



# SUSTAINABLE MODEL FOR SOCIAL ENTERPRISES AND ALTRUISTIC ENTREPRENEURS

## GUIDELINES MANUAL

Edited by  
Marino Cavallo  
Francesco Silvestri

**Bologna**  
University Press

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The CE Responsible project's aim is to connect altru-pre-neurs (i.e. for-profit businesses that also follow social/ ecological goals in some ways) and the world of Social Enterprise (hereafter SE) and promote meaningful collaboration forms between them.

This analysis provides an insight and a deeper overview of the institutional, legal and business frameworks for social entrepreneurship in countries across the Central

Europe Interreg Program area covering Austria, Croatia, Czech Republic, Germany, Hungary, Italy, Poland, Slovakia, and Slovenia.

The analysis is co-developed by eleven project partners cooperating within the CE Responsible project and implemented within the programme Interreg Central Europe, namely:

1. E-Institute, Institute for comprehensive development solutions (Slovenia)
2. Metropolitan City of Bologna (Italy)
3. Ikosom – Institute for communication and social media (Germany)
4. Alma Mater Studiorum University of Bologna (Italy)
5. BRODOTO (Croatia)
6. Slovak Centre of Scientific and Technical Information (Slovakia)
7. Centre for Economic and Regional Studies, Hungarian Academy of Sciences (Hungary)
8. Municipality of Kielce/Kielce Technology Park (Poland)
9. South Bohemian Agency for Support to Innovative Enterprising (Czech Republic)
10. University of Applied Sciences of Salzburg (Austria)
11. Budapest Chamber of Commerce and Industry (Hungary)

The analysed countries involved in this paper are all countries involved in the Central Europe Programme: Austria, Croatia, Czech Republic, Germany, Hungary, Italy, Poland, Slovakia, Slovenia.

Project partners worked on the country analyses from November 2020 to November 2021.

This document is organized as follows: Part 1 is dedicated to draft the institutional framework for the Central Europe countries involved in the project, dealing with the implementation of central and local policies for SEs (Section 1.1), the different kinds of financial support (Section 1.2), the emerging of mechanism and agents enabling interaction among SEs, business companies and institutions (Section 1.3), the institutions active in research and training on social economy (Section 1.4).

Part 2 focuses on the legal and normative framework, from the specific legislation in each country (Section 2.1), the legal forms for SEs (Section 2.2), the related benefits and obstacles (Section 2.3), and the description of relevant case studies in the legal field for SEs (Section 2.4).

Part 3 is devoted to describing the business models implemented by SEs in central Europe, using a research of information method based on the PEST approach (Section 3.1). The study considers the governance issue (Section 3.2), the business strategies (Section 3.3), the degree of awareness and the relationships put into practices by SEs in their activity (Section 3.4), and the innovative solutions realized in their fields (Section 3.5).

A final section of Conclusions summarizes the main outcomes of the study and gives back the policy recommendations for implementing a sustainable framework model for SEs in the participating regions.

**PART 1**

**POLICIES AND  
INSTITUTIONAL  
SUPPORT  
TO SOCIAL  
ENTERPRISES**

## 1.1. Centralised and decentralised policies

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In most of the partner countries SEs are the target of national policies. Nonetheless, in many cases no official recognition is granted to SEs, and policies such as tax advantages are not specific. This is the case of Austrian tax law (§§ 34 to 47 of the Federal Fiscal Code, BAO) with respect to “public benefit” or “charitableness” companies.

In Slovakia there is a national project focusing on long term assistance and encouragement of SEs. Project implementation enables the search for potential applicants for the establishment and registration of SEs, their motivation, management and support, organization of professional Slovak conferences, creation and ongoing updating of websites containing comprehensive information on social economy support and presentation of good practice examples in Slovakia and abroad as well.

In Croatia, a SE’s framework does exist, but without policies nor continuous support programmes at the national or regional levels. The national Social Entrepreneurship Development Strategy, in place for the 2015-2020 period, has been assessed in 2021, but results are not published yet.

Social entrepreneurship in Italy has seen a major institutional recognition through the adoption of the Third Sector Code (or Third Sector Reform) at national level in 2017, which regulates by law this specific form of entrepreneurship and recognizes several advantages and peculiarities in comparison to standard business (see *infra*). Beside this important step taken by the Italian government, social entrepreneurship is particularly fostered by the Ministry of Employment and Social policies. DG Third Sector and CSR promotes, develops and coordinates policies supporting the diffusion of CSR strategies, as well as the activities carried out by the third sector organizations, whereas the National Council of the Third Sector is responsible for contributing to policies related to legislative acts,

financial resources, assessment and monitoring of the sector. The Emilia-Romagna Region also has an important role in supporting this ecosystem. In 2017 the Region decided to create a Regional Observatory of the Third Sector, with the aim to analyse intervention priorities, facilitate knowledge transfer, studies and dissemination at regional level.

An innovative national strategy supporting social innovation was approved in December 2018 by the Ministry of Public Administration, which started the experimentation of the Fund for Social Innovation for the promotion of innovative models satisfying emerging social needs with the involvement of private actors and their funds. This three-year programme experimentation finances social innovation projects of local public authorities (municipalities, metropolitan cities) in the sectors of social inclusion, cultural activation and fight to school dropouts, to be implemented with the support of the private sector. The Three-year Programme for Social Innovation was delineated in response to the Europe 2020 strategy and included the creation of a permanent Evaluation and Monitoring Committee for the Programme.

The Third Sector Code introduced impact assessment as a mandatory activity to be carried out by SEs. In September 2019 guidelines to evaluate social impact of SEs were adopted. While models for the evaluation still vary, they all follow the guidelines established by the Ministry of labour with the decree adopted on 23th September 2019.

Although there are several initiatives and programmes, both public and private, which have been developed to support social entrepreneurship, there is no comprehensive system of support for social entrepreneurship in the Czech Republic. Main supporting schemes are available at national level in the form of grants. They are incorporated for the programming period 2014-2020 into Operation Programme Employment managed by the Ministry of Labour and Social Affairs and Integrated Regional Operational Programme managed by the Ministry of Regional Development. In Slovenia, where regional governments are absent, so that only national strategies exist, social entrepreneurship had a push on when the Ministry of Labour, Family and Social Affairs led the process of drafting legislation adopted in 2011 (Social Entrepreneurship Act). The Act was followed by the adoption of the Strategy for the Development of Social

Entrepreneurship 2013-2016. In 2018, the Analysis of current framework of social economy was prepared, including recommendations for new long-term Strategy of development of Social Economy for the period 2019-2029. The new Strategy 2019-2029 has not been adopted yet and the process is currently stopped.

In Poland the document regulating the scope at the central level is The National Program for the Development of the Social Economy that sets the key directions of public policy for the social economy and SEs. As part of the government's support policy, a network of Social Economy Support Centres was established. Support programs include grants, repayable financial instruments, loans, guarantees and re-guarantees, as well as non-financial local animation, assistance in creating SEs, consulting and training and networking support.

In Germany the support system for entrepreneurs in general can be found at the national, regional and municipal level. At the national level, the main Ministry in charge of social entrepreneurship is the Federal Ministry for Economic Affairs and Energy, however other Ministries, such as the Federal Ministry for Labor and Social Affairs or the Ministry for Interior Affairs have discussed and created support structures for social entrepreneurs. At the regional level, the Bundesländer (German Federal States) have enacted support structures, often under the auspices of the regional ministries for social affairs, economic affairs or regional development.

Social entrepreneurs can use existing support programmes for generic entrepreneurship, such as public venture capital, social welfare programs for solopreneurs, support for female entrepreneurs or programs to encourage the founding of academic start-ups. However, the main criticism by social entrepreneurs from Germany is that the existing support programmes do not cater to the specific needs of social entrepreneurs. For instance, even though the government of Berlin opened the public venture capital program (through the public VC fund IBB bet) and has opened its investment program, many social entrepreneurs are specifically not exit-driven like standard start-ups.

