Business Corporations Act 90/2012. According to this act, they can be established for mutual support of their members, or third parties or for entrepreneurial purposes. In reality, most cooperatives tend to espouse a prominent entrepreneurial dimension and are generally perceived as a specific form of small and medium enterprises (SMEs). **Some recently founded social enterprises have chosen the cooperative legal form, and some traditional cooperatives embrace ethical cooperative principles.** In Czech law, cooperatives have no limitations on distributing dividends and are not entitled to special benefits or support by reason of their legal status. With the exception of credit cooperatives (governed by a different law called the Savings and Credit Cooperatives Act 87/1995), cooperatives must adhere to the one-member-one-vote principle. Two special types of cooperatives receive a definition in the Business Corporations Act: housing cooperatives and social cooperatives (the latter qualify as *ex lege* social enterprises in this report and undergo detailed description in section 2.2). In practice, several other types of cooperatives exist, such as production cooperatives, consumer cooperatives, and agricultural cooperatives.⁵ Some confusion arises, too, from the fact that other legal forms aside from cooperatives can use the word "cooperative" (*družstvo* in Czech) in their name while operating under a different legal form (this frequently occurs with agricultural cooperatives that often transformed their legal status after the Velvet Revolution, but kept the same name).

(5) See e.g. the report on Czech cooperative movement and selected statistical data in 2017 (CACR 2018).

Limited liability company

A limited liability company, legally defined in the Business Corporations Act, presents as a conventional company. However, it may be created with an aim reaching beyond the traditional business, and therefore presents one of the legal forms used by social enterprises in the Czech Republic. **Many non-profit organisations choose this legal form for subsidiary companies when they wish to establish a separate legal body to perform economic activities.** The advantage of choosing this legal form lies in their more favourable perception by banks, which more likely grant loans to commercial companies, and establishing and running these entities prove relatively simple in comparison to the non-profit ones. Still, establishing a limited liability company represents a cost (approximately 545 EUR)⁶ and can become a time-consuming process. Moreover, the activities of limited liability companies do not enjoy the same tax benefits applicable in the non-profit sector (see section 2.3 for details).

Table 1. Analytical overview of the compliance of individual legal forms used by the Czech *de facto* social enterprises with the EU operational definition

| Legal form | Compliance with the EU operational definition | Principle from the EU definition satisfied? |
|-------------|---|--|
| Association | Entrepreneurial / economic dimension: Associations can perform trading activities, though they cannot comprise their primary objective. While they can generate profits, they must fully reinvest into their main activities. They can accept funding and donations from both public and private sources | Not necessarily (and only as a secondary activity) |
| Association | Social dimension: The purpose of an association may centre on activities in the mutual interest of its members or the general interest | Not necessarily |
| Association | Inclusive governance-ownership dimension: Unless stated otherwise in the statute, the general members' assembly composes the supreme body of an association. Unless stated otherwise, the supreme body both elects and removes the members of the governing body. Profits from the association's activities may only funnel toward its activities, including the administration of the association. In case of liquidation, the liquidation balance is used according to its statute. If this is not practicable, the liquidator will offer the liquidation balance to another association with a similar purpose, or to a municipality or region; these remaining assets may only be used for public benefit | Yes |

(6) The exchange rate of 1 EUR = 26 CZK was used in the whole document for recalculation of all monetary-based information, and the amounts were rounded up to whole numbers.

| Legal form | Compliance with the EU operational definition | Principle from the EU definition satisfied? |
|------------------------------|--|---|
| Public benefit company (PBC) | Entrepreneurial / economic dimension: PBCs are entitled to provide publicly beneficial services under predetermined conditions (in its charter/founding documents), which should apply identically and indiscriminately for all beneficiaries. PBCs can earn income by charging acceptable prices for the services provided, though its entrepreneurial/business activities can only serve as supplementary or secondary. Profits must reinvest into its main aim, i.e. the provision of the publicly beneficial services. PBCs can accept funding and donations from both public and private sources and enter into contract with public authorities | Yes (only as a secondary activity) |
| Public benefit company (PBC) | Social dimension: the main aim of PBCs is—by law—to provide publicly beneficial services | Yes |
| Public benefit company (PBC) | Inclusive governance-ownership dimension: the PBC can get set up both by individuals and other legal entities. It is not a membership organisation, and functions through a self-perpetuating board of trustees and a supervisory board. The board of trustees appoints an executive director. Any potential profit has to fully reinvest in supporting the main public benefit aim(s). No asset lock applies | Partly yes |
| Institute | Entrepreneurial / economic dimension: the institute can pursue trading activities, though they “must not interfere with the quality, scale and accessibility of its services, which are its main activities.” | Yes (only as a secondary activity) |
| Institute | Social dimension: the purpose and activities of the institute have the ambiguous definition of “socially or economically beneficial,” though other sections of the law clearly illustrate its main aim as providing services for the public | Yes |
| Institute | Inclusive governance-ownership dimension: An execu | Partly yes |
| Foundation | Entrepreneurial / economic dimension: A foundation is obliged to support the general interest, or charitable purpose related to a specific community of persons. A foundation may pursue business activities if they are only secondary and if their revenues are used solely to support its main purpose. | Yes (only as a secondary activity) |
| Foundation | Social dimension: Both legal and natural persons can set up a foundation to permanently serve a socially or economically beneficial purpose. A foundation may have a publicly beneficial purpose if it aims to promote public benefit, as well as a charitable purpose if it aims to support a specific group of people | Yes |
| Foundation | Inclusive governance-ownership dimension: The foundation’s governing body includes a board of trustees, with a supervisory board or an inspector. In case of liquidation, the liquidation balance is used according to its statute. If not possible, the liquidator offers the liquidation balance to another foundation with a similar purpose, or to a municipality or a region; these remaining assets may only gear toward publicly beneficial purposes | Partly yes |

| Legal form | Compliance with the EU operational definition | Principle from the EU definition satisfied? |
|---------------------------|---|--|
| Church legal person | Entrepreneurial / economic dimension: Church legal persons may pursue business activities but their scope of business should be stated in their founding documents. Their business activities cannot form their main activity, and their revenues must solely support the entity's main purpose | Not necessarily (and only as a secondary activity) |
| Church legal person | Social dimension: Church legal persons are established with the aim to provide social, charitable or health services | Yes |
| Church legal person | Inclusive governance-ownership dimension: No inclusive governance is granted by law. The remainder of the liquidation balance gets distributed to another church legal person as stated in the founding documents or to the state, which must use it for the support of churches or other church legal persons | Partly yes |
| Cooperative | Entrepreneurial / economic dimension: A cooperative gets established under the Business Corporations Act. Both individuals and legal entities can become members, with a minimum of three members and without maximum. A cooperative gets established in order to mutually support its members or third parties or, when appropriate, for the purpose of commercial activity | Yes |
| Cooperative | Social dimension: As stated above, mutual support of its members or third parties can, but does not have to form the main goal of the cooperative | Not necessarily |
| Cooperative | Inclusive governance-ownership dimension: Each member has one vote, and the main decision-making body, composed of the general assembly, elects the board. The remainder of the liquidation balance gets distributed among cooperative members based on a complicated algorithm. No asset lock exists | Partly yes |
| Limited liability company | Entrepreneurial / economic dimension: The limited liability company gets established with the purpose of conducting business activities and generating profit | Yes |
| Limited liability company | Social dimension: The limited liability company can declare any kind of public benefit aims in its founding documents | Potentially yes |
| Limited liability company | Inclusive governance-ownership dimension: Inclusive governance, as well as any limit on distribution of profits can apply if the company asserts in its founding documents that it will act according to the principles of a social enterprise and reinvest a certain part of its profits into its general interest activities. The remainder of the liquidation balance gets distributed among the company members, if not stated otherwise in the founding documents. No asset lock exists | Potentially yes |

Sources: Based on inputs from Petra Francová and Nadia Johannisova and on particular legal documents as listed in table 4.

Borderline case: Self-employed individual

In the Czech context, self-employed individuals can qualify as a suitable legal form for social enterprises if they fulfil social enterprise characteristics as defined in the Czech Republic (see table 2). As this approach remains questionable within the EU interpretation of the operational definition, this report mentions self-employed individuals as a grey area.

A social entrepreneur working as a natural person owns a business license. From the point of view of the authorities, health insurance companies and the Social Security Administration, the self-employed individual derives his/her income from business and/or another form of self-employment. The self-employed individual can carry out any form of business that applies to a natural or legal person, provided they obtain a trade license extract from the Trade Register. In their research, Johanisova *et al.* (2016) encountered such self-employed individuals involved in general interest activities that tended to hire other self-employed individuals on a contract basis.

2.1.4. Definition of social enterprises in the Czech Republic

The interest in defining social economy and social enterprise has grown in the Czech Republic since early 2000s; **TESSEA ČR (Thematic Network of Social Economy) laid the groundwork in developing these definitions.** This network established in 2009 provided a broad platform that brought together various stakeholders in the social economy field. By 2010, it developed a definition of social enterprise accepted by a broad range of stakeholders in the Czech Republic, including the MoLSA, Agency for Social Inclusion, Association of Czech and Moravian Cooperatives and others.

General social enterprise and WISE according to TESSEA

TESSEA published the first version of the definition in 2010, including a detailed table of general principles and concrete characteristics. From the beginning, **two types of social enterprises were distinguished, a “general” social enterprise, and a WISE.** While these principles and characteristics have since evolved, the main ideas and content remain preserved (TESSEA 2017).

Given the importance of WISEs in Czech circumstances, Table 2 summarises primarily WISE principles and characteristics. Very similar characteristics apply also to the general social enterprise, the only main difference surfacing in a broader specification of the publicly beneficial objective and the related target groups (characteristics no. 0a and 1a in Table 2). In WISE, the specific objective aims for the “employment and social inclusion of people disadvantaged at the labour market,” while general social enterprises can dedicate themselves to any publicly beneficial aim, including environmental, cultural and local community benefits.

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

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

Table 2. TESSEA principles of a WISE

| Principles of WISEs | Social benefit | Economic benefit | Environmental and local benefit |
|---|--|--|---|
| <p>Characteristics (those in italics are not compulsory)</p> <p>General definition:</p> <p>0a) Publicly beneficial objective of employment and social inclusion of people disadvantaged at the labour market is formulated in the founding documents and fulfilled by means of specific activities</p> | <p>1a) Employment and social inclusion of people disadvantaged on the labour market</p> <p>1b) Employees and members participate in the enterprise's strategic decision-making</p> <p><i>1c) Emphasis on the development of work competences of disadvantaged people</i></p> | <p>2a) Any profits used preferentially to develop the social enterprise and/ or to achieve publicly beneficial goals.</p> <p>2b) Independence (autonomy) from external founders in decision-making and management.</p> <p>2c) At least a minimum proportion of total revenues and growth thereof accounted for by revenues from sales of goods and services</p> <p>2d) Ability to manage economic risks</p> <p><i>2e) Asset lock</i></p> | <p><i>3a) Preferential satisfaction of the local community's needs and local demand</i></p> <p><i>3b) Preferential use of local resources</i></p> <p>3c) Consideration for environmental aspects of both production and consumption</p> <p>3d) Social enterprise cooperates with important stakeholders</p> |

Source: TESSEA (2018).

WISE and environmental social enterprise according to MoLSA

Crucially, **the TESSEA principles, characteristics and indicators of WISE connect with funding opportunities for social enterprises in the Czech Republic administered mainly by MoLSA.** It approved the TESSEA definitions and indicators in 2010 and used most of them when defining social enterprises in all its related grant calls. However, it has changed the concrete setting several times according to its funding priorities, thus presenting an unfixed set and difficulty in capturing one concrete version of it. The most recent version is available as part of the current MoLSA project calls (see section 4.2 for details).

In 2016 MoLSA developed another modified set of principles and characteristics for an “environmental social enterprise,” and MoLSA’s ESF project proposal calls in 2017-2019 support the development of environmental social enterprises (see section 4.2 for further information).

The principles and characteristics of the general social enterprise and WISE as developed in the Czech Republic by TESSEA and adapted by MoLSA align with the EU operational definition to a large extent.⁷ **The main difference between the TESSEA principles and the EU operational definition comes with the explicit presence of the environmental and local dimension in the Czech set of principles** (see the last column in table 2) that applies both to the general and integration social enterprises, and is made even more prominent in the environmental social enterprise as funded by MoLSA.

A broader argument centres on the importance and (at least an implicit) environmental potential of all types of social enterprises; this line of argumentation is elaborated e.g. in Johanisová *et al.* (2013) and Johanisova and Fraňková (2013, 2017) who refer to an eco-social enterprise. Their approach also makes **space for more informal grassroots community-based initiatives that remain either unincorporated, or their activities and organisational forms are manifold** and thus cannot be easily captured by the institutional typology.

(7) For a detailed analysis of their compliance, see Table 3.1 in the 2014 version of this report.

2.2. Legal evolution

This section defines the social cooperative, the only legal form interpreted as *ex lege* social enterprise in the Czech legal system. The compliance of social cooperatives with the EU operational definition is analysed in Table 3. As noted in section 2.1.2, beside the *ex lege* legal form of the social cooperative, seven legal forms come into use by *de facto* social enterprises in the Czech Republic. The main legal developments of all the relevant legal forms are summarized in table 4. The end of the section provides a note on the process of church compensations, and an update on the process of creating the social enterprise law currently taking place in the Czech Republic.

2.2.1. *Ex lege* social enterprises: social cooperative

As previously noted, **the only legal form that explicitly dedicates itself to (work integration) social enterprises (WISE) in the Czech context is the social cooperative**. Since its introduction in 2014, it remains quite new. The Business Corporations Act No. 90/2012 defines a social cooperative as a “cooperative that pursues beneficial activities to promote social cohesion through work integration and social integration of disadvantaged people in society, prioritising the satisfaction of local needs and utilisation of local resources, particularly in the area of job creation, social services and health care, education, housing and sustainable development.” A social cooperative:

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

Although according to law, a social cooperative does not necessarily pursue economic activity, in practice economic activities form an integral part of its operations.

Although potentially very useful for social enterprises in the Czech Republic, this legal form experiences a very limited practice (see section 3.2 for details). Two main reasons potentially explain this marginal impact of social cooperatives’ introduction to the legal code. First, its newness implies little knowledge about its existence even among social enterprise stakeholders, including practitioners and academics. Second, stakeholders perceive its restrictiveness. The asset lock principle particularly arouses suspicion, as expressed in the case study of the Fair & Bio cooperative (see Annex III of the report). According to the law, assets can transfer only from one social cooperative to another, or the local municipality. As only very few

social cooperatives exist, the organisation might be forced to transfer its assets to the local municipality if its activities terminate. These two factors, i.e. little knowledge of the concept and relatively restrictive legal requirements, may explain why new social cooperatives are slow to appear. Another disadvantage of this legal form, due to its restrictive definition, asserts that social cooperatives can only support social and work integration of disadvantaged people. For a concrete example of a social cooperative see the case study of *Diakonie Broumov*; for a related debate also refer to the case study of the Fair & Bio cooperative (both in Annex III).

Table 3. Analytical overview of the compliance of the *ex lege* social enterprises, taking the legal form of a social cooperative, with the EU operational definition

| Legal form | Compliance with the EU operational definition | Principle from the EU definition satisfied? |
|--------------------|--|---|
| Social cooperative | Entrepreneurial / economic dimension: A social cooperative gets set up under The Business Corporations Act. Like other cooperatives, at least three persons must found it, "established for the purpose of mutual support of its members or third parties or for entrepreneurial purposes." | Yes |
| Social cooperative | Social dimension: Social cooperatives more specifically define as "pursuing beneficial activities to promote social cohesion through work integration and social integration of disadvantaged people in society, prioritising the satisfaction of local needs and utilisation of local resources, particularly in the area of job creation, social services and health care, education, housing and sustainable development." | Yes |
| Social cooperative | Inclusive governance-ownership dimension: Social cooperatives provide each member with one vote. They can redistribute a maximum of 33% of profit among its members and cannot transfer or mortgage its assets unless the counterpart qualifies as another social cooperative or a municipality. Social cooperatives fully fulfil the democratic principle and the asset lock | Yes |

Sources: Based on inputs from Petra Francová and Nadia Johanisová and on particular legal documents as listed in table 4.

Regarding the legal developments relevant to social enterprises in the Czech Republic, **the most significant change during the last few years certainly surfaced with the introduction of the new Civil Code approved in 2012 which came into force in 2014.** Whereas some legal forms continue without change, others have needed to adapt to the new regulatory provisions. Especially the status of public benefit companies, which had been popular with social enterprises in the past, became rather

problematic, as their regulation stems from an already-abolished law (see table 4 for details).

A list of legal documents most relevant to social enterprises in the Czech Republic is provided here, details on the development of particular legal forms follow in table 4:

- > (new) Civil Code 89/2012 (came into force 1.1.2014) regulates non-profit entities (associations, institutes, and foundations)
- > Commercial Companies and Cooperatives Act (shortly Business Corporations Act) 90/2012 (regulates cooperatives, social cooperatives, and limited liability companies)
- > Act On Public Benefit Companies 248/1995 (abolished but still regulates the PBOs)
- > Act On Churches and Religious Communities 3/2002 (regulates church legal persons)
- > Fiscal legal documents: Income Tax Act 586/1992 (with an important update no. 344/2013) and Value Added Tax Act 235/2004 (see section 2.3 for details)
- > Public Procurement Act 134/2016 (see section 4.3 for details)
- > Employment Act 435/2004 (see section 4.2 (a) for details)
- > Social Services Act 108/2006
- > Public Collections Act 117/2001

Table 4. Main legal developments relevant for both *ex lege* and *de facto* social enterprises in the Czech Republic.⁸

| Legal form | Main legal developments |
|-------------|--|
| Association | <ul style="list-style-type: none"> > Defined in § 214–302 of the new Civil Code 89/2012 > A successor of the previous and popular form of “civic association” (<i>občanské sdružení</i>) as defined in the Public Gatherings Act 83/1990. With the introduction of the new Civil Code, all civic associations automatically transformed to associations according to the new Civil Code, with the obligation to comply with the new law within two years |

(8) Relevant fiscal developments are summarised in section 2.3, table 5

| Legal form | Main legal developments |
|------------------------------|--|
| Public benefit company (PBC) | <ul style="list-style-type: none"> > Introduced in 1995 by Act no. 248/1995 on Public Benefit Companies, which entered into force in January 1996 > Due to introduction of the new Civil Code that came into force on 1.1.2014, the law no. 248/1995 On PBCs was abolished (§ 3080 of the new Civil Code). The similar/successor legal form according to the new Civil Code is the Institute > According to § 3050, existing PBCs can transfer into Institutes, Foundations or Endowment Funds, though not by obligation. This means that currently existing PBCs can keep their status for as long as they choose, but new ones cannot be established > Also, § 3050 says PBCs are further regulated by existing legal rules—however, the particular law on PBCs was abolished. This means the existing PBCs function internally according to this (abolished) law, though it cannot update or adapt to new legal developments. Their relations to other parties are regulated by the new Civil Code and other relevant legislation |
| Institute | <ul style="list-style-type: none"> > Introduced in the new Civil Code in 2014 as a successor of the PBC, defined by § 402–411, also general rules on legal entities § 118–209 apply |
| Foundation | <ul style="list-style-type: none"> > Defined in § 306–393 of the new Civil Code, also general rules on legal entities § 118–209 apply |
| Church legal person | <ul style="list-style-type: none"> > Previously regulated by Act on the Freedom of Religion and the Status of Churches and Religious Communities 308/1991, and the related Act on the Registration of Churches and Religious Communities 161/1992. Both these Acts were extremely brief as regards the regulation of churches' economic activities > Economic activities of religious organisations were substantially modified by the Act on Churches and Religious Communities 3/2002, especially §16 > Current regulation based on subsequent amendments to Act No.3/2002 by Act no. 495/2005 (with effect from December 23, 2005) that introduced the concept of registered legal person (as a substitute for the earlier notion of religious legal entity) and deepened their typology and the conditions for their economic activities > Potentially also influenced by the Act on Property Compensation of Churches and Religious Communities 428/2012, as explained below this table |

| Legal form | Main legal developments |
|--------------------|---|
| Cooperative | <ul style="list-style-type: none"> > Between 1992 and 2013 regulated by the now abolished Commercial Act 513/1991 > Currently defined by § 552–726 of the Business Corporations Act 90/2012 (came into force in 2014) |
| Social cooperative | <ul style="list-style-type: none"> > Newly defined by § 758–773 of the Business Corporations Act 90/2012 (came into force in 2014) |

Sources: particular legal documents as listed in this table, and inputs from Petra Francová, Nadia Johanisova and Miroslava Nebuželská (personal consultations).