During the pandemic, the need to create specific tools to support social entrepreneurs became more apparent. The German Ministry for Economic Affairs announced plans to use funds from the European Social Funds

through the REACT program to create a grant-based program for social entrepreneurs. The City of Berlin has created a program called Social Economy Berlin, which aims to connect social entrepreneurs and social companies. The IBBbet announced that it would provide social entrepreneurs with funds to facilitate capacity building and knowledge transfer. However, these examples show that a social entrepreneurship strategy does not exist yet, which aligns the various programs on the federal and regional level. In Germany there is no fixed allocation to the topic and social innovations are treated as a cross-cutting issue in various policy departments. SEND e.V. – the Social Entrepreneurship Network Germany – is challenging the status quo here and is recommending an “interdepartmental coordination at the level of ministers of state in the Federal Chancellery”, aiming to develop a social innovation strategy for Germany (DSEM, p. 11).

In the Czech Republic some of the European Funds targeted on social entrepreneurship are distributed also at the local/regional level through action plans implemented by Leader programme Local Action Groups. Local and regional dimensions are one of the key characteristics. The use of local resources, satisfying local demand, and targeting the needs of local communities need to be a good incentive for local authorities. However, there is a hierarchical and competency structure problem of the regions/municipalities that does not allow to find relevant partners / departments with whom the topic could be communicated and who would take charge of the issue. Generally, there is no financial support instrument at the local and the regional levels for SEs, except several cases of public procurements with the incorporation of socially beneficial requirements. In 2020, a partial amendment to Act No. 134/2016 Coll. on Public procurement, was approved and *de facto* it introduces the obligation of socially and environmentally responsible public procurement. Focusing on regional and local levels, the Assembly of the Third Sector of Emilia-Romagna (Italy) makes policy proposals on social promotion. Even though interesting policies are taking place at regional and local level, a more comprehensive institutional support seems, however, to be given by the central government, especially through the Third Sector Reform. In Slovenia, three key levels for supporting SEs are at work: the state, mu-

nicipalities and various organizations working in the field of promotion, advocacy and promotion of social entrepreneurship. According to this, existing policies are implemented in a decentralized way.

In Poland, some regions and cities operate mainly on the basis of the government program based on the Act on Public Benefit and Volunteer Work, which created a general and universal framework for cooperation between non-governmental organizations and public administration. Cities and regions form committees and city councils of cooperation with NGOs, support centres, offices in the office and cooperation programs with NGOs in their area, and commission them to carry out public tasks in the competition formula.

In Germany, there is no central strategy to align support mechanisms for social entrepreneurs. This is based on the federal structure which allows the federal government, the federal states and the municipalities to support entrepreneurs, either through direct support programs, mentoring programs, tax measures or public procurement.

This allocation of competences is most likely to continue. However, it also creates an overlap of support mechanisms, which often leads to social entrepreneurs having to spend considerable time to find the best-matching support program. German SEs have therefore advocated creating a national social innovation strategy, which would be part of centralization efforts. At the same time, social entrepreneurs in Germany advocated for regional innovation hubs which would facilitate the networking and growth of social entrepreneurs. These interdisciplinary clusters promote sustainable business and social innovation, which build bridges to existing start-up ecosystems (municipal economic development agencies, chambers of commerce and industry, university start-up offices, etc.) at the regional level and enable close cooperation and networking between the start-up scene, social innovators, politics and administration, research, financing partners, welfare, business and civil society.

## 1.2. Financial policies

Albeit not recognized in each country by a formal business name or norm, SEs can count on financial policies in all Central Europe States. In Slovakia, Act no. 112/2018 Coll. on Social economy and SEs regulates direct and indirect support for SEs. The former takes the form of both investment and compensatory aid. Investment can be provided in several forms: financial instruments under which funds are provided in a refundable form (e.g. credit, loan); financial instruments in which funds are provided by a combination of refundable and non-refundable forms of assistance (e.g. remission of guarantee fees); conditionally refundable financial contribution (e.g. conditional grant); non-refundable financial contribution (e.g. contribution from European funds); subsidies for registered SEs. The provision of any non-refundable financial support is conditional, i.e. it must also include an element of refundable assistance (e.g. certain part of the total amount requested, must be provided as loan from commercial bank). In the case of compensatory aid, in the form of a non-refundable financial contribution or subsidy, a refundable component is not required.

Indirect support, on the other hand, is based upon tax measures (income tax relief, reduced VAT rate), provision of real estate (by the state, municipalities and local authorities), public procurement (application of the social aspect, reserved contracts), demand support (service vouchers). The governmental support is mostly focused on direct measures, and registered SEs have the highest possibilities to use financial support instruments.

In Italy, public financing is based on national and regional measures. At the national level, the main instruments are the Fund for projects and activities of general interest in the third sector (Fondo per il finanziamento di progetti e di attività di interesse generale nel Terzo settore), mentioned by art. 72 of the Third Sector Code. The financed areas and

the goals are defined every three years by the Ministry of labour and social policies together with the regions. The National fund for social policies (Fondo nazionale per le politiche sociali), mentioned by art. 73 of the Third Sector Code and established by Law 328/2000, whose purpose and the priorities are decided every year by the Ministry of labour and social policies. The Rotative Fund for the dissemination and strengthening of the social economy (Fondo Rotativo per la diffusione e il rafforzamento dell'economia sociale), established by Law 106/2016, active since 2017 and financing loans to SEs at a low interest rate (0,5% on yearly basis). The first two funds very seldom finance SEs directly, but they transfer resources to Regions that distribute them following Ministry's guidelines.

The Third Sector Code regulates also other ways of financing SEs with some instruments that involve both public and private collaboration: Social Bonus (art. 81), i.e. donations made by physical or legal persons to SEs entitled to receive a credit on tax payment (65% in the first case, 50% in the second) and presenting a project for the reuse of an abandoned public building or of movable and immovable properties seized to criminal organizations such as mafia; Social lending (art. 78) from private organizations to SEs through a specialized platform, recognizing tax credits to private lenders; Solidarity bond (Titoli di solidarietà, art. 77), issued by banks in order to collect funds to be invested in SEs, obtaining tax credit.

Other programmes, funds and foundations operating at the national level are Italy Social Economy (Italia Economia Sociale) who aims to the establishment and growth of SEs; Social Italy Foundation (Fondazione Italia Sociale), created by the Third Sector Code (art. 10) which aims to increase private resources allocated to social initiatives and projects of scale and impact throughout the country; Social Innovation Fund (Fondo Innovazione Sociale), aiming to strengthen public administrations attitude to implement new solutions, models and approaches for social needs, with the involvement of private sector.

At the regional level, Emilia Romagna region offers many possibilities of financing, distributing locally resources stated at the European and national level. Accessible capital for SEs is constituted by grants, equity,

venture capital and hybrid instruments deriving in particular from the national banking system. Private banking institutes issue dedicated financial instruments to SEs, while the latter can access credit through measures aimed to SMEs of any sector: subsidized loan for enterprises, free-lance and individual professionals (regional law 23/2015), subsidized loans for cooperatives through the revolving credit fund Foncooper, financial contributions for fair trade organizations.

In the Czech Republic there are no special fiscal arrangements for SEs. Generally speaking, fiscal arrangements and benefits relevant for SEs are available to non-profit entities (more precisely to “publicly beneficial tax-payers”), related to donations to non-profit entities, and to active employment policy, especially for health disabled people.

Main fiscal arrangements relevant for SEs in the Czech Republic are income tax exemptions and reductions for publicly beneficial taxpayers (mostly non-profit organisations), fiscal benefits for donors (mostly donations to non-profit organisations), income tax reduction for employers of health disabled people (the so called WISEs, see *infra*).

In Slovenia, governmental support is focused on direct measures, namely subsidies and grants upon open calls and other forms of support provided at the local level, while no indirect measures such as tax incentives are enacted. All those measures represent a primary source of support for SEs.

In Poland, the public funding system for SEs relies mainly on national grants and on the EU budget, but it includes other forms of exemption. The repayable financing system is based on credits and loans, sureties and guarantees. SEs may also perform public tasks as part of public benefit activities. These tasks are commissioned through a competition. These are the main sources of support for SEs. The National Program for the Development of the Social Economy 2019-2023 provides for a wide range of benefits and tax reliefs for entities, including donations for the organization of workplaces for employees, exemptions from paying social security contributions, access to training funds. SEs can benefit from two sources of support: measures targeting all enterprises meeting given criteria (e.g. employing disabled workers), and measures dedicated to social economy/non-profit organizations.

In Croatia, during the period covered by the last National Strategy for the development of SEs (2015-2020) the State was claimed “to encourage the development of SEs with 35 mil. EUR”, through EU funding (administered by the Ministry of Regional Development and European Union Funds). The adoption of the Strategy was a prerequisite of the EU for Croatia to access to grant schemes such as the European Social Foundation (ESF). Consequently, supporting programmes are *de facto* restricted to ESF grants, available to NGOs or coops.

According to the German Social Entrepreneurship Monitor (DSEM), Social Entrepreneurs in Germany often use European Funding programs such as ESF, ERASMUS + and HORIZON 2020 (now replaced by its successor – Horizon Europe) programmes. Other stated public financing tools are from banks, such as KfW and ILB (Investitionsbank des Landes Brandenburg). In some regional states and areas special funding programmes are enacted, for instance IBB’s state funding programme in Berlin, now available for SEs, and Social Innovator (Sozialinnovator) in Hessen, a programme to support impact-oriented start-ups.

Public support is often given to private enablers as well, such as foundations like the Hertie Stiftung or the Social Business Stiftung, crowdfunding platforms likewise Startnext, private investors and impact investing funds such as the Impact Collective Supporters or Bonventure, consultants like the Social Finance Academy or FASE and other organisations such as Phineo or Sage foundation. In addition, the European Social Innovation and Impact Fund ESIIIF is an active player in supporting social businesses.

## 1.3. Enabling, facilitating and networking policies

Besides of a legal framework and a financial support, SEs need the presence of enablers and facilitators to make their development possible. Studies have shown that entrepreneurs are most successful when they have access to the human, financial and professional resources they need, and operate in an environment in which government policies encourage and safeguard entrepreneurs. This network is described as the entrepreneurship ecosystem. Business Support Ecosystem means a system capable of supporting entrepreneurship, enterprise and job creation and growth in a specific environment or territory.

There are many initiatives to strengthen the competitiveness of SEs. At the European level, the RaiSE project financed by the Interreg Europe programme with approximately 1.5 million euros, is aimed to enhance SEs competitiveness through improved business support policies. More specifically, RaiSE contribute to the qualification and consolidation of the implementation of interventions that impact on the social economy sector as set out in the European Social Fund Operational Programme (POR FSE 2014-2020).

In Italy RaiSE is aimed to increase the competitiveness of SEs by improving the regional policy instruments supporting them, and contributing to the qualification and strengthening of the interventions impacting on the social economy sector envisaged by the Emilia-Romagna Regional Operational Programme within the framework of the European Social Fund (POR FSE 2014-2020).

In Italy the main state actors that promote social entrepreneurship are the Ministry of Economic Development and Ministry of Labour and Social Policies, and within the latter the organism National Council of the Third Sector.

The National Forum of the Third Sector is a recognised social part. Established on 19 June 1997, in October 2017 the Ministry of Labour and So-

cial Policies announced that the National Forum of the Third Sector was found to be the most representative association of Third Sector entities on the national territory, due to the number of member entities. It represents 90 national second and third level organisations – for a total of more than 158,000 territorial offices – operating in the fields of Voluntary work, Associations, Social Cooperation, International Solidarity, Ethical Finance and Fair Trade in our country. The main objective of the Forum of the Third Sector is to enhance the activities and experiences of citizens who are autonomously organised in the territory in order to improve the quality of life of communities through innovative paths based on equity, social justice, subsidiarity and sustainable development.

At the national level, Invitalia (an in-house enterprise of the National Ministry for economic Development) focuses on strategic sectors for development and employment, and manages all national incentives that favour the creation of new enterprises and innovative start-ups. As an enabler, it finances projects in innovative and high value-added sectors, and offers services to the Public Administration to accelerate the spending of EU and national funds and for the enhancement of cultural heritage.

At the regional level, some of the most relevant regional enablers in Emilia-Romagna are Art-Er, Fondazione del Monte, Regione Emilia-Romagna Area Terzo Settore, Osservatorio Terzo Settore della Regione Emilia-Romagna, IRIS Network.

The Third Sector Observatory was constituted with the Regional Law n.20/2017 and it represents a specific branch of the Regional Conference of the Third Sector. One of its main objectives is to adopt proposal initiatives of sensibilisation, monitoring, research and promotion of the Third Sector. Born in 2019, Art-ER is a new regional reality for innovation, attractiveness, sustainable growth for the Region, internationalisation. Art-ER is composed by the Region for the 65% of shares, several universities (Bologna, Modena and Reggio, Ferrara, Parma, Piacenza), UnionCamere, the public body that unites and institutionally represents the Italian chamber system, and other actors. Beyond social innovation, it is engaged in territorial development, infrastructures design, and other works of public interest. Iris Network acts as an enabling platform by proposing events dedicated to the scientific community (Scientific Collo-

quium) and social entrepreneurs (Workshop on SE), and it will be the subject of the answer to question 7 on research centres. Volabo: VOLABO is the Volunteer Service Centre of the Metropolitan City of Bologna, whose management is entrusted to A.S.Vo – Associazione per lo Sviluppo del Volontariato ODV. The services are offered thanks to the Single National Fund (FUN) and are defined in an annual programming plan approved by the social organs of A.S.Vo. – ODV The Volunteer Service Centres, in accordance with Law 106/2016 Reform of the Third Sector, are aimed at providing technical, training and information support to promote and strengthen the presence and role of volunteers in the various Third Sector entities.

Furthermore, the Emilia-Romagna 2021 Innovation Support Service for Enterprises, aimed to improve innovation management (organisation, business model, internal and external communication, process and product management) in regional SMEs, is provided by ART-ER as a partner of the Enterprise Europe Network, the European Commission's business support network. It is one of the actions envisaged by the KAMINLER project (KAM and Innovation Services for SMEs in Lombardia and Emilia-Romagna), funded under the Horizon 2020 programme. Emilia-Romagna STARTUP is also part of ART-ER activities and services. The network, coordinated by ART-ER, includes all the actors and tools that foster the birth and growth of innovative start-ups in Emilia-Romagna, through tested activities and methodologies, offering services and incentives to innovative start-ups ([www.emiliaromagnastartup.it/rete](http://www.emiliaromagnastartup.it/rete)).

In addition, Emilia-Romagna is home to the Technopoles, a network of 10 infrastructures, located in 20 sites throughout the region, which host and organise specialised activities and services to support business, personal and territorial innovation. In the Technopoles the demand for innovation meets the solutions offered by the skills of the Emilia-Romagna industrial research system. The Technopoles Network fosters the circulation of scientific and technological knowledge, representing one of the main drivers of territorial development, capable of making Emilia-Romagna a European innovation hub.

In Slovakia the main governmental institution focused on enabling SEs is Ministry of Labour, Social Affairs and Family of the Slovak Republic. It

is responsible for registrations and first contact with SEs and also for the direct and indirect financial help. Lately, the Ministry launched a new national project to support registered SEs.

Each one of the eight regions in Slovakia has its own Regional centre of Social economy which offers consultations and support for SEs. People interested in social entrepreneurship will find professional support there, not only in the initial phase of social entrepreneurship, but also later during the SE existence and daily operation. Besides governmental institutions, NGOs, foundations, academies and co-workings are focused on support for and advisement of SEs. Support in the initial phase is provided by the Impact Hub Bratislava (Social Business), Incubator of the Slovak Business Agency and the co-workings (e.g. Búdka 22). Education in this field is covered by universities and digital academies such as the Academy of social economy which is offering free online courses and support on topics related to social economy and entrepreneurship. Most innovative ways of support in this field, is lately provided by Social Innovators. The company's mission is to create a functional infrastructure and ecosystem for impactful entrepreneurs and all future solvers of societal challenges. Raising awareness and appreciation is provided by regional centres, the Union of clusters in Slovakia, and also by Impact Hub Bratislava or SozialMarie foundation on a Central European level. Networking, knowledge sharing, mutual education takes place mainly on social networks but also at specialized events.