2.2.2. Church compensations

As mentioned in section 1, a **potentially significant shift in the economic activities of religious organisations may arise due to the recently initiated compensation process for Church property seizures by the Communist Regime**. The process is regulated by the Act on Property Settlement with Churches and Religious Communities 428/2012, which came into power on 1 January 2013. According to this law, the state is obliged to hand over a large part of the former (pre-1948) religious assets to the current registered churches. The process initiated in 2013 and will take 30 years, with finalisation estimated by 2043. In total, various assets (churches, monasteries, various other estates, land of differing uses-forests, arable land etcetera, and other properties) worth almost 2.9 billion EUR, together with another 2.2 billion EUR of financial compensation for assets that cannot physically get returned, will be handed over to registered churches. The vast majority of the assets and about 80% of the financial compensation will divert to the Catholic Church, the rest to about 16 other, much smaller religious organisations. As the process began only very recently, little indicates how the churches will make use of these properties; however, a potential for economic activities with publicly beneficial aims has budded.

2.2.3. The law on social enterprises

As noted, the social cooperative qualifies as the only legal form which completely fulfils the EU operational definition of social enterprise. However, it finds minimal use in practice and its introduction has not influenced the broader definition or understanding of social enterprises in the country. **In practice, social enterprises make use of a broad range of legal forms, and the definition of social enterprise on the national level mainly abides by the TESSEA principles** as introduced in Table 2 (section 2.1.2). These, however, are not legally recognized and cannot guarantee any

systemic benefits for social enterprises. In this situation, many call for an overarching legal definition of social enterprises in the Czech Republic. Although such a definition still lacks, significant advances have come forth in this respect since 2014.

At the time, the Agency for Social Inclusion initiated this law, fuelled by its responsibility for the development of socially excluded areas as a public institution. For them, social enterprises present a means for employment of socially disadvantaged target groups, especially Roma people. At the social economy level, the law was advocated mainly by TESSEA for the above-mentioned reasons—**many social enterprises had expressed the need for legal recognition and support since, without it, they could hardly gain any systemic benefits.**

A White Paper on the Social Enterprise Act was drafted by the Office of the Government together with MoLSA and the Ministry of Industry and Trade (MIT), receiving acceptance on the Government level in May 2017. **This proposed legislation document defines social enterprises, and aims at establishing a register as well as an interdepartmental body that would monitor the sector and propose related strategies and policies.** It should result in a simple law that would cover all the legal forms of social enterprises and define the characteristics that a social enterprise must fulfil. The characteristics are based on the TESSEA definitions and principles. The law introduces the legal definition of a social enterprise and its specific form, a WISE.

The law does not include any legal claims on benefits but some predict that other laws will gradually incorporate advantages for social enterprises, especially the Public Procurement Act 137/2006 and the Employment Act 435/2004. MoLSA is foreseen as the main central body responsible for social enterprises. MoLSA will also expectedly take charge of the Council for Social Economy, comprised of important stakeholders. The law has undergone preparation in cooperation with social enterprises and their umbrella organisations, especially TESSEA, which took an active part in the preparation process.

However, the previous government (whose mandate ended in autumn 2017) did not manage to finish the legal process and the new government has lagged in taking further steps. According to the plan, **the current proposal already has taken form in full paragraph version** and will expectedly enter the inter-ministerial comment process in the near future.

2.3. Fiscal framework

No special fiscal arrangements for social enterprises apply in the Czech Republic, above all due to the lack of their legal recognition. Neither do any codified fiscal benefits lend a hand to start-up activities.

Generally, **fiscal arrangements and benefits relevant for social enterprises include** those:

- > available to non-profit entities (or more precisely to “publicly beneficial tax-payers”);
- > related to donations to non-profit entities;
- > related to active employment policy, especially the employment of health disabled people.

Table 5. Overview of main fiscal arrangements relevant for both *ex lege* and *de facto* social enterprises in the Czech Republic

| Legal area | Eligible legal forms | Main legal developments |
|--|---|---|
| Definition of “publicly beneficial tax-payer” | In principle only non-profit entities, i.e. entities outside the business corporations, and several other legal forms | > § 17a of the Income Tax Act 586/1992 (in its update no. 344/2013) defines the “publicly beneficial tax-payer” as one whose primary activity is other than business activity. Except certain specific types of foundations, most types of non-profit entities fulfil the definition |
| Income tax exemptions for publicly beneficial tax-payers | <ul style="list-style-type: none"> > Associations > Foundations > Churches | <ul style="list-style-type: none"> > § 18a of the Income Tax Act 586/1992 list the types of income that have the tax exemption, i.e. they are not part of a tax base. Associations, Foundations and Churches are so-called “narrow-range tax-payers”; meaning income from individual types of primary activities resulting with a loss does not form part of a tax base > In practice this means that small organisations without secondary economic activities often do not have to register with the Tax Office at all, and do not have to submit the corporate income tax statement. For social enterprises (that typically have secondary economic activities) this still means they report only a limited number of types of incomes |


| Legal area | Eligible legal forms | Main legal developments |
|---|--|---|
| Income tax exemptions for publicly beneficial tax-payers | <ul style="list-style-type: none"> > Public Benefit Companies > Institutes > Associations and Churches that provide healthcare | <ul style="list-style-type: none"> > § 18a of the Income Tax Act 586/1992 states that PBCs and Institutes have a different income tax regime from Associations and Foundations. So-called “wide-range tax-payers,” they generally have to report all incomes in their tax statement, and only few specific tax exemptions apply > PBCs and Institutes do not have to file and report all costs and incomes separately for each main activity |
| Income tax exemptions for publicly beneficial tax-payers | Almost all non-profit legal forms | <ul style="list-style-type: none"> > § 19b of the Income Tax Act 586/1992 gives the option to exempt the revenues from donations in case these are used for publicly beneficial purposes defined by the Income Tax Act |
| Income tax reduction for publicly beneficial tax-payers | Almost all non-profit legal forms | <ul style="list-style-type: none"> > § 20/7 of the Income Tax Act 586/1992 states that publicly beneficial taxpayers can reduce their tax base by up to 30%, with a maximum of (almost) 40,000 EUR in total. If the 30% of the tax base measures less than 11,500 EUR, the tax base can still reduce up to this amount (11,500 EUR) > As of 2018, all entities have to use the money saved on income tax to cover costs of their non-profit activities within 1 year |
| Fiscal benefits for donors | All, except publicly beneficial tax payers | <ul style="list-style-type: none"> > § 20/8 of the Income Tax Act 586/1992 states that legal entities can reduce their tax base up to 10% by donations to legal entities that use or will use the donations for publicly beneficial purposes defined by the Income Tax Act > § 15/1 of the Income Tax Act 586/1992 states that individuals (natural persons) can reduce their tax base up to 15% by donations to legal entities that use or will use the donations for publicly beneficial purposes defined by the Income Tax Act |
| Income tax reduction for employers of health disabled people | All | <ul style="list-style-type: none"> > § 35 of the Income Tax Act 586/1992 states that for each employee with health disabilities, the employer can claim an income tax reduction up to 700 or 2,300 EUR, depending on the level of the employee’s disability |

Sources: Kamenický (2018) and Nebuželská (personal consultation) and particular legal documents.

3

MAPPING

Based on a combination of expert estimations and proportions of individual legal forms as revealed in several recent surveys, the total estimated number of potential social enterprises in the Czech Republic reached almost 3,800 in 2018. Out of eight legal forms identified, the most numerous are PBCs with about 1,500 potential social enterprises. As for the rest, cooperatives, associations, church legal persons and limited liability companies still represent significant numbers of social enterprises (several hundred). The estimated numbers of social cooperatives, foundations and institutes are negligible. Regarding the fields of activities and other characteristics of both *ex lege* and *de facto* potential social enterprises in the Czech Republic, only partial data shed light on NPOs and cooperatives. Richer material stems from several recent surveys, though they are not structured according to legal forms, and most represent only a certain part of Czech social enterprises (mainly WISEs). According to these surveys, the two most common target groups are people with disabilities and the long-term unemployed. Quite often, social enterprises aim to combine more target groups and a broad spectrum of economic activities. According to the surveys, Czech social enterprises mostly function as small businesses with around 15 employees and annual turnover around 170,000 EUR, more than half of them generating profit within the last year or two.



3.1. Measuring social enterprises

The total estimated amount of potential social enterprises in the Czech Republic has grown slightly since 2014, and reached almost 3,800 legal entities in 2018 (see table 6 for details).

Table 6. Estimated numbers of both *ex lege* and *de facto* potential social enterprises in the Czech Republic, 2014–2018

| Legal form / Year | 2014* | 2015** | 2016** | 2017** | 2018* |
|--|--------------|--------------|--------------|--------------|--------------|
| Social cooperative | 14 | 16 | 24 | 26 | 30 |
| Association (including Association branches with institutional autonomy) | 574 | 580 | 596 | 600 | 625 |
| Public benefit company | 1,526 | 1,447 | 1,396 | 1,387 | 1,424 |
| Institute | 12 | 39 | 69 | 75 | 100 |
| Foundation | 27 | 25 | 26 | 26 | 28 |
| Church legal person | 416 | 417 | 418 | 417 | 415 |
| Cooperative (without social cooperatives) | 757 | 741 | 721 | 704 | 691 |
| Limited liability company | 385 | 406 | 427 | 450 | 460 |
| Total estimated number of potential social enterprises | 3,710 | 3,670 | 3,676 | 3,685 | 3,773 |

Sources: CSO (2016, 2017, 2018, specific personal requests), www.neziskovsky.cz (2018-10-18),⁹ expert estimations of the percentage of social enterprises for particular legal forms and own calculations.¹⁰

(9) The data is available at http://www.neziskovsky.cz/data/Statistika%20po%20C4%8Dtu%20nest%C3%A1tn%C3%ADch%20neziskov%C3%BDch%20organizac%C3%AD%202014_2016_duben2017txt16852.pdf (2018-10-18).

(10) First, data on total amounts of units of the eight relevant legal forms were gathered—for details see explanations denoted with * and ** below table 6. Second, proportions of social enterprises from

* for 2014 and 2018, all data on the total numbers of entities of particular legal forms that were used for calculating the number of potential social enterprises are based on information extracted from the ARES database provided directly by CSO. For 2014 the data are extracted on 31.12.2014, for 2018 on 30.9.2018. Due to the change of analytical software in the CSO, the same dataset cannot be provided for years 2015-2017.

** for 2015-2017, the data on non-profit legal forms are taken from www.neziskovsky.cz where CSO is quoted as the source. However, obviously the data are not fully coherent (e.g. the number of PBCs cannot be higher in 2018 than in 2016 and 2017 as new PBCs cannot be set up after 2014). The data on non-profit organisations are taken on 31.12. of 2015 and 2016 and on 30.4.2017. The data on cooperatives and limited liability companies are taken from yearly statistical publications of CSO (CSO 2016; 2017; 2018), always extracted at the end of the particular year (31.12.).

In absolute terms, the most numerous legal form among the potential social enterprises for the period between 2014 and 2018 lies with the PBC, estimating 1,500 entities. Although their number will inevitably decrease with time (see sections 2.1.2 and 2.2 for details), they can expectedly maintain a significant position among the potential social enterprises at least for the near future. Another four legal forms appear comparably significant in numbers: slowly decreasing cooperatives (from 757 in 2014 to 691 in 2018); slowly increasing associations (from 574 in 2014 to 625 in 2018); fairly stable church legal persons (consistently around 415); and slightly increasing limited liability companies (from 385 in 2014 to 460 in 2018). The most dynamic development comes with the number of institutes; it has grown from 12 in 2014 at the legal form's introduction, to 100 in 2018. Social cooperatives, on the contrary, have made much less significant advance; their number grew in the same period from 14 to 30.

Notably, however, if applying the TESSEA definition of social enterprises commonly used in the Czech Republic (see section 2.1.2 and Table 2 for details), the estimations on the total amount of social enterprises in the Czech Republic range much lower. **The most up-to-date information has become available in the Social enterprise database originally established up by P3–People, Planet, Profit, which MoLSA**

the total amount of units of particular legal forms were estimated, based on expert estimations of the author and other consulted stakeholders, taking into consideration the proportions and numbers of social enterprises as reported in available surveys (for their summary see Table 9). Namely, the following proportions were estimated: 100% for social cooperatives, 0.5% for associations (including association branches with institutional autonomy), 50% for public benefit companies, 10% for institutes, 5% for foundations, 10% for church legal persons, 5% for cooperatives (without social cooperatives), and 0.1% for limited liability companies. There is an assumption that whereas the limited liability companies fulfilling the social enterprise operational definition are detected to a significant extent by the existing surveys, the numbers of PBCs and Associations that fulfil in reality the EU operational definition have been significantly underestimated. Third, the absolute numbers of potential social enterprises of particular legal forms were calculated. As already noted, it applies that these numbers are only estimative, and should be understood as an indication that should be further investigated.

now administers and updates. In order to pertain to the database, the enterprise must declare that it fulfils the TESSEA principles, and has to provide some basic information on its legal status, publicly beneficial purpose, list of main activities/fields of operation, target groups etcetera. By 1 January 2018, 222 social enterprises had registered in this database. This number has not changed much over the last couple of years—in mid-2015 it ranked at 213 (P3–People, Planet, Profit 2015).

One can extrapolate another indication from a regional survey that took place in the Pardubice region in 2015. The survey, conducted by the Institute of Sociology of the Czech Academy of Sciences, characterised social enterprise from a combination of the TESSEA principles and the criteria defined in the Background materials for the Concept of governmental policy towards non-profit organisations until 2020 (Vyskočil 2014). This study identified 30 social enterprises in the Pardubice region. According to the 2015 study by P3–People, Planet, Profit, 4% of all social enterprises hold base in the Pardubice region; the current database administered by MoLSA derives the same proportion; according to the MoLSA report from 2016, 6% of social enterprises find base in the Pardubice region. Thus, if extrapolated to the whole country, this means that somewhere between 500 and 750 social enterprises exist in total in the Czech Republic. Similarly, **according to the informal opinions of Czech stakeholders (who again refer predominantly to the TESSEA characteristics), roughly 400–600 social enterprises exist in the Czech Republic.**

According to the available surveys based on the TESSEA and MoLSA definitions of social enterprise (see Table 9 for the summary of their results), **the two most common legal forms of social enterprises in the Czech Republic come with the Limited Liability Company (between 47 and 59%) and the Public Benefit Company** (the latter counted together with the Institute, between 18 and 25% altogether). Other legal forms experience similar, relatively low proportions, including: cooperatives (with social cooperatives included, 6–10% in total), self-employed individuals (7–13%), Associations (7–9%) and church legal persons (about 2%). Of the social enterprises covered in the survey by P3 (2015: 5), 81% of social enterprises formed separate legal entities, whereas 19% formed part of a bigger organisation. This partly explains the significant proportion of Limited Liability Companies, and also of Public Benefit Companies among social enterprises, since these typically get established as a trading arm of a non-profit organisation (most often an association).

This proved the case for two of the case studies presented in Annex III, the *Diakonie Broumov* limited liability company (later transformed to a social cooperative), and the Etincelle group where the original association set up one PBC and three limited liability companies. As argued by Johanisova (2005), **a more holistic approach would consider the whole organism of the related legal entities as a social enterprise, i.e. both the non-profit and the entrepreneurial part(s) of the**

organisation. However, in the surveys presented, only the trading branches get recognized as a social enterprise.

Of the OPLZZ grant recipients (as described in the MoLSA survey, 2016), 68% of recipients reportedly established a new business with their grant awards, 22% used existing business but entered to a new sector or transformed the existing business to a social enterprise, and only 10% enlarged an already existing social enterprise. **The background of the social enterprise initiators seems rather balanced: 36% report a non-profit organisation background, 35% a business background, and 29% balanced experience from both sectors.** We should bear in mind that the sample includes only the MoLSA funding recipients. A similar picture is provided e.g. by Bednarikova and Francova (2011) who report that approximately half of the social enterprises they studied have a commercial background; they attempt to do business "differently" and profit often remains a strong incentive for them. A different perspective is provided by Dohnalová *et al.* (2015) who tend to emphasise the bottom-up origin of social enterprises and stress the key role of the non-profit sector in the development of social enterprises in the Czech Republic.

3.2. Social enterprise characteristics

3.2.1. Fields of activity and target groups

Very few data get structured according to individual legal forms on the fields of activities of both *ex lege* and *de facto* potential social enterprises in the Czech Republic. As for NPOs, some indications do stem from the data on NPOs that received public funding from the national budget in 2016 (CVNS 2018).¹¹ For the included Foundations and Endowment Funds, the most typical fields of activity include culture, social welfare and employment. For PBCs, the most prominent fields by far play out in social welfare and employment, especially social care and social prevention services; cultural and educational activities exemplify another strong field for PBCs. Institutes, again, mostly received funding in the field of social welfare and employment, partly also in healthcare. The situation of associations differs, as most of them participate in the field of physical education, though social welfare work also measures significantly together with a handful of other fields such as culture, forestry (likely local hunters' associations), environmental conservation and healthcare. Finally, for church legal persons, again the field of social welfare and employment dominates. As regards cooperatives, some main types include production cooperatives, consumer cooperatives, housing cooperatives, agricultural cooperatives and financial cooperatives (CACR 2018:32) though no data indicate how many of these cooperatives pursue general interest aims and therefore comply with the EU operational definition of social enterprise.

Previous studies show that **quite a broad spectrum of activities typifies Czech social enterprises**. As reported by Mikešová and Bernard (2015), **small and medium social enterprises especially combine more than one activity—even quite different ones**—in seeking even transient market opportunities. One company in the Pardubice region (Otachar) manufactures special fixtures for climbing, and provides cleaning services for buildings and cars at the same time (Mikešová and Bernard 2015). According to MoLSA (2016), 60% of WISEs it has supported participate in only one sector, whereas the rest combine more activities (24% have two, 12% have three, and 4% combine four sectors). In this respect, the case study on the Etincelle group provokes particular interest. The Etincelle group runs several integration bistros, cafés and bakeries, provides cleaning services of public spaces for municipalities, runs a social farm with both animal and crop production, provides registered social services in several social centres and shares its experience with work integration of disadvantaged

(11) This data refer to 6,758 NPOs that received grants from the national budget in 2016 (CVNS 2018). Beside the limited representation, the data are very probably biased by the funding priorities of public bodies (those activities of NPOs that did not fit the funding schemes are not included in the overview).

groups with other stakeholders. The organisations investigated in the other case studies combine work and social integration with other aims, but the scope of their activities does not reach so broadly (see appendix 3 for details).

Although the proportion of WISEs when considering all the social enterprises in the Czech Republic remains unclear, all the available reports show a high proportion and a broad variety of target groups. **The most visible group is that of people with health disabilities: 64-80% of all social enterprises work with this community.** The long-term unemployed follow, working with 38-58% of all social enterprises. Other target groups receive significantly less representation, including: ethnic minorities (10-18%), disadvantaged youth (7-16%) and those providing assistance and care to their family members (up to 14%). This spread is most probably explained by systemic state support and benefits directed toward the work integration of the two first-mentioned target groups (see sections 2.2, 2.3 and 4.2 for details), whereas support for integrating the rest of the disadvantaged groups measures far less significant, depending on specific smaller programmes and grant calls. The regional study by Mikešová and Bernard (2015) also reports this; according to them, the vast majority of social enterprises work primarily with people with health disabilities, sometimes in combination with others, but only very few focus exclusively on socially disadvantaged groups.

The strategy of social enterprises demonstrates an important and quite common focus on more than one target group. This partly comes naturally, as people with health disabilities (for example) often also overlap with the long-term unemployed, or often people with various levels of related health disabilities are employed (Mikešová and Bernard 2015). However, it does seem that funding opportunities play a significant role in this as well. According to the survey by P3 (2015), the often multiple target groups can change with time, frequently in relation to available public funding. Typically, to win a grant, the enterprise would add more target groups to its profile, but often it cannot keep the broad spectrum and/or the number of disadvantaged employees once the funding dries. In concrete numbers, according to a MoLSA survey (MoLSA 2016: 12), 35% of their funding recipients (which are all WISEs) have one target group, 44% have two, 14% have three, and 7% have four or more. However, **a significant proportion of the funding recipients (41%) either ceased operations after the termination of the grant, or did not manage to keep the WISE character of their business** (MoLSA 2018a:4).

3.2.2. Workforce and volunteers

In terms of employment, the study by European Economic and Social Committee (EESC 2017:23), found 50,310 paid working positions in cooperatives between 2014 and 2015, 5,368 working positions in mutuals, and 107,243 in associations and foundations in the Czech Republic. That amounts to **162,921 total paid working positions (3.3% of all the paid working positions) in what this report regards as social economy** (again, with no available proportions directly associated with social enterprises).

According to the Czech surveys, **a vast majority of social enterprises fall into the category of small and medium enterprises (SMEs)**. This category allots up to 250 employees, with the average number of employees falling somewhere between 11 and 17 (P3–People, Planet, Profit 2015, MoLSA 2016). In WISEs, often the proportion of disadvantaged employees measures quite high, reportedly above 70% both by MoLSA (2016, 2018a) and by P3–People, Planet, Profit (2015). Besides providing employment, **WISEs also typically provide additional activities for disadvantaged employees:** 62% provide higher qualification, 49% individual working assistance, 44% assistance with personal and social issues, 38% soft skills, and 20% individual psychological care/therapy (MoLSA 2016). Actually, according to Mikešová and Bernard (2015:17), WISEs are not unique in this practice. According to their study, 80% of all social enterprises organize regularly internal courses to enhance the competences of their employees, 58% also encourage them to take advantage of external courses (often paying the costs of the courses from their own budget, following the choice of the employees). **Practically no data address the gender composition of the social enterprise workforce;** the only available information indicates quite a balanced ratio (44:56) between women and men working in managerial positions in social enterprises (P3–People, Planet, Profit 2015).

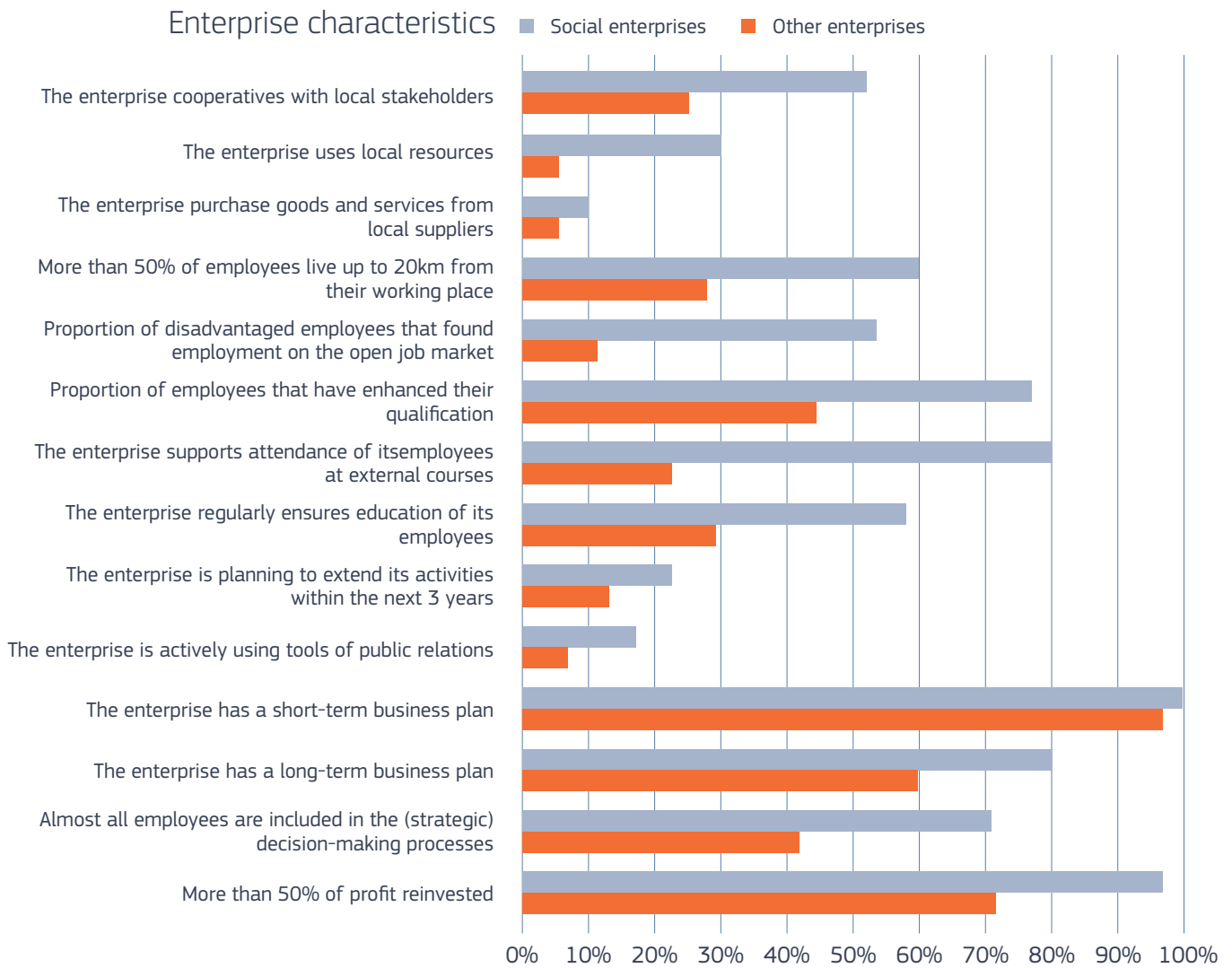
3.2.3. Sources of income

In terms of turnover, the Czech social enterprises emerging from these studies appear rather small, with an **average annual turnover of about 170,000 EUR** (Mikešová and Bernard 2015, P3–People, Planet, Profit 2015, MoLSA 2016). **Over half of them attained profit in the last year or two.** Estimates range from 48% according to P3–People, Planet, Profit 2015, 67% according to MoLSA 2016, and “almost 2/3” according to Mikešová and Bernard 2015:17. Typically, the overall income of social enterprises includes a broad spectrum of both public and private sources. However, assessing the level of their grant dependence or more general dependence on public money proves difficult. According to MoLSA (2016), the recipients of their funding (all WISEs) generate on average 72% of income from own economic activities. However, the study by Mikešová and Bernard (2015:14-15) finds a lower proportion of social enterprises’ own earnings.

According to this study (Mikešová and Bernard 2015:14-15), **social enterprises very often combine various forms of public money**. All WISEs make use of the payments according to the Employment Act (see section 4.2. for details), about 50% also access funding from EU grants. Other sources of public money remain very rare; only 10% managed to attract other grants either from the state or from local municipalities, **a few also got private donations and support from non-profit foundations**. Over 40% of social enterprises self-evaluated an overly high dependence on external funding (P3–People, Planet, Profit 2015). However, the same social enterprises appreciate different forms of help and support, in the forms of : public grants (68%), benefits for employment of disabled people (64%), advisory support/consultancy (43%), and ethical loans (24%) (P3–People, Planet, Profit 2015).

To demonstrate the **difference between social enterprises and “ordinary” companies**, Mikešová and Bernard (2015:19) compare these two groups based on information from questionnaires answered by 30 social enterprises and 210 “ordinary” ones. **Almost in all reported characteristics, a significant difference exists between the two groups**, as visualized in Figure 1.

Figure 1. Comparison of social enterprises and “ordinary” companies based on questionnaires responded by 240 enterprises in the Pardubice region (from which 30 qualified as social enterprises). Source: Mikešová and Bernard (2015:19)




3.2.4. Impact

Little available material assesses the impacts of social enterprises. A recent study commissioned by MoLSA (Median 2018) analysed the impact of social enterprises on their disadvantaged employees. According to this study, all the respondents reported a significant improvement in their situation. This relates in the first place to their direct working experience: the individual approach by the employers, available assistance pertaining both to work and other challenges the disadvantaged employees might face, and also the possibility to participate actively in the operational decisions and bring ideas met with respect. Moreover, **the employees report more general enhancement of their quality of life related to coming in contact with other people, higher self-esteem, and more stabilized life conditions.** Although employees of only 10 social enterprises participated in the study, it provides a valuable insight into the relationships between the WISEs and their employees.

4

ECOSYSTEM

Key actors of the Czech social enterprise ecosystem include the MoLSA; several public bodies; the umbrella group TESSEA ČR; several regional and municipal networking and supporting initiatives; several universities active both in topical research and education; two mainstream banks developing programs targeting social enterprises; and several business incubators. Despite a numerous and broad range of active actors, the sector as a whole still lacks general political and public support on the one hand, and strong representative bodies and lobbying power on the other. Specific funding for social enterprises in the Czech Republic has come mainly from public sources (mostly grant schemes administered by MoLSA). MoLSA has recently announced changes in the form of this support—the current grant scheme will close in mid-2019 and plan a shift towards loans. In addition to support measures targeting social enterprises, general support schemes (e.g. for SMEs) can also lend support to social enterprises via the network of regional innovation centres or the Technology Agency of the Czech Republic (TAČR) which supports applied research. Strategic financial support has also reached NPOs in the Czech Republic. In addition, WISEs often utilize financial support to employ people with disabilities and use other employment policy tools available to all legal forms.



4.1. Key actors

The following **Table 7 lists the main actors in the Czech social enterprise ecosystem**. Short profiles of the relevant public and regional authorities follow, based on updated information from OECD (2016: 41-43), TESSEA (2018) and own investigations. Similar profiles of the main umbrella and research organisations, as well as other stakeholders are included in further relevant sections (4.4 and 4.5).

Table 7. Key actors in the Czech social enterprise ecosystem

| Type of institution/Organisation | Actor |
|---|--|
| Public bodies, policy institutions | <ul style="list-style-type: none"> > Ministry of Labour and Social Affairs (MoLSA) > Labour offices > Agency for Social Inclusion > Ministry of Industry and Trade > Ministry for Regional Development > Government Council for Non-Governmental Non-profit Organisations > The Regional Authority of Pardubice region > Prague 7 District, Department for sports, health, Local Agenda 21 and business support (business incubator “Podnikavá 7” that includes social enterprise aspects) > Healthy and Fair trade city Třebíč |
| Umbrella and support organisations | <ul style="list-style-type: none"> > TESSEA ČR (Thematic Network of Social Economy) > Association of non-governmental non-profit organisations of the Czech Republic (ANNO) > Cooperative Association of the Czech Republic (CACR), especially its part: Union of Czech and Moravian Production Cooperatives > Social Innovation and Enterprise Cluster SINEC (Moravian-Silesian region) > Regional centre of support for social enterprises (part of CIRI, Centre for Investment, Development and Innovation in the Královehradecký region) > P3–People, Planet, Profit > Spiralis > Association of Social Responsibility > Association of Employers of Health-Disabled People Czech Republic > Decent Company Movement/Platform > Ecumenical Academy > Ashoka CEE–Czech Republic |

| Type of institution/Organisation | Actor |
|---|---|
| Research and educational organisations | <ul style="list-style-type: none"> > Department of Civil Society Studies, Faculty of Humanities, Charles University, Prague > Department of Environmental Studies, Faculty of Social Studies, Masaryk University, Brno > Department of Applied Economics of the Faculty of Arts, Palacky University in Olomouc > Protestant Theological Faculty, Charles University, Prague > Department of Business Administration and Management, Faculty of Economics, University of West Bohemia, Plzeň > Department of Regional Management, Economic Faculty, University of South Bohemia, Czech Budweiss > Institute of Global Studies, Jan Amos Komenský University Prague |
| Investors | <ul style="list-style-type: none"> > Česká spořitelna bank (part of Erste Group) > ČSOB bank > Tilia Ventures |
| Business incubators | <ul style="list-style-type: none"> > Impact Hub (Impact First, Social Impact Award, Edison) > Vodafone Foundation (Vodafone Foundation Laboratory) > South Moravian Innovation Centre |

Sources: OECD (2016: 41-43), TESSEA (2018) and author's investigations.

The **MoLSA** composes the central public body in charge of social enterprises, which started its activities under the EQUAL initiative (an EU funding scheme). A subject-matter jurisdiction of social enterprises falls under the Department for the Labour Market Policies and Strategies of the Employment Section, an ESF-matter jurisdiction falls under the Department for the Implementation of ESF Programmes – Social Inclusion of the European Funds and International Co-operation Section. MoLSA highlights the employment side of social enterprises and supports the establishment of WISEs. Together with the Agency for Social Inclusion, MoLSA demonstrates one of the ministries that contributed to preparing the white paper for the Law on Social Enterprises. In 2009, MoLSA had already begun incorporating social enterprises into strategies dealing with social exclusion and unemployment.

Labour offices (organised by regions with offices in major towns and cities) belong to MoLSA. Their responsibilities lie in the agendas for unemployment and social benefits. Labour offices function in accordance with the Employment Act, under which they can support individual people in gaining employment, but they cannot support enterprises, as the latter fall under the responsibility of the Ministry of Industry and Trade (MIT). An applicant can acquire a job only when an employer creates a vacancy, and the

social orientation of the employer does not enter into the final decision. Many WISEs cooperate with labour offices when they look for job applicants.

The **Agency for Social Inclusion**, a department at the Office of the Government, bears responsibility in developing socially excluded areas and actively promoting social enterprises, both at the central and local levels. The Agency supports municipalities in disadvantaged areas to develop local partnerships, raises awareness about social enterprises and socially responsible public procurement and social clauses. The Agency for Social Inclusion acted as an initiator of the new Law on Social Enterprises in 2014.

The **Ministry of Industry and Trade** (MIT) also officially involves itself in supporting social enterprises and acted as one of the ministries preparing the White Paper for the Law on Social Enterprises. After several years of negotiation, MIT incorporated social enterprises into the Strategy for the Support of Small and Medium Entrepreneurs for the period 2014–2020, prioritising a favourable entrepreneurial environment for SMEs, and has promoted it together with CSR. MIT is prepared to give financial support to social enterprises that fulfil the EU definition of SMEs and which have a social impact. Social enterprises have been incorporated into its recent Programme of guarantees for 2015–2023 (see section 4.6 for details).

The **Ministry for Regional Development** (MfRD) fulfils the role of the National Co-ordinating Body for Structural Funds and recently European Structural and Investment Funds (ESIF). It also co-ordinates the Integrated Operational Programme (financed from the European Regional Development Fund), under which investment support extended toward the development of social enterprises. MfRD has shown interest in social enterprises in relation to the programming of Structural Funds and the administering of the ERDF Call for Proposals (CfP) for social enterprises.

The **Government Council for Non-Governmental** Non-profit Organisations, which holds its seat at the Office of the Government, has supported social economy and social enterprises since 2006. It participated in incorporating social enterprises into the Operational Programmes in all three Programming Periods (2004-2006, 2007-2013 and 2014-2020). It organised seminars, provided lobbying and took part in negotiations. Among its other activities, the Council promotes partnerships between non-profit organisations and the public sector.

Regional public bodies express a growing interest in social enterprises and already several regions actively support them. The Pardubice region ranks among the most active—it organised a series of seminars ending with a conference and recently opened a call for proposals financed from regional funds aimed at supporting emerging or existing social enterprises. In the Královehradecký region, a Regional centre of support for social enterprises (as part of CIRI, Centre for Investment, Development and Innovation of the Královehradecký region) receives funding from the regional public budget. Also

the Moravian-Silesian region has reacted positively towards social enterprises in the last years and supports networking within the region, and the South Moravian region also shows interest in supporting social enterprises.

The interest of municipalities slowly continues growing as well, as social enterprises often get included in community planning of social services. The cooperation of municipalities with social enterprises varies depending on the local situation; e.g. the municipalities of Prague, Třebíč and of České Budějovice rank among the most active. Some municipalities participate thanks to the previous activities of the Agency for Social Inclusion. Municipalities often show interest in transforming public benefit jobs for long-term unemployed people that are paid from the Active Employment Policy into WISEs. Sometimes they struggle to understand why social enterprises should function independently. They favour the model of an enterprise owned by the municipality, employing the local unemployed, and receiving in-house tenders.

4.2. Policy schemes and support measures for social enterprises

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and which may benefit social enterprises)

Several measures relate to employing people with health disabilities, which are available to all legal forms under specified conditions: Table 9 provides details. Generally, the current system of support distinguishes two groups of employers: those with less than 50% of employees with disabilities and labelled as “employers on the open job market,” and employers with over 50% of employees with disabilities and labelled as “employers on the sheltered job market”; the latter must sign an agreement with the Labour Office and fulfil several administratively-demanding conditions to qualify for the related support.