Other enabler are: the Dobrý Kraj – BBSK Development Agency, a non-profit organization based in Banska Bystrica region, focused on regional support for SEs; the Association of Social Economy Entities, aimed to sustainability and simplification of SEs business; the Alliance of Social Economy in Slovakia: Official partner for the Ministry of Labour and Social Affairs; Social Innovators and EPIC, both private organizations providing consulting for SEs; the Green foundation, a non-profit organization focused on improving employment services and increasing the employment of people with health or mental disabilities.

In Slovenia, there is a relatively large number of organizations performing a supportive environment for social entrepreneurship. Besides of National Ministries, SPIRIT Slovenia, the Public Agency of the Republic

of Slovenia for the Promotion of Entrepreneurship, Internationalization, Foreign Investments and Technology; the Council of the Government of the Republic of Slovenia for the Social Economy.

The main support programme for SEs is CNVOS, the umbrella network of Slovenian non-governmental organizations, bringing together more than 1,400 different associations and institutions. CNVOS provides comprehensive knowledge and experience and professional support to the Slovenian non-governmental sector, with experts in the fields of advocacy, law, project management, finance and communication. Another relevant player is Sklad 05, a private financial institution financing social entrepreneurship and innovation. It offers grants, bridge loans, Impact Microcredits, Social Investments from European Social Entrepreneurship Funds, the innovative instruments of Impact Bonds. Finally, the Association for Social Economy in Slovenia (ASES) it must be mentioned, an independent, non-governmental, non-political institution based on the principles of social entrepreneurship, representing its members actively working in the field of social economy, regardless of their organizational form (non-governmental organizations, SEs, emerging SEs, institutions of supportive environment, humanitarian organizations and individuals who want to contribute to the development of social entrepreneurship).

In Poland SEs benefit from support in the area of business development thanks to projects implemented mostly with EU funds. The Network of Social Entrepreneurship Incubators includes six Incubators located in Silesia Region: Gliwice, Dąbrowa Górnicza, Jastrzębie-Zdrój, Katowice, Tychy and Żory. Services provided by incubators include counselling and training, office services, accounting services and consulting. NGO Leader Academy, addressed to representatives of NGOs and people planning to establish an association or a foundation, and devoted to give skills and information to transform the general idea in a project, on financing for NGO, on the human resources needed and so on. Finally, the action Challenge # CEO4ProNGO, engaging leading representatives of the business community to increase knowledge and experience of NGOs through training, workshop and debate.

Other relevant enablers are the National Institute of Freedom – Centre for the Development of Civil Society is an institution responsible for support-

ing civil society, public benefit activities and volunteering. It implements programs for the development of the non-governmental sector and volunteering; and the Social Impact Award, an organisation that educates attendees to develop new concepts for overcoming social challenges, offers a community of entrepreneurs, decision-makers and experts, supports participants of the award with financial capital and advice, and it overall wants to create awareness by inspiring students to combine entrepreneurship with social action (SIA 2021).

In Austria, a solid base of business support for SEs exists, based on private organisations, societies, and advocacy groups like the already mentioned SIA, SENA or Vienna Impact Hub. Social Entrepreneurship Network Austria (SENA)'s focus is on networking, coaching, mentoring and consulting social entrepreneurs. Impact Hub Vienna is a community of founders, creatives, investors, established companies and NGOs, offering a variety of services and options (co-working, renting event space, start-up acceleration programmes).

In Croatia, there exist numerous business incubators, helping entrepreneurs by providing services in areas spanning from consulting to work-space supply, many of which very keen on innovations and providing valuable assistance for social entrepreneurs.

The main enablers are the ACT Group, a consortium of a dozen of SEs and support organisations working on promotion of green economy, operating in the northern part of the country. Through their work they also promote the concept of providing social services through SE. Green Network of Activist Groups (ZMAG), an organization connecting organic gardeners, practitioners of applicable technologies and eco-building, permaculture designers, equitable social models' researchers, and environmental activists. CEDRA HR, an association established with the aim of promoting, improving and developing eco-social economy and eco-social entrepreneurship, and nurturing the potential of socially aware entrepreneurs, through a network of regional support centres in six cities; they coordinate the Platform for Good Economy.

Support for SEs mostly comes from private initiatives, and on a smaller scale through public incubators, technological parks and other business support structures who tend to only mention SEs through their support,

instead of providing full and focused impact mentorship. The most prominent example is a mentorship programme for SEs provided by ACT Group called “Pokreni nešto svoje” (<https://pokreninestosvoje.hr>), a one-year mentorship programme for already existing entrepreneurs, dedicated to scaling up. Another project is the Interreg Delfin, which supports social entrepreneurs in rural regions through an incubation process, while having an important objective of making social entrepreneurship more visible in the region (<https://varazdin.hr>).

In Czech Republic, the following actors and sectors are recognized as active enablers: the Chamber of SEs of the Czech Republic, cooperating with public administration, non-profit sector, business players, government agencies, educational institutions and providing to SEs services of advocacy, lobbying, negotiation with policy makers. The Thematic Network for the Social Economy (TESSEA), an association focused on the development of social entrepreneurship in the Czech Republic; 3P – People, Planet, Profit, a public benefit organization involved in SEs assistance and support in the ideation process and business model, legal, financial and marketing consultancy. The VIA Foundation, acting as accelerator of the Academy of Social Entrepreneurship and organising seminars and coaching for NGOs.

In Germany, SEND (“The Social Entrepreneurship Network Germany”) supports the social entrepreneurs by providing networking and educational perspectives, mainly from a policy making view. SEND publishes the DSEM (Deutscher Social Entrepreneurship Monitor), the main observatory on the state of SEs in Germany, with a direct relationship with stakeholder and policy level representatives. Other supporting organisations are being mapped by SEND throughout Germany, including the Social Impact Lab Frankfurt, Reflecta Network, Impact Hub Dresden, talents4good and Kompetenzzentrum Soziale Innovation.

Hundreds of German organizations support social entrepreneurs. One of the most relevant is Ashoka, active in Germany since 2003 and currently supporting 80 “Ashoka Fellows” as well as a variety of committed partners and supporters. Ashoka also has built up a strong supporter network to encourage and enable more and more people to take responsibility for overcoming societal challenges themselves instead of demanding it

from others. The Social Economy Berlin initiative aims to make SEs in Berlin better known and more visible, making it easier for founders to create a common network for all stakeholders. The Social Entrepreneurship Academy (SEA) in Munich educates social entrepreneurs and teaches them about impact investment and impact assessment. SEA is supported by the universities in Munich and the Bavarian government.

## 1.4. Research and training

One of the most signalled lack in SEs activities is the low level of skills and expertise of social entrepreneurs. Nonetheless, a growing number of courses and education opportunities for SEs are offered by research and education institutions.

In Slovakia, the Matej Bel University in Banska Bystrica offers a new interdisciplinary study programme on Social Economy and Entrepreneurship. The University of Economics in Bratislava (Department of Social Development and Labour), is focusing on Social entrepreneurship as a research field. The Comenius University in Bratislava is also offering a wide range of study courses focusing on social economy and social entrepreneurship; the University organizes activities such as webinars and a summer incubator in cooperation with the mentioned Social Impact Award. Academy of social economy is focused on innovative education form, webinars, workshops and incubators, and cooperates with other organizations supporting SEs. Finally, Slovak Academy of Science is the national research institution and part of their work is focused on the field of social economy and publishes the "Yearbook of Social Entrepreneurship" through its Prognostic Institute.