Table 8. Overview of main legal arrangements related to employment of health-disabled people, (relevant for both *ex lege* and *de facto* social enterprises in the Czech Republic)

| Legal area | Main legal developments |
|---|---|
| Income tax reduction (see also section 2.3) | <ul style="list-style-type: none"> > § 35 of the Income Tax Act 586/1992 states that for each employee with disabilities, the employer can claim an income tax reduction up to 700 or 2,300 EUR, depending on the level of disability of the employee |
| Obligation on the part of employers to employ a certain proportion of persons with disabilities, and the “substitute performance” | <ul style="list-style-type: none"> > § 81 of the Employment Act 435/2004 states that employers with more than 25 employees must employ a minimum of 4% of persons with health disabilities out of the total number of the employees > If the said employers do not employ the required percentage of disabled persons, they face obligatory compensation by so-called “substitute performance.” This means they must buy products and services from individual disabled producers or from companies employing at least 50% people with disabilities (if they register with the Labour Office as the “employers on the sheltered job market”); the mandatory value of the purchase is specified by the Employment Act and by a MoLSA regulation. Another option comes with paying a stipulated sum to the state. As these regulations aim to nudge the employers to support people with disabilities via their trading activities (via the substitute performance), the payment to the state presents the less advantageous option |
| Contribution to set up a working position for a person with disabilities (for employers both on the open and on the sheltered job market) | <ul style="list-style-type: none"> > § 75 of the Employment Act 435/2004 states that the Labour Office provides financial contributions to creating employment for people with disabilities. Depending on the severity of the disability, this contribution can measure as high as twelve times the national average wage, i.e. up to about 11,500 EUR (but usually falls lower, depending on the real eligible costs) |
| Contribution to cover the operating costs associated with providing a working position for a person with disabilities (for employers on the open job market) | <ul style="list-style-type: none"> > § 76 of the Employment Act 435/2004 states that the amount of the contribution to cover the operating costs associated with providing a working position for a person with disabilities may reach up to 1,850 EUR per person per year (i.e. about 150 EUR per month) |
| Contribution to cover the operating costs associated with providing a working position for a person with disabilities (for employers on the sheltered job market) | <ul style="list-style-type: none"> > According to § 78a of the Employment Act 435/2004, the Labour Office provides financial contributions to employers on the sheltered job market that can reach up to 230, or 500 EUR a month per person, depending on the level of disability, but can reach a maximum 75% of the wage of the person with disabilities |

Sources: www.azzp.cz (2019-02-17), MoLSA (2019), Karel Rychtář (personal consultation) and the particular legal documents..

As a significant proportion of social enterprises in the Czech Republic integrate people with health disabilities, these schemes provide an important source of income for many WISEs. This applies both in terms of direct financial contribution for employing people with disabilities, and in terms of the “substitute performance” often used by Czech companies which contributes to the demand for services and products of WISEs integrating this group. Although the concrete conditions of these measures have changed recently (from 1 January 2018) and both the previous and the current system are demanding in terms of related administrative burden, their important feature remains in their continuous availability and expectation to last. This contrasts significantly with various temporal grant schemes (see section c) for details) with highly unpredictable availability in the long-term, and also contrasts with support in the form of responsible public procurement, which still experiences only marginal use in the Czech Republic (see section 4.3 for further information).

Another type of state support relates to active employment policies. These include support for training and requalification, investment incentives, subsidised community service jobs and socially purposeful jobs. Social enterprises can apply for funding for community service jobs if they are involved in maintenance of public areas or greenery etc. Within socially meaningful jobs (§ 108 of the Employment Act 435/2004 and its amendments from 2018), the Labour Office can cover wage expenditures up to 24 months for long-term unemployed people, depending on their specific situation. It can also support new job creation by contribution to purchase the necessary material equipment. Recently, the subsidies for so called “work rehabilitation” (§ 69 of the Employment Act 435/2004) also find more and more use in practice.

Schemes of support for SMEs could also benefit social enterprises, e.g. via the network of regional innovation centres that often administer local and regional grant schemes supporting entrepreneurial development and innovations. Recently (since 2018), a grant scheme called “SME Instrument” related to Horizon 2020 programme for research and innovations administered by MIT, supports SMEs in developing highly innovative (even if risky) products, technologies and services. Also the Technology Agency of the Czech Republic (TAČR) focused on supporting applied research enables SMEs to collaborate with research institutions in many of its grant schemes.

4.2.2. Support measures targeting social economy/non-profit organisations (and which may benefit social enterprises)

Strategic support has reached non-profit organisations in the Czech Republic, coordinated at the national level; a yearly summarising report gives an overview of public resources granted to the non-profit sector (the last one available regards 2016, see CVVS 2018). This support naturally comes available to Czech social enterprises that have adopted non-profit legal forms as well. To demonstrate specifics on the sources and volume of finance available, the relevant non-profit legal forms for social enterprises (i.e. Foundations and Endowment funds, PBCs, Institutes, Associations, and Church legal persons) received in total about 688 million EUR in 2016 (418 million from the national budget, 109.5 million from the regional and Prague metropolitan budget, 151 million from municipality budgets and 8.5 million from other state funds).

4.2.3. Support measures specifically addressed to social enterprises

National-level public support schemes for social enterprises

Between 2009 and 2013, MoLSA initiated two main public grant schemes: one providing investment finance (OPHRE programme, Call no. 30), the other providing non-investment finance (IOP programme, Calls no. 1 and 8, for details see below). They both focused exclusively on WISEs, as one main condition required at least 40% of the applicants' workforce to belong to 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).

The first, Grant call no. 30 "Social Economy" (February 2009–October 2013), emerged within the **Operation Program Human Resources and Employment (OPHRE)**. It provided non-investment financial support for new entrepreneurial activities covering 100% of eligible costs of the projects. The maximum support reached 200,000 EUR per project, with the total available amount measuring approximately 15 million EUR. The projects received co-funding by the European Social Fund (ESF, 85%) and MoLSA (15%).

The second scheme was introduced under the **Integrated Operational Programme (IOP)** and included two subsequent grant calls no. 1 and 8 “Investment support of social economy” (April 2009–May 2013). It again focused on supporting new entrepreneurial activities, providing investment support covering 80% of eligible project costs. The maximum support reached 200,000 EUR per project, and total support provided during the two grant calls reached approximately 17 million EUR. The European Regional Development Fund (ERDF) covered 85% of the funds, while the national budget covered 15%. Eligibility conditions for social enterprises remained constant as with the Grant call no. 30 “Social Economy”.

The IOP and OPHRE grant schemes were not mutually exclusive—social enterprises could receive both investment and non-investment support at the same time. In total, these schemes supported the creation of almost 150 social enterprises in the Czech Republic, thus creating a significant boost to WISEs in the country.

Beside the support of social enterprises as such, **a wider system of consultancy and support for social enterprises took root during this period**. A few smaller projects received finance from the Operation Program Human Resources and Employment (OPHRE), for example “Support of social enterprises in the Czech Republic” and “Innovative establishment of social enterprises.” Both helped to create a national network of local consultants, ambassadors and coaches providing free consultancy services to social enterprises in various areas, and to actively promote social enterprises. OPHRE funding supported TESSEA ČR in cooperation and sharing experience with foreign stakeholders, and to support activities of a newly established Club of Social Entrepreneurs.

During the 2014-2020 Programming Period, social enterprises have received support under three OPs within the ESF and ERDF: The Operational Programme Employment (OPE); the Integrated Regional Operational Programme (IROP) and Operational Programme “Prague – Pole of Growth in the Czech Republic.”

OPE support schemes have focused on improving the situation of people socially excluded or at risk of social (and labour market) exclusion. They have supported the establishment and development of social enterprises along with activities aimed at ensuring easier access to finance, education and counselling, promotion and groundwork required for developing the sector, e.g. responsible public procurement. Primarily they provided non-investment type funding.

The creation and development of social enterprises received aid on three levels within the OPE:

1. **National level** that includes the main calls no. 15, 67 and 129. Until September 2018, approx. 50 projects were supported with total funding of 7.7 million EUR. The last call for proposals closes in June 2019.

2. **Regional support** that focused on selected disadvantaged localities: two calls titled *Coordinated approach to socially excluded localities* (2015-16) targeted 10 municipalities in the first call and 15 in the second call. Both were administered in cooperation with the Agency for Social Inclusion based on its Strategic plans for social inclusion. The calls supported new entrepreneurial activities of WISE. However, within the two calls, only two WISEs received support with the total amount of approx. 350,000 EUR. The program then attached to the main national calls (point 1).
3. **Regional support via Local Action Groups** (LAG¹²) following the investment priority no. 2.3 *Community-led local development*. In this scheme, the LAGs can re-distribute the money via their own local grant calls where social enterprises, including environmental social enterprises can be included.

IROP support schemes have focused mainly on the social and health sector where they have supported new and existing social enterprises as well as interventions financed by the ERDF, particularly investments in fixed assets (construction, reconstruction and rebuilding).

The Operational Programme "Prague – Pole of Growth in the Czech Republic" focuses on social inclusion and combating poverty and aims to support the development of social enterprises associated with the activities of cultural and community centres in Prague.

As mentioned in section 1, **the availability of EU funding has significantly contributed to the growing interest in both the concept and practice of social enterprises in the Czech Republic, and also to the development of the whole social enterprise infrastructure.** Until recently, these schemes targeted exclusively WISEs, though in 2017 support for new environmental social enterprises bloomed (see also section 2.1 for details). All these activities contributed to growing recognition of social enterprise and its role in society. The availability of the EU funding also receives mention in section 4.6, with its impacts further discussed in sections 5.1 and 5.2.

Regional-level public support

In 2018, the Pardubice region launched a programme entitled **Support for social enterprises, fundraising support.** The program aims to foment new social enterprises in the region with funding ranging between approximately 400 and 8,000 EUR per project.

(12) Local Action Groups (LAG) emerged from EU Leader Programmes. Based in rural areas and linking local entrepreneurs, NPOs and municipalities, LAGs access national and EU funding to benefit their local area and community.

Private sector support

Several banking institutions have launched programs for social enterprises, typically in cooperation with experts from the non-profit sector.

Česká spořitelna (CS), a member of the ERSTE Bank, has reached out in support of social enterprises since 2011. CS has gradually developed from providing education and training to providing financial instruments to social enterprises, accompanied by consultancy. In 2016 CS signed an agreement with the EIF under the EaSI Guarantee scheme to provide microfinance in the Czech market, through which the EIF will guarantee 1.6 million EUR in the form of microloans. This EaSI guarantee transaction presents the second signed with a financial institution in the Czech Republic. The first was an agreement between EIF and another bank, Komerční Banka, in January 2016 with a budgetary allocation of 1.3 million EUR. CS also financially supports business incubators for businesses with social impact, e.g. Impact First and Social Impact Award.

Česká obchodní banka (ČSOB), another large Czech bank, launched a pilot grant programme in 2012 entitled “The Stabilisation of Social Enterprises” in partnership with the non-profit organisation P3–People, Planet, Profit. The program continues today and 31 social enterprises have benefited from a total of 173,000 EUR in funding so far.

The Vodafone Foundation, linked to one of the main telecommunication actors on the Czech market, runs a program titled “World of Difference;” it covers the salary of an expert who decides to spend a year working with a non-governmental organisation, public benefit organisation or a social enterprise. The Vodafone Foundation implements the Vodafone Foundation Laboratory, acting as an incubator and accelerator for social enterprise activities focused on information and communication technologies.

Other support services for social enterprises aside from public sources do indeed exist, but their structure is fractured and non-standardised. The quality and type of support depends on individual organisations and does not get coordinated at the national level. The report reflects on the main organisations providing support to social enterprises in the Czech Republic in section 4.4.

4.3. Public procurement framework

Several recent reports on the state of social enterprises in the Czech Republic (EC 2014, OECD 2016, TESSEA 2018) **emphasize the potential of public procurement to support the development of social enterprises, as well as its unsatisfactory practice in this respect at the time.** This situation seems to undergo slow improvement. One significant barrier to broader use of socially responsible public

procurement,¹³ including recognition of social enterprises, comes with the lack of social enterprise legal definition (see section 2.2 for details).

The laws governing responsible public procurement are **based on the EU Directive 2014/24. This Directive, transposed to the Czech law by the Public Procurement Act 134/2016, came into effect on 1 October 2016.** The Public Procurement Act allows and supports responsible public procurement. It states that public bodies are to give preference to qualitative ethical criteria in their tenders, rather than using lowest price criteria only. On 24 July 2017, the Czech government adopted a *Resolution on Guidelines for the Application of Responsible Public Procurement Commissioning Applied by the Public Administration and Local Authorities* (Resolution No. 531). The Resolution recommends government bodies on all levels (ministries, regions, municipalities and other entities) to consider environmental and social criteria in their commissioning of goods and services. This Resolution replaces a Resolution from 14 June 2010 No. 465 which included solely environmental requirements.

The Resolution states that entities active in responsible public procurement should provide transparent information on their commissioning to the public, creating examples of good practice to inspire other public institutions as well as private entities. Furthermore, methodologies for the users of responsible public procurement no longer need approval by the government, which allows for greater flexibility in their adopting, updating and expanding.

To assess the current state of the art, analyse the good practice examples and define the main barriers, MoLSA carried out an analysis of responsible public procurement in 2016. This analysis confirmed that responsible public procurement still inspires little use in the Czech Republic. Furthermore, it showed that **contracting authorities perceive responsible public procurement rather narrowly**: most often, they understand it as including a special clause about employment of long-term unemployed or people with disabilities, or as adding a requirement for environmentally friendly solutions. An updated version of the analysis (MoLSA 2018b:12) identified the following main barriers: reluctance to changes and persisting focus on the lowest price; highly unpredictable and complex financial audits, especially those related to EU funding; low level of understanding of responsible public procurement; unclear distribution of responsibilities, low motivation; insufficient methodological guidance; and lack of access to resources and information. While the last barrier seems particularly in decline recently, a lack of knowledge persists regarding examples of good practice.

(13) The Czech legislation defines the “small-scale public contract” as a contract below 77,000 EUR for goods and services and below 230,000 EUR for construction work.

The most promising sectors using certain sustainability criteria included catering and security services for bigger public contracts¹⁴ where responsible public procurement was used in 29.8% and 26.7% of cases respectively. For small-scale public contracts, social and environmental criteria became enacted in 6% of catering contracts and 4.5% of printing contracts (MoLSA 2016). Recently, a promising example of a complex implementation of responsible public procurement is taking place at the Ministry of Transport (MoLSA 2018b).

MoLSA identified the following main topics to be addressed in responsible public procurement:

- > Promoting employment of persons disadvantaged on the labour market
- > Promoting employment of persons with criminal records
- > Promoting education, practical employment experience, and retraining
- > Promoting decent working conditions and occupational health and safety
- > Promoting access for social enterprises
- > Promoting small and mid-sized enterprises
- > Contractor relationships, direct payments to subcontractors
- > Ethical purchasing
- > Environmentally friendly solutions

Several government and non-profit bodies actively raise awareness on responsible public procurement in the Czech Republic. Dissemination activities include websites and publications as well as educational events: such as lectures, conferences, and e-learning courses for (potential) actors involved in responsible public procurement. In addition, several methodologies and handbooks on how to apply responsible public procurement have recently released publications.

The **Agency for Social Inclusion** acted as one of the first pioneers of socially responsible public procurement. Working in marginalized areas, it promotes socially sensitive commissioning among municipalities particularly as a way to support local economies and employment of disadvantaged groups. In 2014, the Agency published the *Methodology of socially responsible public procurement*, providing practical guidance for public authorities and municipalities. The main good practice promoted by the Agency was the “condition of 10%”, suggesting that 10% of the workers employed by the contractor should comprise of long-term unemployed people. In addition, the Methodology also discusses “green procurement”, i.e. environmental standards in

(14) The Czech legislation defines the “small-scale public contract” as a contract below 77,000 EUR for goods and services and below 230,000 EUR for construction work.

commissioning, and fair trade purchasing. The Agency also published the *Manual of good practices of socially responsible public procurement*, collecting examples from Czech Republic and additional inspiration from abroad. The Agency helped about sixty municipalities to include some elements of socially responsible public procurement in their strategic documents.

The **Ministry of Labour and Social Affairs** also belongs to pioneers of socially responsible public procurement, and likely plays the most active role currently in this field. Apart from applying the principles of responsible public procurement in practice, since 2014 MoLSA has worked to promote its use among public and private institutions. Since 2016, it has done so within the project “Promoting the Implementation and Development of Socially Responsible Public Procurement.” The project aims to create a long-term consultation and expert platform, offering advice and consultations and acting as a source of information, examples of good practice, sample texts as well as a platform for activities supporting exchanging and gaining experience (seminars, conferences etc.). The project team includes experts on responsible public procurement, law, employment, social inclusion, sustainability, and other related areas. Contracting authorities can ask for a short-term support in socially responsible public procurement, and the project also opens opportunities for setting up long-term collaboration between MoLSA and the contracting authority. The newest set of methodologies was published within the project in 2017, including a detailed *Guide for Contracting Authorities* and *Guide for suppliers* together with a more general publication *Socially Responsible Public procurement and Social Enterprises*.

P3–People, Planet, Profit, has published the *Socially responsible public procurement* manual in 2016. The manual includes a legal analysis as well as practical steps to take before and during the responsible procurement process by government bodies. The organisation, one of the key actors promoting social enterprises in the country, also offers consultations and lectures on the topic.

The Czech Eco-Counselling Network (STEP), a network of Czech environmental organisations, carries out activities in the field of environmentally responsible public procurement. “Green” public procurement forms part of their program “Green administration”, together with education and consultancy on environmentally sustainable operation of public institutions (e.g. energy saving, ecologically sound printing etc.). In 2016 and 2017, STEP realized several projects focused on environmentally responsible public procurement strategies of specific municipalities and education of civil servants on “green” public procurement. They have published several information materials on green public institutions and in 2016 also circulated a series of detailed methodologies for specific products and services (e.g. office paper, IT, maintenance of public greenery etc.). Each methodology includes specific criteria that can apply to commissioning particular products or services in an environmentally friendly way.

A number of public institutions embraced responsible public procurement—a few examples follow: **MoLSA** developed an internal Strategy for Responsible Public Procurement in 2015. MoLSA has applied sustainable criteria in commissioning cleaning services (demand for environmentally friendly cleaning products, the contractor must employ 2 long-term unemployed people), supply of paper (environmental standards) and maintenance of printing and multifunctional devices (contractor required to employ disadvantaged people).

The statutory **city of Most**, among others, has pioneered socially responsible public procurement in the country. Located in a disadvantaged region, the municipality has worked with the Agency for Social Inclusion on using public procurement to target the problems of socially excluded localities. Their main focus has therefore centred on employing long-term unemployed people, mostly in construction and maintenance positions.

The **Třebíč municipality** acts as a member of the Fair Trade Town network. Fair Trade certification was given as a condition in a call for regular supply of coffee and snacks and for promotion shirts.

The **Prague 12 district** supported social enterprises by reserving a contract on maintaining public greenery and cleaning public areas solely for entities where more than 50% of employees experience disabilities. These employees must carry out at least 30% of the work.

4.4. Networks and mutual support mechanisms

4.4.1. Representative bodies

The **Thematic Network of Social Economy (TESSEA ČR)**, founded in 2009 as an informal platform, was coordinated by the non-profit organisation P3—People, Planet, Profit until 2016. From then on, it adopted the independent legal status of an association. Currently (September 2018) it holds 59 members including social enterprises, non-profit organisations and individuals (including academics); at the moment it probably forms the most influential umbrella organisation and supportive body of social enterprises in the Czech Republic working on national level. Its main aim leans toward promoting social economy and social enterprises between both lay and expert audiences, and to lobby for better conditions and legal recognition of social enterprises. TESSEA ČR promotes a wider understanding of social enterprises in terms of the triple bottom-line benefits (social, environmental and economic sustainability).

As for its main activities, **TESSEA ČR** designed the main core of a widely used set of principles of social enterprises as well as indicators to identify them (see section 2.1.2 for details); TESSEA ČR created a database of social enterprises that openly accept these principles, now maintained by MoLSA. Currently, this database contains contacts and information of about 221 social enterprises;¹⁵ TESSEA ČR also carried out several surveys of social enterprises in the Czech Republic: these surveys summarise the main characteristics of Czech social enterprises and their needs (P3–People, Planet, Profit 2014, 2015); recently, TESSEA ČR published a *Report on the State of Social Economy in the Czech Republic* (TESSEA 2018, available in Czech only).

The **Association of non-governmental non-profit organisations of the Czech Republic (ANNO)** forms a national umbrella organisation representing a broad spectrum of Czech non-profit organisations. It coordinates a network of regional branches and connects other smaller, more specialized non-profit associations (e.g. Czech union of sports, Association of civic consulting etc.).

Especially recently, it very actively defends the positive role and importance of the non-profit sector for Czech society.

Several other related representative bodies include the **Association of non-governmental organisations, and the Association of publically beneficial organisations Czech Republic**.

The **Cooperative Association of the Czech Republic (CACR)** represents Czech and Moravian cooperatives (with the exception of credit unions) both in the Czech Republic and abroad. It has four main organisational parts: Union of Czech and Moravian Production Cooperatives, Union of Czech and Moravian Consumer Cooperatives, Union of Czech and Moravian Housing Cooperatives, and Agricultural Association of the Czech Republic. CACR represents the interests of the cooperative system in relation to legislative and executive state bodies and in the public. For member organisations, it provides consulting and legislative services and coordinates procedures in matters of common interest. Together with member organisations, it co-operates with the government and individual ministries, promotes the interests and needs of cooperatives and their associations and supports the general development of the cooperative system. As a member of the International Cooperative Alliance it is also active in an international context.

(15) <https://www.ceske-socialni-podnikani.cz/adresar-socialnich-podniku> (2018-09-24)

4.4.2. Regional and local consortia

Beside TESSEA ČR, several regional networks of social enterprises and related bodies have gained importance during the last couple of years and became a strong partner for regional and local municipalities creating a solid network of cooperation on the regional and local level.

SINEC compiles a regional network of social innovations and enterprises in the Moravskoslezsky region, established in November 2013. Currently it comprises 47 enterprises and non-profit organisations representing almost 2,000 employees, out of which approximately 600 experience a health disability and a further 50 face social disadvantages. The overall turnover of the members reached around 9.3 million EUR per year. Its main goal is to amplify the voices of its members 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.

The **Centre for Investment, Development and Innovation (CIRI)** presents a regional development agency of the Hradec Králové region. Founded in 2004 as a semi-budgetary organisation (organisation funded from the regional budget), it aims to increase the flow of funds into the region and supporting regional development. It works with municipalities, cities and other regional actors, offering project management and consultancy on European grant schemes, public procurement, social enterprises and regional development and innovation. In 2017 it managed grant proposals of a combined value of 27.3 million EUR. CIRI also organizes knowledge sharing events.

4.4.3. Support networks

P3–People, Planet, Profit acts as a public benefit company founded in 2011, which provides training and consulting for start-ups and existing social enterprises, including advice on legal frameworks, marketing and fundraising strategies. The organisation also provides consulting to municipalities, regional actors and private companies on integrating social enterprises into their strategies. P3 facilitated the development of social enterprises in the country through several projects and it also coordinated the Thematic Network of Social Economy (TESSEA ČR), which became a separate legal entity in 2016 (see section 4.4.1). P3 also administers the grant programme of the ČSOB bank “Stabilisation of Social Enterprises,” which provides consultancy and small grants to social enterprises.

Spiralis, an NPO established in 1999, espouses a mission to support Czech NPOs and civil society. Spiralis offers consulting on project management and capacity building for non-profit organisations, including fundraising, strategic planning, public relations and marketing. Since 2013, Spiralis runs the Platform for the Development of non-profit

organisations, which serves as an information and networking platform, educating non-profit organisations about new policies and legal developments. Spiralix also organizes training programs on active citizenship and leadership with particular focus on women, and it facilitates space for networking, debates and policy advocacy.

The **Association of Social Responsibility**, founded in 2013, promotes the ideas of corporate social responsibility (CSR) and sustainable entrepreneurship in the Czech Republic. As a network with nearly 250 members it brings together actors from corporate, public, educational and non-profit sector. The Association offers CSR consultations and workshops as well as corporate volunteering and teambuilding events with social impact. It runs projects and events such as “Gift Tuesday,” “CSR Breakfast” or “SDGs Awards” for businesses with outstanding social impact. The Association is the local host of the Global Compact Network, the sustainable business platform of the United Nations.

The **Association of employers of health-disabled people Czech Republic** is a non-profit organisation with approximately 140 current members, mostly employers with more than 50% employees with disabilities, both from the business and non-profit sector. It mainly advocates for systemic and stable support of employment of the disabled in the Czech Republic by influencing the relevant legislation, the practice of related institutions, and the broader public understanding of the sector. Beside this lobbying work, its main activities include mutual exchange of experience with employment of health-disabled people among the members, and providing related information also to broader public.

Decent Company embodies a movement that started in 2016 with the aim to improve business culture in the Czech Republic. Decent company serves as a platform for companies and other organisations who subscribe to the principles of “decency:” they use money as a means to improve the well-being of all actors involved, namely owners, employees, customers, the broader community and the environment. The Decent Company facilitates networking, promotes the member organisations, organises meetings, workshops and etcetera. In September 2018, the platform held 77 members.

Ecumenical Academy formed part of the EU project **Sustainable and Solidarity Economy (SUSY)** (2015–2017) focused on the mapping, promotion and development of social solidarity economy. The Czech coordinator was the Ecumenical Academy in collaboration with P3–People, Planet, Profit. The project promoted the social solidarity economy (including but not limited to social enterprises) as a way to combat poverty and achieve the Millennium Development Goals. The main activities in the Czech Republic included mapping and promotion of good practice examples (brief videos and other media presentations), networking events for relevant actors and raising awareness.

4.4.4. Network running entrepreneurial activities and social enterprise incubators

Impact Hub, a social enterprise, runs co-working spaces in several Czech cities. It also organizes a yearly process called the **Social Impact Award**—a business incubator and educational program on socially beneficial entrepreneurship for people under 30.

4.5. Research, education and skills development

To date, no study programs focus specifically on social enterprise or social entrepreneurship, although **social economy has become part of the curricula on higher, graduate and post-graduate education levels**. The following university departments offer courses specifically on social economy or social entrepreneurship:

- > Department of Public Economics, Faculty of Economics and Administration, Masaryk University
- > Department of Environmental Studies, Faculty of Social Studies, Masaryk University
- > Department of Social Policy and Social Work, Faculty of Social Studies, Masaryk University
- > Department of Social Work, Faculty of Arts, Charles University
- > Department of Civil Society Studies, Faculty of Humanities, Charles University
- > Department of Trade and Tourism, Faculty of Economics, University of South Bohemia in České Budějovice
- > Department of Business Administration and Management, Technical university of Liberec
- > Department of Finances and Accounting, Faculty of Social and Economic Studies, Jan Evangelista Purkyně University
- > Department of Christian Social Work, Sts Cyril and Methodius Faculty of Theology, Palacký University Olomouc

In addition, **over fifty undergraduate programs hold a potential affinity to social economy**, ranging from economics and social work to social geography, environmental protection, humanities or development studies. Furthermore, around a dozen (higher) vocational schools (mostly focused on social work and policy) do relate to the topic. Students express interest in social enterprises, as apparent from many already-written theses on the subject from diverse perspectives.

Thus, potential for further development of education on social enterprises and social economy exists. Developing a coherent study program to equip future social entrepreneurs with both business skills and ideological grounding forms a long-term priority in this respect. **The Department of Environmental Studies at Masaryk University has begun the process of accreditation of a Joint Master's Degree "Sustainability-driven Entrepreneurship"** which shall be realized in consortium with the Business University in Vienna and the University of Barcelona, supported by the Erasmus Mundus program. In addition, an undergraduate study program Social agriculture is in preparation at the Faculty of Agriculture of the University of South Bohemia in České Budějovice.

Some of the aforementioned departments also engage in research on social economy and social enterprises. Marie Dohnalová and Kateřina Legnerová from the **Faculty of Humanities at Charles University have participated in mapping Czech social enterprises within the International Comparative Social Enterprise Models Project** and they have contributed to the development of the sector and awareness-raising (see e.g. Dohnalová *et al.* 2015). At the Department of Environmental Studies of Masaryk University, Eva Fraňková and Nadia Johanisova work closely with the sector (see e.g. Johanisová and Fraňková 2013; 2017). Within the project "Forms and norms of alternative economic practices in the Czech Republic," they interviewed over 50 eco-social enterprises and held focus groups with experts from the field. Mirka Wildmannová from the Faculty of Economics and Administration at Masaryk University has carried out a survey among 100 social enterprises (Wildmannová 2018). Social entrepreneurship and corporate social responsibility also fall into the focus of Jana Müllerová's doctoral research, currently supervised by Jitka Srpová at the Department of Entrepreneurship, University of Economics in Prague.

Beside the research focused explicitly on social enterprises, the work of **The Centre for Non-profit Sector Research (CVNS)** proves relevant in the field. This research institute of Masaryk University is based at the Faculty of Economics and Administration. Its economists, historians, lawyers, sociologists and political scientists research the current state of the Czech non-profit sector and civil society and study their development from the perspectives of their academic disciplines and in cross-disciplinary and cross-national contexts. The Centre conducts both basic and applied research, and offers an education programme to graduate and postgraduate students. It aims to stimulate public policy debate about the non-profit sector and civil society.

4.6. Financing

Financial support for social enterprises in the Czech Republic so far has come mainly from public sources, in particular via grant schemes administered by MoLSA (see section 4.2 (c) for details). In addition, WISEs often benefit from the financial support for employment of people with health disabilities granted by the Employment Act and administered by the Labour Offices (see section 4.2 (a) for details). **MoLSA has recently announced a change in the form of supporting social enterprises—the current grant scheme will close in mid-2019 with the introduction of a new scheme in the form of financial instruments (namely loans).** These loans are expected to be customized to social enterprise needs and accompanied by consultations. They will be administered by MoLSA and provided by the Czech-Moravian Guarantee and Development Bank (see also section 5 for a related debate).

Notably, a similar scheme has already functioned in place since 2015 under the coordination of the Ministry of Industry and Trade (MIT). The “Programme Warranty 2015-2023 for investment” was designed to provide social enterprises with a preferential treatment—they can gain 10% of the secured loan to a maximum of 18,000 EUR. MIT defines social enterprises as employing a minimum of 30% of people with disadvantages, reinvesting a minimum 51% of their profit, a democratic style of management and implementing CSR (these criteria partly differ from those of MoLSA). The Czech-Moravian Guarantee and Development Bank implemented the programme. However, according to the bank representatives, **social enterprises have shown little interest until now to benefit from this scheme.** According to the feedback from social enterprises, they steered away from the programme because of its unsuitable set-up. No evaluation or analysis exists that explains the programme’s lack of success.

Access of social enterprises to private finance still faces significant limits. This partly comes from the **lack of understanding on the part of conventional banks and investors regarding the mission and business models of social enterprises**, which then consider them too risky. Moreover, one common source of funding in many other countries still lacks in the Czech Republic, i.e. financial cooperatives and cooperative and ethical banks. Despite many initiatives that emerged after 1995 to establish a credit cooperative network, lack of experience and professional guidance, along with the absence of proper regulation and supervision, resulted in a series of bankruptcies, and in some cases also frauds. Their collapse at the end of the 1990s led to a loss of public confidence in this kind of institution. A few such institutions still operate today, but they struggle to fulfil EU requirements and Czech regulatory institutions, and they do not provide any support to social enterprises anyway.

Despite the general low level of interest from conventional financial institutions in developing appropriate schemes, several positive examples shine. At least **two**

conventional banks have worked to develop special programmes for social enterprises—Česká spořitelna and Česká obchodní banka (CSOB), for their activities see section 4.2 (c). Some private investors have also taken notice of social enterprises, e.g. the Tilia Impact Ventures fund that focused on impact investments in the field of social innovations and social investments. To a limited extent, social enterprises also make use of **innovative crowdfunding** financial instruments, e.g. online platforms such as www.hithit.cz (public support of various creative projects) or www.darujme.cz (donations for non-profit and various publically beneficial organisations and projects).

Regarding the demand for finance from social enterprises, both recent and older surveys in the Czech context indicate that **one of the main problems with creating a social enterprise lies in gathering the necessary capital to set it up**. The lack of financial resources was identified as a barrier, and the demand on financial instruments among social enterprises has been partly mapped through a series of surveys by P3–People, Planet, Profit (published in 2013–2015). Already in 2012, 65% of social enterprises reported a need for additional financial resources, both in terms of seed financing, investment capital, and to cover operational costs and ensure a smooth cash flow. The majority of social enterprises indicated their preference for grants (35%) while for 20% of them mid-term or long-term loan presented an option. In the 2013 survey, **respondents again identified grants as the best solution to their financial/funding needs while only 6% would welcome a loan**. Interestingly enough, consultancy and active labour market policies appeared also as possible alternatives. The results of both surveys results also reflected the difficulties and negative experiences that social enterprises encountered in addressing financial institutions to cover their needs, where distrust and perceived high risk of activity and/or unsecured business sustainability prevailed as barriers to accessing finance. In addition, commercial loans usually require high collaterals, a condition that majority of Czech social enterprises cannot satisfy. Also according to the latest report by TESSEA (2018), existing social enterprises still feel the lack of external financing options.

To conclude, although the possibilities of financing for social enterprises continue slowly developing in the Czech Republic, **a broad-enough range of sources of financing including the start-up (and even pre-start-up) investments, grants, ethical loans and private ethical investors remain practically absent**. While (up-to-date and prevalent) public grant funding proves important at certain stages, a dependence on grants might become a barrier to the long-term sustainability of social enterprises. In addition, it is worth noting that funds do not cover all the needs for social enterprise development; it requires accompanied consulting and other forms of support provided by the whole social enterprise ecosystem (see also section 5 for a related debate).

5

PERSPECTIVES

Social enterprises (especially WISEs) have flourished in the Czech Republic in the last couple of years. The definitions and principles of social enterprise developed by TESSEA and MoLSA have come to a relative consensus, and the available public funding schemes (mostly from the EU ESF programme) have boosted their development. However, some issues create difficulties for social enterprises, such as the slow process of legal definition, uncertainty around the future of public financial support, the lack of a broader political support and inadequate recognition by the wider public. Opportunities identified by the stakeholders consulted for the purpose of this study lie in creating a national strategy and action plan that might support the sector both internally (by encouraging stakeholder debates), and externally (by promoting and developing more systemic and prioritised activities). Another challenge comes in acknowledging and finding support for the whole spectrum of activities and potential of social enterprises. After all, both traditional (i.e. work integration) and nascent fields of engagement of social enterprises (i.e., local food production and distribution, ethical gastronomy, zero-waste shops, etc.), cultivate promising approaches and examples of good practice. The environmental, community and possibly also municipal social enterprises could thus thrive along with the more recognised social enterprises involved in social and charitable work. The four case studies presented in this report demonstrate some of these new trends.

5.1. Overview of the social enterprise debate at the national level¹⁶

Social enterprises have flourished in the Czech Republic in the last couple of years. A relative consensus exists on the definition and principles of social enterprises based on the definition by TESSEA and MoLSA (see section 2.12. for details) and the available public funding schemes (mostly from the EU ESF programme) have boosted the development of social enterprises in the country. However, several issues create difficulties for social enterprises to further thrive. The next section discusses the main barriers and opportunities in detail, while this section pinpoints only two issues that form part of the current debate.

The first issue regards the future of public financial support of social enterprises administered mainly by MoLSA. It will close the current calls for grant proposals in mid-2019 and will continue its support only in the form of financial mechanism, i.e. loans available to social enterprises at specific, supposedly favourable conditions. This would imply **significantly narrowing the spectrum of funding opportunities available for social enterprises, and above all for their supporting ecosystem.** Although social enterprise dependence on grants solely may be undesirable, a complete termination of their availability may have negative impacts on the sector.

The second issue regards the legal definition of social enterprises and the related law still pending. Currently its finalisation is proposed for 2019, however, this is uncertain. **The law will enable the preparation of the social enterprise development strategy currently missing** (see also section 5.2). According to the current version of the law, the strategy should finish preparation six months after the law's approval, which might not provide enough time. At the same time, many stakeholders consulted for the purpose of this study considered that the strategy should actually have preceded the framing of the law.

In any case, **many stakeholders regard the introduction of a legal definition of social enterprises as undeniably important.** At the same time, however, some stakeholders express doubts and fears from the law creating even more administrative pressure and restriction, while not bringing enough (or even any significant) advantages for social enterprises in terms of tax breaks, specific financial instruments and etcetera. Should this narrowly-focused version of the law get introduced, the stakeholders expect that only a few, mostly the traditional WISEs will try to obtain official recognition, while a vast majority of existing social enterprises will stay outside the system (outside the

(16) This section is partly based on insights from stakeholders as expressed via questionnaires and during a stakeholder meeting (see Annex V for some details), and partly also on insights from TESSEA (2018).

planned Register of social enterprises managed by some state agency), and will start to use other labels than social enterprise.

In the chance that the law does not get introduced, stakeholders mostly assume continuation of the current situation, i.e. slow growth of the number of social enterprises and gradual development of the sector, based mostly on grass-root activities and strengthening of the networking initiatives, umbrella organisation(s), and sharing of good practices. Some fear that without the legal definition, the concept will get misused by some conventional companies, but generally **most see this gradual scenario as potentially positive, with more space for a broader range of social enterprise types** (e.g. environmental, community or local municipal social enterprises and other mixed forms), with potential development towards the concept of social and solidarity economy as known e.g. from southern Europe.

In the most optimistic version, **it may be possible to achieve a combination of a strong social enterprise sector with a certain level of autonomy, together with public systemic support** (via the introduction of the law and/or a complex development and support strategy for social enterprises, and a broader range of support mechanisms than existing EU-funding administered by MoLSA).

However, a negative scenario could also develop, which assumes that the current support from EU-grants (which some stakeholders deem unsystematic and inefficient though still significant) will finish, and no further systemic support will develop to replace it. **Significant concern exists over bureaucratisation, and a too restrictive approach from MoLSA.** In addition, the continuing lack of general political support to social enterprises usually forms part of these pessimistic expectations.

5.2. Constraining factors and opportunities

5.2.1. Constraining factors

Summary of the main constraints (mostly discussed in more detail below):

- > Missing legal definition of social enterprises and dominance of WISEs in the public discourse due to the influence of history and the strong role of MoLSA in public funding for social enterprises;
- > Missing strategy and systemic support from the state, social enterprises not benefiting enough e.g. from public procurement, tax breaks, tax assignments (which do not exist in the Czech Republic) etc.;

- > Inefficient existing financial support, missing broader spectrum of financial tools, lack of start-up investment;
- > Complicated environment for businesses in the Czech Republic, heavy administrative load for all (especially for SMEs), heavy administrative load linked to the EU/MoLSA grant schemes;
- > Missing systemic education and support of social enterprise practitioners;
- > Little public recognition of social enterprises, partly due to the post-socialist historical context, with discredited values of cooperation and social justice;
- > Missing favourable legal form for social enterprises in the Czech Republic, a challenge to make more use of the recently introduced legal form of social cooperatives.

The previous section discussed the missing legal definition of social enterprises (5.1). **The dominance of WISEs among social enterprises recognized by MoLSA goes within the logic of its agenda**, i.e. support of employment for disadvantaged groups on the job market. While playing the important role in development of the sector, MoLSA has at the same time contributed to the narrow public picture of social enterprises as employers of persons with disabilities—a picture that omits other target groups and other types of social enterprises, which work for public benefit in other spheres.