In Italy, AICCON is the Italian Association for the Promotion of the Culture of Cooperation and of Non-profit, participated by the University of Bologna, Faculty of Economics, Forlì Campus, as part of the academic course on Social Economy. It has developed different research areas, including both "basic" (or academic) and "applied" research studies concerning cooperatives, foundations, and non-profit organisations. AICCON offers training courses, seminars, conferences and educational activities aimed at supporting the academic master course on.

EURICSE is the European Research Institute on Cooperative and SEs. Its mission is to promote knowledge development and innovation for the field of cooperatives, SEs and other non-profit organizations. It aims to

deepen the understanding of these types of organizations and their impact on economic and social development, furthering their growth and assisting them to work more effectively. It also offers education activities designed to connect research and practice, as well as training programmes directed towards recent graduates, managers and practitioners from cooperative enterprises and Third Sector organizations, public sector employees and policy makers.

The afore mentioned IRIS NETWORK is a national network of SE research institutes. It supports empirical and theoretical research for the promotion of more in-depth knowledge about SE organizations, the recognition of their role and impact improvement. It proposes events dedicated to the scientific community (such as an Annual Conference) and to social entrepreneurs (Workshop on SE). It is also engaged in the collection of data, publication of the SE Report and it manages the "Impresa Sociale" magazine publishing essays, case studies, policy documents and short papers. ISNET association was founded in 2007 to support SEs development promoting relations between for profit and not for profit enterprises. It carries out research to identify opportunities and to think up new projects, benchmarks, surveys, and evaluations.

Furthermore, some universities have specific Courses related to social economy. For instance, the University of Trento offers a Master in Management of SEs for new "social managers" able to operate with efficiency and efficacy typical of the business world and a collective well-being perspective, combining economic sustainability and social integration. The Bologna Business School also offers a one-year Master in Sustainability and Business Innovation designed to foster a new strategic vision and to provide skills and operational tools to those who manage, for their organizations, sustainability, circular economy and social innovation processes.

In the Czech Republic Social entrepreneurship and social economy is taught in 12 universities (both public and private) either as a specific subject or as part of a subject, e.g. social work, social, economic, civic society or public administration. Among these universities: Charles University J.E. Purkyně University in Ústí n.L., the University of South Bohemia in České Budějovice, the Technical University in Liberec, Higher Voca-

tional School Caritas in the Olomouc Palacký University in Olomouc, the Silesian University in Opava.

In Slovenia, IRDO (Institute for the Development of Social Responsibility) is a leading organisation in contributing to the development of social responsibility with research, training, consulting, connecting and promotion. It cooperates with domestic and foreign experts, foundations, organisations, governments and companies and helps with the exchange of knowledge and experience regarding social responsibility. Ekvilib Institute is a non-profit and independent organisation, working in the fields of social responsibility, human rights and development cooperation. Implementing research and educational training in the field of corporate responsibility, advocating for socially responsible behaviour of all actors of the society and striving towards structural changes that lead to a fairer and more balanced global development. Placing special emphasis on corporate social responsibility, socially responsible management of human resources and tax responsibility.

The Klon/Jawor Association collects and provides knowledge about NGOs and the social activity in Poland. Since 2000, it has provided information on NGOs, civic movements, philanthropy, volunteering and social involvement. The Civil Society Development Foundation works to strengthen and increase the effectiveness of forms of social activity. Offers training, consultations and counselling.

Sector 3.0 supports NGOs in the network, digital transformation and the use of new technologies in socially useful activities. It creates a network of mobile advisers 3.0. The fund supports the creation of new tools, applications and products that fit in with the idea of tech for good. The Academy of Civic Organizations Foundation (FAOO) is a NGO organizing programs for NGO managers, e-learning, open courses, educational events, creating a community of third sector managers.

In Austria the main education and research centre on social economy is the "Social entrepreneurship center" of the Business University of Vienna. The research area covers all topics in the field of social business and numerous publications have already been published by the employees of the social entrepreneurship centre. The department is also active in consulting and mentorship and is therefore certainly jointly responsible

for a pronounced social entrepreneurship scene in Austria and especially in Vienna.

In Croatia the Faculty of Economics in Zagreb offers a postgraduate course Strategic entrepreneurship, which covers SE as a part of the module Fundamentals of Business Administration. Furthermore, they are part of the ESF project "How to become a social entrepreneur", and also the Faculty of Organization and Informatics has a field of interest called "Social entrepreneurship".

In Germany Social Entrepreneurship Research is run at several universities: currently more than 20 university chairs are working on Social Entrepreneurship Research. The universities collaborate in the working group on Social entrepreneurship research at the FGF (Forum Gründungsforschung).

**PART 2**

# **LEGAL FRAMEWORK**

## 2.1. Social Enterprises Legislation and Definition at European Union and Central Europe Level

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### 2.1.1. Social Enterprises in the EU legislation

SEs are subject to ad hoc legislation in an increasing number of EU jurisdictions and legislative initiatives in this field are under consideration by EU institutions. In recent decades, the term “SE” (SE) has been increasingly used to designate a particular type of private organization whose distinguishing features concern the purpose pursued, the activity conducted to pursue this purpose, and the structure of internal governance.

Based on the mapping study conducted by the European Commission (2020), the SE definitions that are most widely used across EU Member States (regardless of the ad hoc laws that define SE) are:

- organisational definitions, focusing on the intrinsic features that SEs show;
- sector-specific definitions, looking only at specific types of organisations operating in the field of social inclusion, mainly by facilitating the integration of people excluded from the labour market (“work integration SEs”, or WISEs).

The first definition of SE at European level was contained in the European Commission “Social Business Initiative” (SBI) of October 2011, that had subsequently influenced EU legislation<sup>1</sup>.

The SBI definition incorporates the three key dimensions of a SE that have been developed and refined over the last decade or so through a body of European academic and policy literature. The SBI SE concept was in fact further operationalised and refined during the Mapping Study that the

<sup>1</sup> A European Statute for Social and Solidarity-Based Enterprise, Prof. Antonio FICI, University of Molise (Italy), European Union, 2017. This document is available on the internet at: <http://www.europarl.europa.eu/supporting-analyses> pp. 6.

European Commission conducted and published in 2020. This methodological step was very important since it allows the application of a shared definition in all national contexts in a coherent way. SEs may fulfil the three dimensions – entrepreneurial, social and inclusive ownership-governance – in different ways. It is the interplay among the three dimensions that determines whether an organisation may or may not qualify as a SE.

An entrepreneurial dimension, i.e. engagement in continuous economic activity, which distinguishes SEs from traditional non-profit organisations/social economy entities (pursuing a social aim and generating some form of self-financing, but not necessarily engaged in regular trading activity). A social dimension, i.e. a primary and explicit social purpose, which distinguishes SEs from mainstream (for-profit) enterprises; the social dimension is defined by the aim and/or products delivered. 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 co-operatives. When not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.

Inclusive governance-ownership dimension distinguishes SEs even more sharply from mainstream enterprises and traditional non-profit organisations/social economy entities (European Commission 2015). 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 to various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits to ensure that the general interest is safeguarded. The non-profit distribution constraint can be operationalized in different ways (European Commission 2020).