One should consider the support of social enterprises in the broader context of the Czech economy. In 2018, the economy has prospered with nearly full employment. Some interpret this as lowering the need for further expansion of social enterprises, especially of WISEs. However, **social enterprises have a larger role to play in society beyond merely mitigating unemployment**. For example, they might also provide good quality, stable and fairly paid jobs in marginalized areas whose inhabitants may find employment, though often with minimal wage and under poor work conditions. Another sphere where social enterprises can make a difference are jobs with flexible working hours, which are still not common in the Czech Republic. Women after maternity leave might thus present a target group for social enterprises. Another growing group are often highly qualified workers who suffer from burnout. These people do not fall (nor do they wish to fall) in the category of people with mental or physical disability, and they therefore cannot find employment with WISEs in the current system. Neither the labour office nor psychiatric institutions seem competent in supporting the recovery of burnout victims, while these people could benefit social enterprises as a high quality (albeit temporary) workforce. Moreover and very importantly, **social enterprises still do not receive wide recognition for their contributions to the wellbeing of society, to care for the environment, to fulfil the Sustainable Development Goals and Agenda 2030 as well as to community and local economy development**.

Regarding missing strategic support (such as fiscal and similar benefits), so far only WISEs for people with disabilities can enjoy significant tax breaks. Despite all the efforts in raising awareness on responsible public procurement, many still perceive them as unsatisfactory and unsystematic. **Social enterprises too often do not know how to offer their products and services and at the same time, public institutions do not know how to approach social enterprises.** The complicated and overly bureaucratic system favours more experienced actors. At the moment, these opportunities often depend on individual “enlightened” civil servants.

The issue of responsible public procurement links intrinsically to other pitfalls in the ecosystem of social enterprises. Some argue that the legal definition of a social enterprise (which lacks in the current legislation) would enable the reserving of public tenders for social enterprises. At the same time, **social enterprises often lack the confidence in more actively accessing the market and public tenders.** Furthermore, some social enterprises feel shy in communicating their social values to their potential customers. If a higher awareness existed around these values and their positive externalities, social enterprises would likely find more support, more clients for their products and services, and more help in educating the public and in enhancing the reputation of social economy.

Social enterprises themselves often struggle with seeking a balance between the business and the social aspects of their project. They also tend to underestimate investing in social marketing and in developing longer-term relationships with their potential and existing stakeholders. Managers of social enterprises often lack balanced competencies across a range of functions, from business skills to a broader awareness of their organisation’s social and environmental purpose. In the non-profit sector, business and management inexperience can present an obstacle to success. On the other hand, social enterprises that focus more on the business side of their activities may neglect the more social aspects. In both cases, a danger of an imbalance between the two permeates.

Ethical (social) finance is still practically non-existent—the Czech Republic lacks financial institutions explicitly focused on this sphere. Consulted stakeholders agreed that both types of funding, direct support (grants) and financial tools (loans), should be made available and complement each other. Financial tools should extend to developing enterprises as they carry more responsibility for their financial health. However, direct subsidies still play a crucial role for starting new social enterprises or for new activities within the existing ones. *De minimis* funding could prove useful to support the start-up or consolidation of social enterprises. The *de minimis* regime limits the amount of funding granted and its administration plays out significantly more easily than with bigger grants. Arguably, social enterprises with obvious general interest goals and producing positive externalities may need some

measure of monetary or non-monetary public support even for established activities. According to stakeholders, support structures for social enterprises (e.g. networks, platforms and enabling organisations) should receive finance from public funds, and their multifaceted support for both nascent and existing social enterprises is crucial for the sector's expansion and success.

In post-socialist countries, an additional problem lies in the **discrediting of economic activities based on cooperation (especially cooperatives, due to the negative image caused by centralized and undemocratic cooperatives existing under Communism)**. After the Velvet Revolution in 1989 and the Czech economic transformation in the early 1990s, the first years of the new democratic system, community based activities often faced rejection as a non-functional concept, and have experienced only recent re-discovery.

In such an environment, individualism tends to outweigh mutual aid and dominates over collective ways of dealing with social and ecological problems. Since World War II, the social state has assumed more and more responsibility for the consequences of problems caused by the economic system. However, financial costs have weighed substantially, and often the state cannot address emerging social issues. **Social enterprises here can embody part of the solution as they support locally anchored activities, empower disadvantaged groups, and contribute positively to the environment.** As mentioned, a certain prejudice befalls the quality of the products and services delivered by social enterprises. Many Czech people, both as potential customers and low-wage workers, feel drawn to low prices and do not choose ethical products due to their low purchasing power.

Regarding social cooperatives, its legal form remains little known, even amongst practitioners and academics. Those familiar with the law consider that it did not produce a relevant impact on the development of social enterprises any direction, as only very few social enterprises decided to adopt this legal form. A few optimists consider this possibility (even if not yet practiced) as “a step in the right direction.” Worth note is that the legal form of a traditional cooperative, as codified in Czech law, does indeed enable the existence of cooperatives functioning in the general interest. Thus, another challenge for the future lies in strengthening the public image of the cooperative as a valuable, modern and viable institutional form for societal transformation towards greater equity and environmental sustainability.

The big remaining challenge identified by the consulted stakeholders in the Czech Republic comes in **building the multifaceted public support for the social enterprise ecosystem as a whole, including e.g. support for organisations and networks in capacity building in the whole sector**, training, consultancy, networking events, sharing good practice, field study visits both in the Czech Republic and other

EU countries, and enhancing the public recognition of social enterprises in the whole spectrum of their activities.

5.2.2. Opportunities

Several opportunities could allow for further development of social enterprises and their ecosystem in the Czech Republic.

Consulted stakeholders perceive **great potential in developing a national strategy for social enterprises and related action plan**. As discussed in the previous section, the current version of the prepared social enterprise law envisions creating such a national strategy. Thus, stakeholders look forward to taking full advantage of this process once/if the law gets approved. These actors expect both the strategy and action plan to ensure mutual coordination of activities among the various actors related to the field of social enterprises, such as governmental bodies, practitioners, umbrella groups, investors, academia, and others.

Further opportunities relate to public support for social enterprises. As the format of this MoLSA-administered support will change in the near future anyway (mid-2019), stakeholders emphasized the opportunity to analyse and reflect upon both the strong and the weak features of the previous schemes, and introduce amendments based on feedback from practitioners, former applicants and beneficiaries. These groups (according to a short feedback available in the reports by MoLSA [2016, 2018]) and many consulted stakeholders anticipate **a big potential in adapting the parameters of the grant calls of the European Social Fund to the reality of social enterprises in the Czech Republic, e.g. by introducing smaller grants associated with less administrative work**, thus making them accessible to a larger pool of applicants.

The coming change in public support might also, according to the consulted stakeholders, open the possibility for the **creation of a more complex financial tool for social enterprises, for example by combining grants, loans, and consulting (modules)** that so far have taken place only separately or have reached a limited number of beneficiaries. With this background in mind, some stakeholders underlined that financial tools encourage increased accountability for successfully achieving the set goals, and they offer more space and variability, especially in conjunction with effective and practical consulting.

An additional opportunity exists in offering practical help and consulting for those interested in starting a social enterprise prior to its founding, as part of supporting the effective use of grant calls and other forms of funding. Many consulted stakeholders appreciate such **supportive activities of several existing good-practice examples of regional clusters or centres facilitating the development of social enterprises**, such as the cluster of social enterprises and innovations SINEC in the Moravian-Silesian

Region (see section 4.4.2 for more information). Many stakeholders see the potential in strengthening this trend via more systemic support of regional activities and cooperation among social enterprises in particular regions, and their cooperation with regional authorities. As experience in other countries indicates, **regional centres are effective thanks to familiarity with the particular context and local accessibility, links to local networks and the possibility to share experience informally**. Several stakeholders highlighted that if these activities do not receive support in all regions, unwelcome disparities may arise despite the goal of social enterprises to mitigate such disparities. As apparent from section 4.4, many loci of expertise exist in the Czech Republic regarding social enterprises, not only within the social enterprise organisations themselves, but in many NPOs, in academia, and in some regions, municipalities, and Local Action Groups. All this expertise can contribute, according to the stakeholders, to the functional coordinated network of regional support, once its development receives systematic and long-term support.

In the sphere of research and education, consulted stakeholders shed light on the need to strengthen the interest of institutions of higher education and academic departments in dealing with social enterprises, and in cooperation with the more active ones, for instance by focusing on the methods of measuring the impact of their activities. A significant opportunity might blossom through creating an **educational program for social enterprises focused on both the managerial and the value aspects of social enterprises**, currently prepared at the Masaryk University (see section 4.5).

Beside the opportunities related to strengthening social enterprises and their ecosystems as described above, more general trends might contribute to their development in the Czech Republic in the future, such as the **overall phenomenon of an ageing population that will present growing demand for various social services often provided by social enterprises** (especially the WISEs). Not only these traditional fields are expected to grow; new spheres of engagement for social enterprises have recently emerged, including the growing interest of social enterprises in the environmental domain, which receives further elaboration in the next section.

5.3. Trends and future challenges

5.3.1. Summary of positive trends

- > Slowly growing societal recognition of social enterprises and their important role for society;
- > Many active young people, development of grass-root/community initiatives, networking of positive examples (not only social enterprises);

- > A more conscious society in general, with people showing more interest in responsible consumption (local, organic, fair trade products etc.);
- > Companies demonstrate more concern about their CSR, and investors display more concern with ethical issues;
- > Examples of very good cooperation between social enterprises and local/regional governmental bodies and municipalities.

Summary of negative trends:

- > Lack of a broader political support of social enterprises;
- > High bureaucracy for social enterprises, excessively complicated legislation and administrative burdens;
- > Risk of discretisation of social enterprises by misuse of the concept.

In spite of the constraints mentioned above, the number of social enterprises has grown in the Czech Republic, and new types of them have emerged in the last few years, many of them addressing both social and environmental issues via practical actions. **A growing number of social enterprises, rather than following the narrow vision of social inclusion as the only goal of a social enterprise, focus on developing local economies, on high-quality and sustainably produced and marketed food, and on respect towards the environment.** Some municipal and regional authorities have contributed to the support of social enterprises by serving as clients for their products and services via responsible public procurement. They may in the future also create favourable conditions by offering grants and non-monetary support (for example, by helping with promotion, organizing networking events in support of social enterprises, renting premises for a nominal fee, and so on).

Automation of production has brought a decrease in the number of traditional low-skill positions, and clearly innovative approaches to integrating disadvantaged people have the potential for success (e.g. in social farming, environmental social enterprises, upcycling workshops etc.). Demonstrably, the **most successful enterprises employ and combine new approaches while systematically building relationships within their communities and with other stakeholders;** make use of the latest trends in marketing; and invest in the professional development of their employees, encouraging their involvement in the operation of the enterprise.

5.3.2. New emerging forms of social enterprises in the Czech Republic

Much of this text has focused on the social enterprises that emerged as a response to EU funding, and thus have taken form vis-a-vis the priorities of MoLSA, TESSEA and governmental definitions, and whose activities often revolve around social inclusion of

disadvantaged people. However, as suggested in section 5.1, the possibilities of social enterprises to deliver public goods reach much further. **Although not necessarily using the label of a “social enterprise”, many emerging entities align very closely to its core values**, aims and inclusive/democratic governance approaches. The end of this section describes a few interesting initiatives that might in the future strengthen the social enterprise sector and broaden its understanding in the Czech Republic.

Environmental social enterprise as a concept has very recently gained ground, promoted partly by EU funding earmarked by the Czech government (MoLSA) for the purpose (see sections 2.1.2 and 4.2 (c) for details). Since 2017, funding has openly supported establishing environmental social enterprises from the Operational Programme Employment through applying for subsidy grants of MoLSA or Local Action Groups. The environmental social enterprise tends to deal with specific environmental issues, usually those relevant in the community where established. Therefore, it does not solely aim for an environmentally friendly operation (such as through recycling, using ecological cleaning products and office supplies), but embodies environmental consciousness in its key activities. For example, an environmental social enterprise can operate as a farm that not only grows crops in an environmentally friendly way (whether certified organic or not), but also organically processes its own products. Further, it can include consumer communities that support such farms. Community kitchens, zero-waste shops, re-use centres and alike can be reframed, supported, or helped in their inception as environmental social enterprises. Environmental social enterprises tend to promote the local economy for environmental as well as social/economic reasons. They also tend to prioritize employing local residents, and have as many local suppliers and clients as possible for their products and services. Three of the case studies presented in this report demonstrate this (see Annex III): the Diakonie Broumov PBC, the Fair & Bio cooperative and the Bike Kitchen association.

Social farming is a new concept that developed quickly in the last years, giving legitimacy to existing social farms and inspiring the emergence of new ones. It focuses on integrating (ideally organic) farming with social integration. It also re-invents farming as a tool for mental and physical therapy, education, and social services in rural areas. At the same time, social farming allows farmers to diversify their income, and supports local development as well as economic and environmental sustainability in rural areas.

Since 2014, the Working Committee for Social Farming at the Ministry of Agriculture has met regularly. In 2017, the Association for Social Farming took root in the Czech Republic. It represents existing social farms, creates a supportive environment for their development, defends the interests of the Association members, cooperates with Czech as well as foreign public, private, and non-government organisations, and provides information about social farming at all levels. Since 2017, the Thematic Working Group for Social Farming at the National Rural Network and the Regional Office of the State

Agricultural Intervention Fund in Brno have also been active. In the Czech Republic, about 40 social farms and other organisations promote and implement this concept.¹⁷

Local sustainable food initiatives, the food sovereignty movement, and ethical gastronomy present another emerging field with the potential to develop even more prominently in the future. In response to growing environmental and health concerns, a number of projects have sprung up in the Czech Republic to support small farmers, high-quality local production, and environmentally friendly landscape management. These initiatives include, for example, community supported agriculture, in which the consumers share with the farmer both the harvest and risks of agricultural production amplified by climate change. Other examples include some farmers' markets, social and organic farms, and community gardens. The nascent Czech local food movement grows from many roots, including the world movement for food sovereignty, which has gradually spread to Europe from small farmers in the countries of the global South. Several umbrella groups have formed to support the Czech local food movement, though in view of its grassroots character and quick development, it remains fragmented and difficult to pigeonhole.

The ideas of food sovereignty and local and sustainable food have also inspired a growing number of social enterprises in the area of gastronomy (cafés, restaurants, bistros, catering services, roasting plants, zero waste shops, and so on). They acquire and/or process products exclusively from known local, organic or fair trade sources and thus practice respect toward environment as well as people.¹⁸ Two case studies presented in this report embody ethical gastronomy activities: Fair & Bio cooperative and the Etincelle group (see appendix 3 for details).

As discussed above, **the challenge for the future comes in acknowledging and finding support for the whole spectrum of activities and potential of social enterprises.** Both among the more established WISEs and in nascent spheres of social enterprise such as local food production and distribution, ethical gastronomy, re-use and zero-waste shops, etc., promising approaches and examples of good practice abound. **The environmental, community and potentially local municipal social enterprises can thus thrive alongside more recognised social enterprises involved in social and charitable work.** As expressed in the motto of one of the case studies:

“To be normal is to be diverse.”

(17) See www.socialni-zemedelstvi.cz (2019-02-06) for more information.

(18) See www.kpzinfo.cz, www.potravinovasuverenita.cz (2019-02-06) for more information.

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|---|---|--|
| Entrepreneurial/ economic dimension | Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises ¹⁹ . | <ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. | SEs must be market-oriented (incidence of trading should be ideally above 25%). | <ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants). |

(19) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--------------------------------------|---|---|--|---|
| Social dimension (social aim) | <p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. “Social” shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p> | <ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs’ action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. | <p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p> | <ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what “public benefit” means in her/his country. |

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|--|---|--|
| Inclusive governance-ownership dimension (social means) | <p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p> | <ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). | <p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p> | <ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time—hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs). |

Appendix 2. Data availability report

| Legal typology | Source of data (name, type & link) | Data provider (name & type) | Year of reference timeline of updates | N° of organisations | N° of workers | Turnover | Degree of reliability (1 to 4) and explanation |
|---|---|---|---|---------------------|---------------|----------|---|
| Social cooperatives | Access to Registers of Economic Subjects (ARES) Statistical register | Czech Statistical Office (CSO) National Institute of Statistics (NSO) | 2014–2018 Continuous | √ | N.A. | N.A. | 4 - Official statistics highly reliable, however the legal form of social cooperative is included under the same code as other types of cooperatives, hence the concrete number of social cooperatives was provided by CSO upon personal request. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | Access to Registers of Economic Subjects (ARES) Statistical register | Czech Statistical Office (CSO) National Institute of Statistics (NSO) | 2014, 2018 Continuous | √ | √ | N.A. | 4 - For 2014 and 2018 the data are available upon request from CSO, however, due to the change of analytical software at CSO, the same dataset is not available for 2015–2017. |
| Associations, PBOs, Institutes, Foundations, Church legal persons (i.e. all non-profit legal forms) | Czech Statistical Office Statistical register | “Neziskovsky.cz” foundation Representative body (non-profit umbrella organization) | 2015, 2016, 2017 Yearly (but not updated recently) | √ | N.A. | N.A. | 3 - The web portal refers to CSO as the source of data, however, the data are not fully consistent with the data obtained directly from the CSO (the difference is, however, very little, where the comparison is possible). |

| Legal typology | Source of data (name, type & link) | Data provider (name & type) | Year of reference timeline of updates | N° of organisations | N° of workers | Turnover | Degree of reliability (1 to 4) and explanation |
|---|---|--|---|---------------------|---------------|----------|--|
| Cooperatives, limited liability companies | Czech Statistical Office Statistical register | Czech Statistical Office (CSO) National Institute of Statistics (NSO) | 2015, 2016, 2017 Yearly | ✓ | N.A. | N.A. | 4 - Official statistics highly reliable. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | P3-People, Planet, Profit o.p.s. survey covering specific sample (SEs in the online register that replied a questionnaire) | P3-People, Planet, Profit o.p.s. Non-profit organisation | 2013-2015 Yearly (but only until 2015, not updated since then) | ✓ | N.A. | ✓ | 3 - Data are based on a questionnaire, replies collected via phone interviews. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | Institute of Sociology of the Czech Academy of Sciences Survey covering specific sample (Pardubice region) Not published | Regional authority of the Pardubický region Public agency | 2015 Una tantum | ✓ | N.A. | ✓ | 3 - The scope is only regional, but the results are highly reliable as the research was done by a respected academic institution (and commissioned by a regional government body). Data are not publicly available and were provided personal request. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | MoLSA Survey covering specific sample (SEs supported by public funding administered by MoLSA) | MoLSA Public agency | 2016, update 2017 and 2018 yearly (but only until the end of the funding period) | ✓ | ✓ | ✓ | 3 - Data are based on a questionnaire, collected directly by MoLSA staff. The update from 2018 is available online, the previous reports upon personal request. |

| Legal typology | Source of data (name, type & link) | Data provider (name & type) | Year of reference timeline of updates | N° of organisations | N° of workers | Turnover | Degree of reliability (1 to 4) and explanation |
|---|---|---|---------------------------------------|---------------------|---------------|----------|--|
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | MoLSA Survey covering specific sample (all SEs in the online register) | MoLSA Public agency | 2015 Continuous | √ | N.A. | N.A. | 3 - Data are provided by SEs via email or phone based on self-declaration. The information on individual SEs is available online, but the full dataset was provided upon personal request. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | Department of Environmental studies, Faculty of Social Studies, Masaryk University, Brno Survey covering specific sample (SEs as defined in a research project) | Masaryk University, Brno Academic institution | 2014 Una tantum | √ | N.A. | N.A. | 4 - Data are based on personal interviews, field observations and study of SEs' documentation. Profiles of the studied SEs are available online but the full information was provided upon personal request. |
| Associations, PBOs, Institutes, Foundations, Church legal persons, Cooperatives, Limited liability companies | Department of Business Administration and Management, Faculty of Economics, University of West Bohemia, Plzeň survey covering specific sample (SEs in the online register that replied a questionnaire) Not published | University of West Bohemia, Plzeň Academic institution | 2017/2018 Una tantum | √ | N.A. | N.A. | 3 - Data are based on a questionnaire, replies collected via phone interviews, the sample is limited and the data were not officially published, results are available upon personal request. |