### 2.1.2. National definition of Social Enterprise

A growing number of EU Member States have recently adopted national strategies, policy schemes and legal acts that define SE at the national

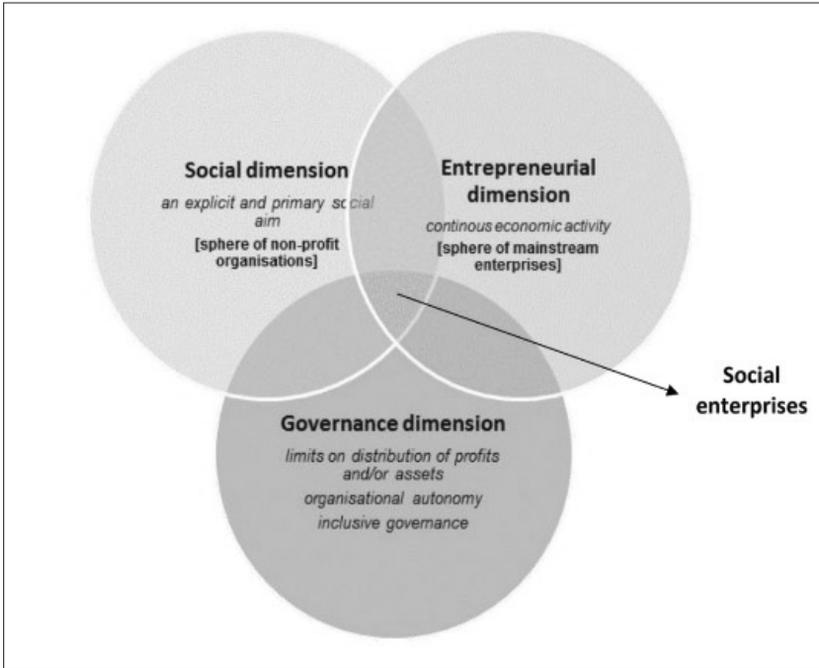


Figure 1.1. The three dimensions of a SE (European Commission 2015).

level. National definitions of SE articulate the social, entrepreneurial and governance dimensions of SE in different ways.

Differences across countries concern the types of activities defined as social (i.e., work integration and/or the delivery of social services), the share of incomes that must be generated by market activities, and the degree to which and modalities whereby concerned stakeholders are expected to participate in decision-making processes.

The following table shows the different definitions of SEs shared by the project partners from each CE country.

| Country        | SE definition   |
|----------------|---|
| Austria        | <p>There is no legal definition for social business or SEs in Austria (Vandor et al. 2015, 10; EC 2020, 58). The latest government program however first mentioned social entrepreneurship by stating: “The Federal Government is committed to increasing legal certainty for EPU and KMUs and also to significantly reduce the burden on them. [...] The role of “social entrepreneurs”, who face new challenges with innovative business models, should be given special consideration.” (Regierungsprogramm 2020-2024, 94). However, “social entrepreneurship” is not closer described or detailed in the further cause.</p>   |
| Croatia        | <p>The Strategy for the Development of Social Entrepreneurship adopted in Croatia from 2015 to 2020 defines social entrepreneurship as “business based on the principles of social, environmental and economic sustainability, in which the generated profit/ surplus income is invested in whole or in part for the benefit of the community.”</p>   |
| Czech Republic | <p>There is no overarching policy framework nor legal definition of SE. The only references are the TESSEA (Thematic Network of the Social Economy) indicators and definitions that served as guidance when identifying SEs in the Czech Republic. TESSEA has developed a set of indicators that provide measurable characteristics to identify SEs. These include, among others, the following criteria:</p> <ul style="list-style-type: none"> <li>– Both a SE and a WISE must derive at least 30% of income from its own economic activity;</li> <li>– Both a SE and a WISE must reinvest at least 51% of profit into development of the SE and /or into implementation of socially beneficial aims;</li> <li>– SEs must employ at least 10% of paid employees involved in its operations and activities.</li> </ul> |
| Germany        | <p>The German Social Entrepreneurship association (SEND ev) has proposed the following definition, which is part of the debate in the German parliament:</p> <p>“The primary goal of social entrepreneurship is to solve social challenges. This is achieved through the continuous use of entrepreneurial means and results in new and innovative solutions. Steering and controlling mechanisms ensure that the social goals are lived out internally and externally.”</p>  |
| Hungary        | <p>In 2016 the first definition was outlined in Hungary priority project in the framework of the Economic Development and Innovation Operational Programme included its own definition: “non-profit and civil society organisations can be considered SE that have business objectives besides their social objectives, reinvest their profit in order to achieve their social goals, and prioritize the principle of participatory decision-making in their budget and organisational operation” (NGM 2015:6).</p>   |

|         |   |
|---------|---|
| Hungary | <p>In addition to the definitions used in the calls, a Strategic Working Group was also established in 2016 aiming to create a definition for use. Their definition is the following: "SEs are mission-driven organisations: they aim to solve social problems with business activities in many cases using innovative ideas. Their financial sustainability is achieved to a significant degree through the provision and sale of socially responsible and marketable products and services." (OFA 2017:3)</p>   |
| Italy   | <p>The Reform of the Third Sector (specifically L.D. n.112/2017, as amended by L.D. n. 95/2018) provides a clear definition of SE and defines that:</p> <ul style="list-style-type: none"> <li>• All private entities (including corporate companies) that carry out a business of general interest, non-profit and for civic, solidarity and social utility purposes, can acquire the qualification of SE, adopting responsible and transparent management methods and favouring the wider involvement of workers, users and other interested parties in their activities.</li> <li>• Companies constituted by a single shareholder, natural person, public administrations and entities whose articles of incorporation limit, even indirectly, the supply of goods and services to members or associates cannot acquire the qualification of SE.</li> <li>• Social cooperatives and their consortia (as regulated by Law n. 381/1991) acquire the right to qualify as SEs. The provisions of L.D. n. 112/2017 are applied in compliance with the specific legislation of cooperatives and as compatible.</li> <li>• To civilly recognized religious bodies the rules of L.D. n. 112/2017 apply to particular conditions.</li> </ul>  |
| Poland  | <p>The concept of SE is currently not defined in any way at the level of national legislation. This category of social economy entities was introduced to the activities of Social Economy Support Centres on the basis of the "Guidelines for the implementation of projects in the field of social inclusion and combating poverty with the use of the European Social Fund and the European Regional Development Fund for 2014-2020" of January 9, 2018.</p> <p>According to the Guidelines, a SE must meet the following criteria:</p> <ol style="list-style-type: none"> <li>a) is an entity separated in terms of organization and accounting;</li> <li>b) is an entity that does not distribute profit or balance sheet surplus among shareholders, shareholders or employees, but allocates it to strengthen the company's potential as indivisible capital and to a certain extent for professional and social reintegration or for public benefit activities for the local community, which the company operates;</li> <li>c) it is managed on a democratic basis, which means that the governance structure of the SE or their ownership structure is based on co-management in the case of a cooperative, employee shareholding or employee participation rules, as specified by the entity in its articles of association or other document of incorporation;</li> </ol> |

|          |  |
|----------|--|
| Poland   | <p>d) remuneration of all employees, including management staff, are limited by limits, if they do not exceed the value referred to in Art. 9 paragraph 1 point 2 of the Act of April 24, 2003 on Public Benefit and Volunteer Work;</p> <p>e) employs at least three people on the basis of a contract of employment, a cooperative employment contract or a civil law contract (excluding persons employed under civil law contracts who conduct business activity) at least ¼ of a full-time job, and in the case of civil law contracts for a period of not less than 3 months and including not less than 120 hours of work in total for all months, while maintaining the proportion of employment specified in point (a).</p>   |
| Slovakia | <p>According to Act 112/2018, a SE is an entity of the social economy:</p> <ul style="list-style-type: none"> <li>– who carries out an economic activity on a continuous basis, independently, on its own behalf, under its own responsibility,</li> <li>– whose main goal is to achieve a measurable positive social impact,</li> <li>– in which the goods or services which it produces, supplies, provides or distributes, or the way in which they are produced or provided, contribute to attainment of a positive social impact, which, if: <ul style="list-style-type: none"> <li>– 1. makes a profit from its activities, uses more than 50% of the profit after tax to achieve the main objective under point (b),</li> <li>– 2. part of the profit is distributed according to the Commercial Code, it is distributed according to procedures and rules that do not interfere with the main goal according to letter b), which involves stakeholders in the management of its economic activity.</li> </ul> </li> <li>– A SE which has been granted the status of a registered SE is a “registered SE.”</li> </ul> |
| Slovenia | <p>By Slovenian law, a SE is a non-profit legal entity that acquires SE status and can be a society, institute, company, cooperative, European cooperative or other legal person of private law, which is not established solely for the purpose of profit, nor divides, the revenue surplus generated over expenditure.</p>   |

Table 1.1. Definitions of SEs at the national level.

## 2.2. Legal forms of Social Enterprises at the National and Central Europe level

As we can understand from the different definitions of SE reported by project partners from different CE countries, at the national level there are different degrees of recognition, size and type of SE but SEs are present in all the CE states, regardless of the type of welfare system and whether or not there is a well-developed non-profit sector, cooperative tradition or specific legislation that recognises and regulates them.

All country contributions confirm in fact that the political and legal recognition of SEs has increased in relevance over the past decade in EU Member States both where SEs have a longstanding tradition and where SE is instead a relatively recent trend. Nevertheless, some countries still have no legal recognition (Austria) or a very unclear framework.

In the figure below we can see which legal references for each Central European country determine and direct the legal framework. Subse-



Figure 3.2. Legal frameworks or statuses for SEs in the different CE countries.

quently, we will try to outline in more detail the situation in each country, on a country-by-country basis.

### 2.2.1. Legal forms at national level: a country-by-country overview

According to the European Commission there is no (legal) definition in Austria of what constitutes a SE in its broad sense, including Social Businesses allocated to the third sector (EC 2020). The EC report indicates that Austrian policy makers understand SEs merely in regard to work integration. Hence Work Integration SEs (WISE) are the only institutionalized forms of SEs in Austria (EC, 2014). There are three stately recognized and supported special designations for WISEs, with the abbreviated names Socio-economic Enterprise (SÖB), Non-profit employment project/company (GBP) and Integrative enterprise (IB). However, these company types are also organised in common legal forms (like GmbH, Associatio, etc.) but receive governmental funds in addition (EC 2020). The lack of a separate legal form and precise definition of the term SE in Austria (EC 2020) enables conclusions to be drawn about the possibilities of SE in Austria, especially linked to the possibilities that come with different legal forms that SE can chose in Austria (and therefore varying business models according to the legal form). The legal framework however does not (since there is no legal definition for SE) directly name any activities that SE are supposed to follow. An exception is of course the §34 BAO, which demands the already mentioned purposes from companies in order to get tax reliefs. The classification according to the tax-law is also the smallest common denominator in Austria that could be used to describe social entrepreneurs. Nevertheless, this classification does not cover the entire spectrum, as SEs that are profit-oriented and still generate social added value through the business model are not included. Companies need to “exclusively” and “directly” support the aforementioned purposes (§34 BAO) in order to gain the tax related advantages, what clearly doesn’t apply to all SEs.

There is currently no specific law regulating SE in Croatia. SEs can be established using a variety of legal forms, including the social cooperative form (in March 2011, a new Act on Cooperatives was passed: Article 66 defines the legal form of a social cooperative). Zakon o zadrugama (Law

on Cooperatives) recognizes the cooperative as an important agent in SE. Existing administrative, investment and promotional support pillars that should, according to the general objectives of the Strategy for the Development of Social Entrepreneurship, support SE, do not function. The Strategy was adopted for the 2015 to 2020 period; it is now under revision. Its criteria were copied from the EU's Growth and Employment/Europe 2020 strategy. However, the criteria are not in line with development opportunities for SE in Croatia, and are actually in conflict with laws relevant for SE: Law on Cooperatives; Law on CSOs; Law on Philanthropic Foundations; Law on Public Institutions; Enterprise Law; Law on Vocational Rehabilitation and Employment of Persons with Disabilities; Public Procurement Law; Small Business Development Act and the Law on the Rights of Croatian War Veterans.

The Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014-2020 is a legally non-binding recommendation document adopted by the Government of the RoC as a prerequisite to further access EU's ESF funds. It nominally aimed to:

- establish and improve the legislative and institutional framework for the development of social entrepreneurship;
- establish a financial framework for social entrepreneurship;
- promote the importance and the role of social entrepreneurship through formal and informal forms of education;
- ensure the visibility of the role and possibilities of social entrepreneurship in Croatia and provide information to the general public.

SEs can be established using a variety of legal forms, including the newly created social cooperative form. According to the current legal framework in the Republic of Croatia, social entrepreneurship can be organized through an association, foundation, registered personal trade, cooperative, company or institution. The dominant form of social entrepreneurship is association.

In the Czech Republic SEs are subject to regulations introduced by a number of laws; however, none of them defines the term social entrepreneurship.

Clearly defined principles and expressions in the field of social economy and social entrepreneurship are missing. Legal acts that regulate the

area of social entrepreneurship are the Civil Code, the Labour Code, the Accounting Act or the Commercial Corporations Act.

It is obvious that the specific legislation addressing social entrepreneurship in the Czech Republic is insufficient. However, it should be mentioned, that the legal framework does not prevent the creation and development of SEs, but it does not encourage their creation.

The legal framework governing responsible public procurement in the Czech Republic is based upon and corresponds to the European legislation. Despite absence of legal barriers, the Czech Republic contracting authorities mostly do not make use of the opportunity to address social or societal issues as part of their public procurement. Bids are mostly evaluated solely based upon the lowest price.

In the Czech Republic, SEs can acquire the legal form of commercial companies, which is regulated by Act No. 90/2012 Coll. about corporate corporations. The Law on Commercial Corporations distinguishes joint stock companies, limited liability companies, limited partnerships and public companies. The Law on Commercial Corporations includes cooperatives, housing cooperatives and social cooperatives. (Act No. 90/2012 Coll., Commercial Companies and Cooperatives).

Non-profit organizations may acquire the legal form of societies which are governed by Act No. 80/2012 Coll., The new Civil Code, with effect from 2014. Formerly beneficial companies, established by Act No. 248/1995 Coll. about community-based companies, have been regulated by the new Civil Code since 2014. Generally beneficial societies could also transform themselves into foundations that take on legal forms – a constitution or a foundation and a foundation fund. Another way of developing a social business is the form of a self-employed person regulated by Act No. 155/1995 Coll. on pension insurance.

Co-operatives include not only cooperatives themselves but also their associations and unions, national headquarters, including their financial, transnational and continental associations, and a worldwide cooperative organization.

The major difference between cooperatives and social cooperatives is that traditional cooperatives are primarily oriented to provide services only to their members, while social cooperatives have the prerequisite to

create social or public benefits for the entire community or specific target group. Another reason and specific feature of why social companies and cooperatives cannot be compared with existing firms and cooperatives is that companies and other traditional cooperatives do not attempt to replace or integrate public sector functions, even when also social cooperatives do not even fall between government bodies, government-led organizations or traditional profitable businesses.

The aim of the social cooperative is labour and social integration of disadvantaged people into society with the maximum use of local and community resources. The company must include the name “social cooperative” in its name. It is forbidden for the social cooperative to change the subject of business in a way that would be contrary to the definition of a social cooperative and to change the form of business.

On 1 December 2020, a partial amendment to Act No. 134/2016 Coll., on Public procurement, was approved and entered into force on 1.1.2021. It introduces the obligation of socially and environmentally responsible public procurement. Article 4 has been added into Paragraph 6 (ACT No. 134/2016 Coll. on Public Procurement) to give contracting authorities an obligation to comply with the principles of socially responsible procurement, environmentally responsible procurement and innovation, where it is possible in the sense of this Act. The contracting authority is obliged to fully justify its procedure.

There is a risk that the approved text will bring complications, which could have been eliminated if the wording of the amendment had undergone a wider discussion. The will of legislators must be respected, and a clear vision should be aimed at much more intensive implementation of sustainability in public procurement.

No specific legislation on social entrepreneurship exists in Germany, not even a formal definition. SEs have a relatively wide choice of legal forms under which to operate. Most social entrepreneurs are incorporated as limited liability company (GmbH Gesellschaft mit beschränkter Haftung), a small limited company (UG Unternehmergeellschaft), a partnership under the German Civil Code (GbR).

Non-profit social entrepreneurs are sometimes also registered as non-profit organisations or non-profit associations (Verein). Some social entrepre-

neers are registered as co-operatives (Genossenschaften) or foundations (Stiftungen). All of these types of organisation are allowed to have a commercial unit, which sells products and/or services either to its members or to external customers.