Overview of available surveys on social enterprises in the Czech Republic (as defined by TESSEA and/or MoLSA principles) and their selected results in terms of main social enterprise characteristics (such as their legal forms, target groups etcetera) - part 1.

| Data source | Year | No. of SEs included in the study | Types of SEs covered | Legal form | Target groups | Sector |
|---|------|---|--|---|---|---|
| Pardubice region 2015 (Mikešová and Bernard 2015) | 2015 | 30 | >80% WISE >20% general + environmental SE | >47% limited liability company >20% public benefit company + institute >10% cooperative >7% association >17% other | >80% health disabled I+II >73% health disabled III >52% health disadvantaged >47% long-term unemployed >10% drug users >10% ethnic minorities >7% disadvantaged youth >3% people after detention | >30% gastronomy >30% production of various goods >27% other services (e.g. health assistance) >17% retail >10% cleaning services >10% PR, marketing >10% waste management >5-7% engineering, agriculture, IT services |
| P3 survey 2015 (P3–People, Planet, Profit 2015) | 2015 | 151 respondents from 213 SE registered in the Repository at the time (7.7.2015) | All types, based on self-declared fulfillment of TESSEA principles | >48% limited liability company >25% public benefit company >9% association >7% self-employed individual >6% cooperative >2% church legal person >3% other | >64% health disabled >38% long-term unemployed >17% other groups >16% disadvantaged youth >15% ethnic minorities >14% caretakers for relatives >9% homeless people + people after detention >7% drug users | >24% gardening services, maintenance of greenery in public spaces, maintenance and cleaning of buildings >20% other services >18% retail >15% accommodation and gastronomy >15% food production |
| MoLSA 2016 (MoLSA 2016) | 2016 | 103 respondents, from 120 SE supported from OPLZZ | WISE | >59% limited liability company >18% public benefit company >13% self-employed individual >6% cooperative >2% church legal person >2% other | >64% health disabled >57% long-term unemployed >18% ethnic minorities >15% disadvantaged youth >9% people after detention >8% homeless people >8% drug users >7 – 2% others | >24% accommodation and gastronomy >20% maintenance and cleaning of buildings >15% forestry and gardening >15% retail >15% building sector >14% municipality infrastructure services >10% food production and delivery >3% IT >30% other services (e.g. cloth cleaning, massages) >15% other production (e.g. wood manufacturing) |

| Data source | Year | No. of SEs included in the study | Types of SEs covered | Legal form | Target groups | Sector |
|--|---------------|---|---|---|---|---|
| MoLSA 2018 update (MoLSA 2018a) | 2018 | 66 respondents from 75 SE supported from OPLZZ that were still in operation at the time | WISE | - | <ul style="list-style-type: none"> >69% health disabled >50% long-term unemployed >19% ethnic minorities >8% disadvantaged youth >8% caretakers for relatives >6% people after detention >5% drug users >5% ethnic minorities & migrants >3% homeless people >3 – 2% others | - |
| Social enterprise repository (administered by MoLSA) | 2018 | 222 | All types, based on self-declared fulfillment of TESSEA principles | <ul style="list-style-type: none"> >41% limited liability company >25% public benefit company >11% association >9% cooperative >5% self-employed individual >3% church legal person >6% other | - | - |
| MU research (Johanisová <i>et al.</i> 2016) | 2014 | 50 respondents | All types based on pre-defined characteristics of eco-social enterprise | <ul style="list-style-type: none"> >21% cooperative >18% association >13% limited liability company >13% self-employed individual >11% unincorporated >5% public benefit company >5% social cooperative >5% share company >3% institute >5% other | - | <ul style="list-style-type: none"> >18% local food >13% farming >13% re-use and recycling >8% manufacturing >8% gastronomy >8% retail >8% renewable energy >8% nature conservation >8% arts, culture >5% transport >3% local currencies |
| ZČÚ survey (Taušl-Procházková 2018) | 2017/ 2018 | 51 respondents from about 220 SE registered in the Repository at the time | All types, based on fulfillment of pre-defined characteristics of SE | <ul style="list-style-type: none"> >42% limited liability company >25% association >20% public benefit company >9% cooperative >2% social cooperative >2% other | - | - |

Sources: Mikešová and Bernard (2015), P3–People, Planet, Profit (2015), MoLSA (2016; 2018a; personal request), Johanisová *et al.* (2016), Taušl-Procházková (2018).

Overview of available surveys on social enterprises in the Czech Republic (as defined by TESSEA and/or MoLSA principles) and their selected results in terms of their further selected characteristics - only sources that provide at least one of the selected characteristics are included - part 2.

| Data source | No. of employees | No. of employees from disadvantaged groups | Workforce (% of women, youth etc.) | Annual turnover | Grant dependence | Rates of exit |
|---|---|---|---|--|---|--|
| Pardubice region 2015 (Mikešová and Bernard 2015) | <ul style="list-style-type: none"> > 23% up to 10 employees > 30% btw. 11 and 20 emp. > 37% btw. 21 and 100 emp. > 13% more than 100 emp. | 1200 | - | <ul style="list-style-type: none"> > 20% up to 77,000 EUR > 23% btw. 77,000 and 200,000 EUR > 3% btw. 200,000 and 385,000 EUR > 23% btw. 385,000 and 1.9 mil EUR > 13% more than 1.9 mil EUR > 18% information not available | <ul style="list-style-type: none"> > 27% up to 10% of budget > 27% btw. 10 and 24% of budget > 24% btw. 25 and 50% of budget > 21% btw. 50 and 100% of budget | - |
| P3 survey 2015 (P3 – People, Planet, Profit 2015) | Average no. of employees: 17 | Average no. of disadvantaged employees: 13 (76%) Total 1724 disadvantaged employees (in 151 SEs) | Executive director: > 56% men > 44% women | Average annual turnover over last two years: 173,000 EUR > 48% with profit > 52% without profit | 65% had public funding from EU structural funds; 38% rank the same or better off after funding ended; 24% worse off (had to lessen no. of employees, wages, and/or working hours); 42% feel too dependent on external funding (grants and subsidies) | - |
| MoLSA 2016 (MoLSA 2016) | Average no. of employees: 11.1 Median: 8 | Average no. of disadvantaged employees: 7.8 (71%) Median: 5 (63%) | - | Average annual turnover: 165,000 EUR > 67% with profit > 5% with balanced sheets > 28% with loss | All (by definition) had public funding, an average SE gained 72% of income from own economic activities (selling of goods and products) | <ul style="list-style-type: none"> > 70% survived > 30% either closed, or survived but ended SE activities |
| MoLSA 2018 update (MoLSA 2018a) | Average no. of employees: 14.4 Median: 9 | Average no. of disadvantaged employees: 10.2 (71%) Median: 5.5 (61%) | - | <ul style="list-style-type: none"> > 53% with profit > 27% with balanced sheets > 20% with loss | Sources of income: <ul style="list-style-type: none"> > 100% own economic activity > 59% payments from the Labour Office > 25% loans > 14% other own resources (savings) > 13% grants MoLSA > 11% donations > 9% support from local or regional municipality > 9% other grants (IROP etc.) | <ul style="list-style-type: none"> > 58% survived > 41% closed > 1% unknown |

Sources: Mikešová and Bernard (2015), P3-People, Planet, Profit (2015), MoLSA (2016; 2018a).

Appendix 3. Exploratory case studies

Exploratory case 1

Diakonie Broumov (social cooperative)

→ Mode of creation

Diakonie Broumov (DB) was founded as a civic association in 1993. The project evolved from a church initiative Christian Help Center¹⁹ under The Czechoslovak Hussite Church to provide material assistance to socially disadvantaged people. In 2014 the legal form of the organisation transformed into a social cooperative. One of its main aims is to provide employment for disadvantaged people and assist them with social integration. The social cooperative operates two utility buildings, where old textiles get sorted and processed. It is capable of processing 8,000 tons of textiles per year. The materials come from collections organized by municipal authorities, schools and other organisations as well as from the collection containers. DB prioritises minimising waste from its production, to focus on local needs and to use local resources. DB can meaningfully use about 90% of the collected textiles. Diakonie Broumov claims to work as a voluntary, non-profit, non-political and non-religious society.

→ Types of recipients

Different types of recipients benefit from activities of Diakonie Broumov. The social cooperative operates a shelter in Broumov at the Social Assistance Centre, which offers help to people who find themselves in a difficult life situation. Apart from housing, the cooperative assists clients with searching for employment. DB itself offers employment to people with difficulties finding it elsewhere.

Another group of recipients include people in need of material help, for example people suffering from natural disaster or socially disadvantaged families. The social cooperative additionally sends part of the textiles to countries of the global South.

→ Numbers of workers, members and volunteers

The social cooperative employs around 160 people, mainly with shared difficulties in finding a suitable job in the open labour market. When Diakonie Broumov²⁰ was founded, the number of members in the civic association reached 30, mainly from the religious community. This number declined over the years and after the transformation from the civic association to a social cooperative in 2014, only 3 members remained.

(19) Church initiative Christian Help Center was founded in 1990.

(20) The civic association was originally registered under the name Diakonie Úpice. In 2002 the association moved to Broumov and changed the name to Diakonie Broumov.

However, the participation of the public in its activities has increased. Although Diakonie Broumov does not have any official volunteers, a lot of organisations and individuals collaborate with DB on a voluntary basis. They organise and promote collections of clothing, helping with transporting textiles etc.

→ **Mechanism of scaling adopted**

The project developed very fast from the beginning. Between the years 1900–1992, the activities of the church initiative, Christian Help Centre, extended so rapidly that the members decided to formalise the initiative's structure. In 1993 they established a civic association called Diakonie Úpice. The range of activities broadened in 1997 when Diakonie Úpice received a property of the Church of Resurrection in Broumov from The Czechoslovak Hussite Church. The reconstruction of the church, part of the cultural heritage, took place between 1999 and 2001.

In 1999, the civic association Diakonie Úpice set up a subsidiary company in the form of a limited liability company called Diakonie Broumov. Thanks to this step, the civic association could legally gain income to support its social work through renting some premises to its own subsidiary company.

In 2002, the civic association moved from Úpice to Broumov so that it could process more textiles and expand its production thanks to bigger premises. Consequently, the name of the association changed to Diakonie Broumov.

The legal form of the initiative changed once again in 2014 when Diakonie Broumov decided to change its legal form to a social cooperative. Thus, both the existing association and the limited liability company merged into the new legal entity with the same name.

→ **Membership and governance model**

The current legal form of Diakonie Broumov is a social cooperative. The core activities consist in providing people with housing assistance and enabling disadvantaged people to obtain satisfactory employment, just as the beginning of the project proposed. The general assembly represents the highest authority. The chairperson of the cooperative represents the statutory body, elected by the general assembly. In the case of Diakonie Broumov, currently (2018) only three members form part of the cooperative. Formally, the number of members of the coop has no limit; any employee can send an application to the general assembly and join the coop. However, not many employees make use of this option. According to the respondent, the reason may lie in that the employees do not want to take on the responsibility related to the membership—members hold responsible for the whole enterprise and have to deal with many moral, legal and economic issues.

→ **Business model adopted**

Diakonie Broumov uses one third of its profits to finance the development of the social enterprise, while using the rest to finance activities in the social sphere. According to the respondents, the number of people employed by DB represents the main indicator of its success. The social cooperative has not depended on any subsidies since 2012, and does not wish to rely on this source of income anymore.

→ **Main barriers**

According to the respondents, no serious problems have erupted during almost 30 years of the project's operations. The respondent did identify one ideological discrepancy though in approach of part of the donors, who interpret the collections as an "ethical way" to get rid of old clothes, merely to be able to buy new clothes for themselves afterwards. This seems inappropriate to the collective as Diakonie Broumov strives for maximal environmental sustainability of its actions.

→ **Key partners**

The organisation continuously develops cooperation with municipalities, various charities, churches, associations and individuals throughout the Czech Republic to ensure the collection of used textiles. Since 2012, this activity has expanded by placing containers for used clothing in more than 20 towns and villages.

→ **Contractual agreements with public agencies**

Diakonie Broumov prefers personal contact instead of on-line communication when it comes to collaboration with other enterprises and institutions. However, it seems important for DB to maintain relationships with its allies through personalized mails or Christmas greetings. They keep contact especially with local municipalities via organizing container placement for clothing.

→ **Financing mechanisms based on income generated by economic activity**

Comparing to other enterprises in the region, Diakonie Broumov represents a medium-sized business, which offers salaries slightly above average. And although employees mostly do not participate as members of the coop, they create a tight-knit team together with the social cooperative's members. The members of the cooperative have standard salaries. The general assembly does not distribute profit among the members of the coop.

→ **Financial intermediaries allotting credit for risky activity investments**

The financial turnover of Diakonie Broumov measures around 2.3 million EUR per year. This amount covers the operational costs such as transporting and processing the materials. However, it does not allow investing into the development of the social

enterprise. That is why the initiative has credits up to 270,000 EUR. DB does not struggle to repay this, but the collective would feel more stable with an income reaching 2.7 million EUR. While this mild growth of turnover would not pose a problem for the coop in terms of space, it would require significantly more organisation.

Exploratory case 2

The Etincelle group (association, public benefit company, 3 limited liability companies)

→ Mode of creation

Etincelle was founded in 2005 as a civic association. Its main mission aims to support people with both mental and physical disabilities by facilitating their employment, education, and their integration to the open job market and to society. Etincelle also provides registered social services and cooperates with other social services providers, and offers consultations and expertise in the field of work integration of people with disabilities.

In relation to funding schemes of MoLSA and changes in their rules, and also to structure its own various activities, the original civic association established another four legal entities: a Public Benefit Company called *Startujeme* (“We Start”) in 2009, and three limited liability companies called *Twin catering* in 2016, *Dělníci* (“Workers”) in 2016 and *Etincelle úklidová* (“Etincelle cleaning”) in 2017. Activities of all these entities share the same interrelated mission; data provided for all these entities refers to the *Etincelle group*.

The Etincelle group has developed a broad range of activities. Likely the most prominent part relates to running social integration cafés which employ people with light mental disabilities. The first opened in Kladno (a city in Central Bohemia) in 2009; currently (January 2019), the Etincelle group runs 7 work integration bistros and cafés in Prague, 1 café and cultural space and 1 bistro in Kladno, and 3 bakeries (2 in Kladno and 1 in Slaný). The Etincelle association runs one of the cafés combined with a bakery and a library in Prague, and the *Startujeme* PBC runs the rest.

Moreover, since 2008 the Etincelle association operates a farm in a village of Ledce (central Bohemia), located on premises of the Bellevue Home, a sheltered home and day-care centre for people with mental disabilities. Currently, 9 such people work at the farm, taking care of 20 sheep, pigs, hens, and rabbits, along with a greenhouse and field producing vegetables, herbs and strawberries. Both the employees and clients of the Bellevue Home can take the advantage of contact with the animals and work on the farm as part of their therapy.

Since 2008, Etincelle association has also provided cleaning services of public spaces. Currently 4 cleaning groups operate in Prague, and 4 groups in Kladno. These activities transfer to one of the limited liability companies (*Etincelle cleaning*). Moreover, *Twin catering* offers catering services, and the *Workers* provide laundry services in Kladno.

Beside running the bistros and cafés and providing various services, the *Etincelle group* (via the *Startujeme* PBC) also offers registered social services in 3 social centres (2 in Prague and 1 in Kladno) where clients can get information, support, consultancy and

practical support in integration to the open job market. The Etincelle group also creates practical materials helping other employers to integrate disadvantaged employees, provides consultancy and share its expertise. As an employer with more than 50% of disabled employees, all parts of the *Etincelle group* also offer goods and services in the form of a “substitute performance” (see section 4.2. for details about this scheme).

→ **Types of recipients**

The Etincelle group works mainly with people with light mental disabilities (About 4% of people experience mental disabilities in the Czech Republic, roughly 80% of which have light forms of disabilities). Etincelle group aims to help its employees gain a combination of general experience of employment and building basic work habits, along with expanding a concrete set of skills in a particular sector (café, cleaning, laundry etc.). Ideally, this would prepare employees for the open job market, i.e. working as a transitional WISE. However, in reality a significant part of employees stay in the longer-term as a limited number of other potential employers exists, and the employees appreciate the comprehensive support they receive at Etincelle which includes assistance with financial management, personal issues and etcetera.

→ **Number of recipients, members, membership and governance model**

Currently, about 120 out of 200 employees (60%) face disadvantages. Since its beginnings, several hundred disadvantaged people have received employment and job training within the whole group.

Concerning its members, the only legal form based on membership is the original civic association (transformed to an association according to the new civil code, see section 2.2 for details). However, the number of members measures very low, consisting mainly of people related to the WISE activities of the group.

All entities belonging to the Etincelle group abide by the social enterprise principles specified in the founding documents (as defined by TESSEA and MoLSA, see section 2.1.2 and Table 2 for details), since MoLSA presents this condition in order for social enterprises to receive funding. The group enacts the democratic principle to a limited extent, e.g. a feedback mechanism exists between the disadvantaged employees and their coordinators and/or assistants. However, the participation of the disadvantaged employees remains limited by their health and mental conditions.

→ **Business model and scaling mechanisms**

The Etincelle group cooperates with various entities ranging from local municipalities, other social enterprises and providers of social services, and even big conventional companies—one of their cafés bustles in the modern office building of the multinational PricewaterhouseCoopers (PwC) in Prague, with another in the building of a big Czech energy company ČEZ.

Regarding its legal forms, the original association proved not very suitable for running a business. Originally, they adopted this model since not many other options existed at the time. However, the Etincelle focuses mainly on supporting social and work integration of people outside the organisation, i.e. its operations do not primarily lean toward benefitting its members (as would be typical for an association). As for the rather rigid structure of Public Benefit Company (PBC), at least 7 people must participate in the board of trustees, the supervisory board etc. (see section 2.1.2 and Table 1 for details). These participants are liable to the PBC with their personal assets, making it difficult to find so many people willing to take on such a risk. Also, as both the association and the PBC can run economic activities only as a secondary activity, Etincelle must always balance the primary aim (work integration of people with disabilities) with its business activities. Finally, the limited liability company definitely provides the easiest legal form in which to run a business, though its mainstream appearance to the potential partners makes it necessary to repeatedly explain its publically beneficial aims as a social enterprise.

The current strategy of the Etincelle group aims to generalize the experience it has gained and create a replicable model applied elsewhere by the Etincelle group and others. Currently, together with Impact HUB in Prague, Etincelle works on a project called Edison financed by ESF (administered by MoLSA, focused on support of social enterprises). The Etincelle group feels its model is successful, and while others struggle in trying similar things they wish to offer their own experience as support. Within this project, Etincelle cooperates with experts from the business sphere on preparing formalized conditions for spreading its model in the form of franchises. This is not seen as creating another source of income, but as a tool for multiplying Etincelle's aims. To specify the plans, the Etincelle group wants to open about 5 new cafés in the next 3 years under its own management, and another 5 cafés using the franchise model.

→ **Main barriers**

No big barriers have blocked the Etincelle group so far, though this case study mentions several complications in other sections: e.g. the lack of a well-suited legal form for social enterprises, and the lack of systemic support and standardized form of cooperation with local municipalities (see below).

Also, little cooperation exists among the social enterprises—some umbrella initiatives have made moves but none works well enough to promote the interests of the sector as a whole. This became apparent in the process creating the Social Enterprise Act. Etincelle participated at the very beginning of the negotiations. A meeting occurred comprising about 50 people, but only 2 of them acted as social entrepreneurs while the rest were various civil servants and officials. Hence, Etincelle became very sceptical about the possible result and the impact of the law on the sector.

→ **Key partners**

For the Etincelle group, the most important and logical partners are municipalities. They know best the local situation, the most pressing social problems and needs, and concrete people in need of assistance. Ideally, local municipalities help to define the target group and then Etincelle, as a social enterprise, opens its doors to work with people with various forms of disadvantages, depending on the local situation. Hence, the Etincelle group can employ these citizens, and the municipality can use its services (in the form of cleaning public spaces, catering etc.), thus supporting the work integration of the target group by public procurement. For municipalities, this should present a win-win situation as the social enterprise both employ people from the target groups, and provide high quality service with the knowledge of the local situation. The Etincelle group strives for this scheme to become a common practice. However, currently cooperation with local municipalities still remains rather rare and is based on individual “enlightened” public servants more than systemic support by the public sector.

Another group of key partners include the individual institutions where the Etincelle group runs its cafés and bistros. This group includes both big companies as mentioned (the PwC, ČEZ) and other entities such as the Charles University, MoLSA, a theatre etc. In particular, companies provide a space for a low price, and the Etincelle group provides both the service itself (selling coffee, snacks etc.) and a good image the company can use for creating their responsible public image as part of their CSR. Also, the services of the Etincelle group get used as part of the “substitute performance” of the particular companies and institutions.

→ **Contractual agreements with public agencies**

As explained above, no “standard” model of cooperation with local municipalities and public bodies yet exists, so cooperation takes on different forms and is based on individual agreements. For example, Etincelle provides services in a district of Prague via a commission as this form helps the municipality fulfil its “substitute performance.” However, various *ad hoc* formats of cooperation have not been formalised.

→ **Financing mechanisms based on income generated by economic activity**

The annual turnover of the whole Etincelle group reaches about 1.5 million EUR. The main part of the income comes from the integration cafés and bistros run under the *Startujeme* PBC, and the cleaning services that form part of the Etincelle association activities. One of the bakeries run by Startujeme itself experiences a turnover of about 230,000 EUR per year.

About 30% of the Etincelle group income bases itself on payments for employing people with disabilities, sourced from the Labour Office (see section 4.2 (a) for details).

The Etincelle group also applies for grants, though these are irregular and the group's activities do not depend on them. The grant money tends to cover specific things, usually to support the initial stage of a new activity. Currently, the Etincelle group does not partake in any grant projects.

→ **Financial intermediaries allotting credit for risky activities**

Currently, the Etincelle group has two loans related to acquiring new properties. Both loans were provided by commercial banks under standard commercial conditions. Another, similar loan has been repaid already. The process of acquiring the loans presented some complications, though it is difficult to say if this is standard or if the status of a social enterprise and a non-profit organisation played a role.

→ **Reliance on innovative social finance instruments**

The Etincelle group does not rely on innovative finance instruments. Also, it does not attempt to acquire donations, as it believes its clients can earn money with the work they do.

Exploratory case 3

Fair & Bio (cooperative)

→ Mode of creation

Fair & Bio is a social enterprise that focuses on processing and distributing Fairtrade organic coffee while integrating people with mental and physical disabilities in the workplace. The Ecumenical Academy first established this project, a NPO with more than 20 years of tradition in engaging with the topics of social justice, fair trade, development, global trade injustice and alternative economic models. Fair & Bio was established in 2011 as a cooperative. To develop the work integration aim, the co-op used a grant from ESF (the OPHRE) administered by MoLSA, deciding to establish a roasting plant in Central Bohemian town of Kostelec nad Labem in July 2013. This grant lasted for 2 years (until June 2015) and covered human resources—salaries, assistance and education for employees. To develop the roasting facilities, another investment grant followed in 2015 (this time from IOP).

→ Types of recipients

As the organisation follows the Fairtrade ethical principles, in the global context its beneficiaries include workers and cooperatives producing Fairtrade coffee in the countries of global South in Africa, Latin America and Asia. On the local level, the project's main recipients include people with mental and physical disabilities that find employment in the cooperative.

→ Number of recipients, workers, members, and volunteers

At the beginning of the project in 2013, four people with mental disabilities and one person with physical disability found employment in the co-op together with 3 other employees. The number of the disadvantaged employees has risen since. Currently 9 employees experience disability out of the total 12 employees (i.e. 75%). However, none of these 9 employees work full time—all have part-time contracts according to their functional diversity. Aside from this, the cooperative employs one manager of the roasting plant, one working assistant and one marketing person. The cooperative also functions with the volunteer help of other cooperative members. The most recent figures (2018) suggest one legal person (The Ecumenical Academy) and 24 natural persons as members of the cooperative.

→ Scaling mechanism adopted

The co-op combines deep and wide mechanisms of scaling implemented in different locations. Its roasting plant operates in the city of Kostelec nad Labem, in the region of Central Bohemia. This facility offers employment to people with disabilities and locals, thus helping the local community to increase employment opportunities. In a wider

sense, by its activities the cooperative also influences the broader public by spreading knowledge about fair trade, inequalities on both local and global markets, sustainable economies, cooperative principles etc. Its representatives often receive invitations as speakers to a variety of public events organized by MoLSA, Fairtrade Czech and Slovak Republic, Decent Company platform, Union of Manufacturing Cooperatives, Impact Hub, Association of Social Responsibility, Social Entrepreneurship and others.

→ **Membership and governance model**

The rules established in its statutes dictate the cooperative's mode of operation. These determine the number of people with disabilities employed (more than 50%), and the percentage of the profit that must reinvest into the development of the cooperative (more than 51%). A board with three members presides (including a chairman and a vice-chairman), and the general assembly comprises the main decisive organ. Both the chair and the vice-chair are employees of the cooperative. They apply the one-member-one-vote cooperative principle and make decisions in the plenaries once or twice a year. Another part of the organisation includes an informal assembly comprised of active people involved in the roasting plant and represents the needs of the people working there. Moreover, several working groups involve not only members and employees, but also other active supporters of the cooperative.

Despite the work integration aim of the co-op, it did not adopt the legal form of the social cooperative. Firstly, this legal form did not exist at the time of its foundation (2011). When the social cooperative became introduced to the Czech legal system (2014), Fair & Bio held an internal debate during 2015 about the possibility of adopting it, but the general assembly refused it for several reasons. Fair & Bio had spent a significant amount of time discussing, formulating and registering its founding documents during its beginnings and the members felt content with their final wording, making this new time-consuming procedure unappealing. Significant financial costs (e.g. for juristic advice, registration fees etc.) would also incur with such a change. Finally, members distrusted this new legal form, especially the asset lock principle; in case of a closedown of the co-op, its assets would have to transfer to another social cooperative, or to the local municipality (see section 2.2 for details). In 2015, the number of social cooperatives was minimal, and the members did not accept the transfer to the municipality. The only positive outcome of the change, according to the members, would come with the "label" of a social cooperative, which was deemed not sufficiently significant.

→ **Business model**

The Fair & Bio cooperative is a social enterprise that combines Fairtrade, social and solidarity economy, and sustainable development. The cooperative contributes to social inclusion of people with disabilities by assuring that minimally 50% of its employees

come from this disadvantaged group. The organisation's statutes define these social activities, together with the rule that at least 51% of the profit must reinvest into the development of the cooperative, especially to support its interest in general welfare and inclusion of people disadvantaged on the labour market, and to promote the ethical values connected with fair trade and principles of social and solidarity economy. The cooperative also focuses on collaborating and partnering with local organisations in the town of Kostelec nad Labem, where the roasting plant is based, and other cities in the region: Brandýs nad Labem, Čelákovice and others.

→ **Main barriers**

Fair & Bio coffee roasting plant faces a limited ability to compete on the open market with other companies offering similar goods and services. Fair & Bio offers coffee to the companies, restaurants, cafés and shops (including the zero waste stores), and it also provides related technical support such as installation and maintenance of the coffee machines. Nevertheless, the overly saturated coffee market in the Czech Republic still gravitates toward price as the main competitive advantage. Fair & Bio cannot make their products cheaper due to its mission and its values. Therefore, the cooperative currently invests resources into developing a better marketing strategy to make use of its unique story for better sales. Clearly, it needs to reach customers that care for the same values: organic produce, fair trade, sustainability etc. and who feel willing to pay for them.

→ **Key partners**

One of the key partners of Fair & Bio is Vyšší Hrádek, a publically financed local provider of social services close to the roasting plant that works with people with disabilities and helps to get suitable employees. It not only helps with processes linked employing beneficiaries, it also provided space for the roasting facilities for a symbolic price at the beginning in 2013. Nowadays the plant operates at different premises paying a regular rent. The Ecumenical Academy, involved in the project from the beginning, provides an office for the co-op's headquarters in Prague, as well as some symbolic capital in the form of a guarantee and credibility of the co-op in the eyes of investors and costumers. The Fair & Bio Coop acts as a member of a variety of platforms: Fairtrade Czech and Slovak Republic, Decent Company, Union of Czech Production Cooperatives, Association of Social Responsibility etc., enabling it to cooperate and spread its ideas in relevant networks. It also closely collaborates with Bezobalu (establishers of Zero Waste movement in the Czech Republic) as well as with the Association of Local Food Initiatives, an umbrella organisation of Czech Community Supported Agriculture (CSA) initiatives.

→ Contractual agreements with public agencies

As mentioned, the work integration of disadvantaged employees and the establishment of the roasting plant received support from two grants from MoLSA administering money from the European Social Fund. The roasting facilities benefited from financial capital of the Ecumenical Academy, as well as from membership fees that reach about 200 EUR for physical persons and about 750 EUR for legal persons per year. Moreover, in 2019 the coop will manage to pay off “friendly” (i.e. zero-interest) loans (taken mainly to co-finance the investment to the roasting machine) provided by cooperative members and their family members.

→ Financing mechanisms based on income generated by economic activity

Trading activity presents the main source of income of the cooperative. In the past, the co-op received financial support from the state in the form of the two grants mentioned above. Since 2015 it receives public subsidies for employing disadvantaged people from the Labour Office (according to §78 of the Employment Act 435/2004, see section 4.2 (a) for details). Recently, the cooperative has developed more advanced marketing strategies so that it does not have to rely on public sources in the form of grants any more. The cooperative strives toward financial sustainability to serve as a good practical example of social solidarity economy fulfilling the triple bottom line of social, environmental and economic sustainability.

Exploratory case 4

Bike Kitchen Brno (association)

→ Mode of creation

Bike Kitchen Brno (BKB) operates as an open community bicycle workshop. BKB was founded as an association in 2017 in the city of Brno. Its core activity centres on running a bike workshop where people can fix their own bikes and share knowledge. Other activities include cooking, screenings or workshops. All activities base themselves on free donations. One of BKB's goals aims to support the local community by offering a place to gather or enjoy a cultural program. BKB also aims to strengthen the community of active urban cyclists.

Similar projects across the globe inspired this initiative. "The idea of Bike Kitchens is that participants work on their own bike but also help each other, building a culture of collective learning," (Johnson 2014 in Bradley 2016: 1679). The workshops enable anybody to borrow tools for repairing or building their own bike, generally run on a non-profit basis. Community bike workshops started to appear in Europe in the 1980s and in the USA more broadly in the early 2000s (Bradley 2016).

The idea of introducing the concept of Bike Kitchen in the Czech context came from people already involved in urban cycling activism including the first Czech bike-sharing organisation, Rekola. One of the founders, Anna Bromová, former member of Rekola Brno association, claimed she got the idea from Vienna's Bike Kitchen where she participated while living in Austria. After returning to the Czech Republic she formed a group with other people interested in founding a community bicycle workshop.

Another motive for creating BKB came with the shift of Rekola Bikesharing from Association to Limited Liability Company. Some of the former members of the project did not agree with the transformation from a NPO to a for-profit company. The association Rekola Brno, a branch of the original Rekola Bikesharing, was renamed as Bike Kitchen Brno in October 2017, though the initiative started informally 6 months previously. The premises of BKB used to belong to Rekola Brno as well.

Brno City Council owns the building where BKB runs its activities, which rented the space to the collective for a symbolic amount. Without this support, it would not have been possible to run a project supported by voluntary donations.

→ Types of recipients

Urban cyclists comprise the main target group of Bike Kitchen Brno. BKB offers them space and tools for repairing their bikes while providing the opportunity to consult with experienced mechanics and serving as a recycling centre for unused bicycles. The cultural programme, screenings and debates have attracted a wider variety of people

to the project, creating another important target group: the local community. Some neighbours help prepare the cultural programme, and others regularly use the bicycle workshop. The collective tries to strengthen the relationship with the local community by organizing flea markets or brunches on the street. Many students participate in the project as well. According to Bike Kitchen's statutes, BKB's aim is to create a public space open to anybody.

→ **Number of recipients and members**

Bike Kitchen Brno does not have a specific number of recipients. Usually, during the opening hours (Tuesday 4pm-9pm, Thursday 4pm-7pm), around 20-30 people come to BKB to repair their bikes. If a cultural program occurs at the same time, the number can easily reach up to 70 people. As the project evolves, more people continue getting involved.

The number of members changes over time as well. 10 people attended the constituent meeting, and now 40 members run the whole collective. All members participate in the project on a voluntary basis, in their free time.

→ **Scaling mechanism**

Once Bike Kitchen Brno rented the premises from the city council, the collective started with renovation to build a new kitchen. By renovating the place, the opportunities of the association have expanded. Now food gets cooked twice a week during the opening hours and visitors of the common room can sit in armchairs chatting around the table. New possibilities have arisen, when BKB acquired a cargo bike. Since then, the collective lends the cargo bike to its partners or allies free of charge.

Some plans in the works aim to arrange a second bike workshop room, which would allow more people to repair their bikes at the same time. The collective is also setting up a welding workshop to increase the possibilities of bike repair. As a long-term project, members of BKB are preparing an exhibition, which will monitor the history of the street Přízova to reflect processes of gentrification of the area—one of the key topics for BKB.

→ **Membership and governance model**

The founders of Bike Kitchen Brno have adopted the legal form of Association, as from their point of view, this allows more horizontal decision making than other legal forms. Few official members of the Association participate—most members take part unofficially. Legally, the highest authority for the BKB association is a membership meeting. The members of BKB gather monthly, calling their meetings “plenaries.” At these meetings, they use consensus decision-making which diverse working groups then adopt, which apart from plenaries act autonomously.

→ **Business model**

Bike Kitchen Brno relies financially on revenues from visitor donations to the space. As an NPO it invests most of the generated profit back into the community. The collective can afford such a business model mainly because of a symbolic rent for the premises from the city council.

→ **Main barriers**

One of the main difficulties that BKB faces is its financial vulnerability. As the project relies on cheap rent, the loss of the premises would endanger its existence. Since the local government has changed after the last elections (October 2018), the new administration could possibly raise the rent or even cancel the contract. The collective now intends to save some money in case of emergency. Another barrier comes in the limited space and character of the building—complete with its crumbling walls and lack of central heating.

People from the initiative feel afraid that BKB will soon face gentrification tendencies in the area. New office buildings are under construction just on the other side of the street, and the city council might wish to offer the building to some commercial project.

→ **Key partners**

The Bajkazyl Brno project currently acts as a main partner for BKB, which combines a bicycle workshop, a bar and a music club, and is situated only 200 meters from BKB. The two initiatives collectively organize events such as urban bike races. Bajkazyl offers support to BKB, for example, by lending expensive tools that BKB does not have. Another important partner, *Brno na kole* (Brno on Bike), is an Association focused on promoting urban cycling as a sustainable alternative to vehicles run by fossil fuels. It intends to push the local administration to improve the conditions of cycling infrastructure.

→ **Contractual agreements with public agencies**

As mentioned, BKB and the local administration have a contract regarding the possibility to use the premises for a symbolic price. At the same time, the collective received a grant from the city council for part of its activities. However, currently not enough people can implement the project and BKB might decide to give the money back.

→ **Financing mechanisms based on income generated by economic activity**

BKB's plenaries provide the space to make consensual decisions about sharing income obtained through donations (or potentially public grants). Most of the income in the recent past covered the costs of reconstruction. The cycling workshop sells some basic bicycle components and sometimes offers art purchases made by some of the collective's members.

→ **Financial intermediaries allotting credit for risky activities**

Bike Kitchen has not taken out any loans.

→ **Reliance on innovative social finance instruments**

BKB used crowdfunding in one special moment to gain back money and tools that had been stolen from its premises. BKB collected funds at a beneficial concert in Brno, raising more money in the end than the worth of the stolen goods.

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- > (new) Civil Code 89/2012.
- > Commercial Companies and Cooperatives Act (shortly Business Corporations Act) 90/2012.
- > Employment Act 435/2004.
- > Income Tax Act 586/1992.
- > Public Collections Act 117/2001.
- > Public Gatherings Act 83/1990.
- > Public Procurement Act 134/2016.
- > Social Services Act 108/2006.
- > Value Added Tax Act 235/2004.

Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below. In total, about 40 stakeholders were involved in the process in the Czech Republic.

| Full name | Organisation | Role | Stakeholder category |
|--------------------|--|---|----------------------|
| Vojtěch Beck | SINEC | Cluster manager | SUP |
| Marie Dohnalová | Department of Civil Society Studies, Faculty of Humanities, Charles University, Prague | Professor | ACA |
| Tereza Dostálová | Pardubice regional council | Regional expert for NGOs and social enterprises | POL |
| Markéta Dvořáková | Local action Group Brdy-Vlatava | Director | SUP |
| Petra Francová | P3 - People, Planet, Profit o.p.s. and TESSEA | Social entrepreneurship expert | SUP |
| Karel Gregor | - | - | - |
| Robert Herák | Agency for Social Inclusion | Employment expert | POL |
| Nadia Johanisova | Department of Environmental Studies, Faculty of Social Studies, Masaryk University, Brno | Assistant professor | ACA |
| Jana Juřenová | SINEC and Liga z.s. | President and Director | PRAC + SUP |
| Jaroslava Kubátová | Department of Applied Economics of the Faculty of Arts, Palacky University in Olomouc | Assistant professor | ACA |
| Gabriela Kurková | - | - | - |
| Iveta Ondráčková | Healthy and Fairtrade city of Třebíč | Project coordinator | POL |

| Full name | Organisation | Role | Stakeholder category |
|------------------------|---|--|----------------------|
| Taťána Plecháčková | Česká spořitelna | NGO and SE specialist | SUP |
| Martin Rosenbaum | Lukava Farm | Farm manager | PRAC |
| Karel Rychtář | TESSEA, Association of Employers of Health-Disabled | Director and Vice-chairman | SUP |
| Vít Skála | PTL | Executive head | PRAC |
| Svatava Škantová | Ministry of Labour and Social Affairs | Head of the Social enterprise projects' department | POL |
| Pavel Šotola | - | - | - |
| Lenka Štraubová | Česká spořitelna bank | Social banking expert | SUP |
| Hana Švecová | Victorina Loca cooperative | Chair of the cooperative | PRAC |
| Milan Venclík | Komora sociálních podniků | Chairman of the Executive board | SUP |
| Vojtěch Veselý | Biosstatek Valeč farm | Farm manager | PRAC |
| Markéta Vinkelhoferová | TESSEA and Fair & Bio Cooperative Coffee Roastery | Board member (TESSEA) and Chair of the cooperative | SUP + PRAC |

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