Due to the wide range of incorporations used by the social entrepreneurs, there is no harmonized legal framework for social entrepreneurs. Regulation on internal governance, supervision and taxes vary wildly. Some SEs, especially welfare organisations are organised as a limited liability company with public-benefit status or non-profit GmbH (Gemeinnützigkeitsstatus, gGmbH).

In Germany, the tax law regulates that the non-profit GmbH (gGmbH) is a limited liability company whose income is used for non-profit purposes. A non-profit GmbH is exempt from corporation tax and trade tax. Since 2013, the last reform, these public-benefit-status limited liability companies have more flexibility when spending their revenues and have to be accredited every third year to receive the public-benefit status. The accreditation depends on the purpose of their activities, not the legal form. Since 2006, the German Cooperatives Act (Genossenschaftsgesetz, or GenG) allows new-style cooperatives with a social or cultural mission (Sozialgenossenschaften, Kulturgenossenschaften) and these forms are used for instance in the creative industries or in social affairs.

The latest drive to popularise SE came from the Federal Ministry of Economic Affairs and Energy (BMWi). An issue of its periodical publication for entrepreneurs (GründerZeiten), dedicated to social entrepreneurship in 2016, is one document which regards the definition of the concept (Bundesministerium für Wirtschaft und Energie [BMWi] 2016).

It highlights (1) the pursuit of a social mission, (2) enterprising for sustainability, and (3) a contribution to social cohesion as important defining elements of social entrepreneurship. It also distinguishes SE from CSR and "corporate citizenship" (Göler von Ravensburg et al. 2018).

Because of the disparity of possible incorporations, the social entrepreneurs have advocated for a more harmonized legal regime. The German Social Entrepreneurship association (SEND eV) and the Foundation Purpose Ownership (Stiftung Verantwortungseigentum) are advocating to create a specific legal form for social entrepreneurs, called VE limited

liability company (Verantwortungseigentumsgesellschaft). This new legal form would work like a limited liability company which would have restrictions on the disbursements of profits.

There is no explicit legal form for SEs in Hungary and no specific law for SEs, so they can operate in all kinds of legal forms. Foundations, associations, non-profit organisations and social cooperatives are the main possible legal forms of SEs, however other – traditional – forms of cooperatives, certain church organisations and conventional enterprises can constitute as legal forms for SEs. Acts affecting SEs are the following:

- on foundations and associations: Act V /2013 on Civil Code
- other operational conditions of non-profit organisations: Act CLXXV /2011 on the right of association, the legal status of public benefit organizations and the operation and support of civil organizations
- on non-profit business organizations: Act V. /2006 on company publicity, court proceedings and bankruptcy
- on cooperatives: Act X /2006 on cooperatives and Act V /2013 on Civil Code

The current state funding programmes only accept applications by the following legal forms: foundations, associations, non-profit company (non-profit limited liability company, non-profit joint stock company, non-profit unlimited partnership, non-profit limited partnership), and social cooperative. But SEs can operate in all kinds of legal forms.

The Italian non-profit sector (as of October 2017, there were 16,918 social cooperatives, 1,874 SEs and 11,940 market-oriented non-profit organisations: Venturi 2017) long awaited a comprehensive reform. In particular, Italian non-profits called for a legal framework allowing them to be more upfront in organising, managing and delivering SGIs. The legislative response to this demand came with the passing of the 2017 SEs Reform Act that resulted from the comprehensive 2016 Third Sector Organisations Reform Act. The 2017 Act (L.D. n.117/2017, as amended) provides for non-profit organisations to pursue social aims, such as the delivery of welfare and community services among others, by carrying out steady and clear-cut economic activities.

The 2017 Act sets out a clear legal framework for the definition of SEs,

which now incorporate both companies and associations/foundations pursuing a social mission in a wide variety of social fields. The Third Sector Code arranged for the reorganization and overall revision of the current regulations on the matter, both civil and fiscal, defining, for the first time, the scope of the so-called Third Sector and, in a homogeneous and organic way, the entities that are part of it. SEs are also requested to adopt a democratic and multi-stakeholder governance towards workers, financiers, volunteers, private companies and public authorities, as well as to disclose a social balance-sheet and to be willing to undertake a social impact assessment.

Poland has three types of SE recognised by different legal acts. Foundations, recognised from LAW of April 6, 1984 about foundations, the most important legal act regulating the operation of foundations is the Act on Foundations. This act contains relatively few provisions and gives a great deal of freedom in the construction of the statute, i.e. the document on which the foundation operates. The statutes describe the most important information about the foundation – incl. about the foundation’s governing bodies, how many people must be in these bodies, what is the matter of exercising power and deciding who chooses the people sitting in the foundation’s governing bodies. As a rule, the statute is established by the founder, which gives the founder a great influence on how the foundation will function.

Associations are recognised from the ACT of April 7, 1989 Law on associations. An association, like a foundation, is a non-governmental organization as defined in Art. 3 sec. 2 of the Act on Public Benefit and Volunteer Work. As a non-governmental organization, it is subject to the provisions of the Act on Beneficial Activities, which in practice means, for example, the possibility of applying for the status of a public benefit organization or using subsidies from public administration. The most important legal act regulating the operation of an association is the Act – Law on Associations. The association enables the exercise of the right to association and guarantees equal rights “irrespective of beliefs, the right to actively participate in public life and express different views and to pursue individual interests” (preamble to the Act – Law on Associations). Social Cooperatives are recognised and regularised from the act of 27

April 2006 on social cooperatives, the Ordinance of the Minister of Labor and Social Policy of 23 April 2012 on granting funds for commencement of activities on the terms specified for social cooperatives, and the Regulation of the Minister of Labor and Social Policy of 3 August 2007 on specifying the specimen certificates attached to the application for entry of a social cooperative into the National Court Register. In particular, Polish law establishes that a cooperative must have at least 50% of its members that are persons at risk of social exclusion in order to be recognised as a social cooperative. The statutory goal of the cooperative is to return to regulated social life and activity on the labour market of its members. A social cooperative, as a type of work cooperative, is based on the principle of personal work performed by its members.

In Slovakia, social entrepreneurship has got a legal framework governed by Act 112/2018 on social economy and SEs<sup>2</sup>. This Act has been in place since March 2018. Companies which apply for the statute of a SE and are approved, are then listed in a specific registry for social entrepreneurs, coordinated by the Ministry of Labour, Social Affairs and Family of the Slovak Republic, and can receive incentives listed in the above mentioned Act. A very common form of social entrepreneurship in Slovakia is a sheltered workshop that can have any business form (e.g. Ltd). In general, there are more companies with a present social aspect than those available in the Registry regulated by the Act. The main incentives for the entities officially listed as social businesses are the following: investments, subventions, and direct transfers of funds from the government.

For the purposes of Act 112/2018 a positive social impact must be fulfilled, be it a public or community interest. This can be done via socially beneficial services which are listed in the Act as it follows: provision of health care, social assistance, humanitarian care; creation, development, protection, restoration and presentation of spiritual and cultural values; protection of human rights; education and development of physical culture; research, development, scientific, technical, information services;

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<sup>2</sup> Available at: <https://www.aspi.sk/products/lawText/1/90081/1/2/zakon-c-112-2018-zz-o-socialnej-ekonomike-a-socialnych-podnikoch-a-o-zmene-a-doplneni-niektorych-zakonov> (accessed on December 19<sup>th</sup>, 2020).

creation and protection of the environment and of public health; services to support regional development; providing housing, administration, maintenance and renewal of the housing stock.

Slovenia has a Social Entrepreneurship Act, available since 2011 (Zakon o socialnem podjetništvu -ZSocP, updates of the legal framework in 2014 and 2018) and an official Slovenian social businesses register, established and monitored by the Ministry of Economic Development and Technology. SE has a special legal abbreviation: "socialno podjetje" (social company) or abbreviation "so.p.". The legal forms allowed are: society, institute, cooperative, European cooperative or other legal person of private law (Limited liability company, Unlimited liability company, Limited partnership).

Society is an association of at least three physical or legal persons who want to pursue a common interest. The purpose of the establishment and operation of the society is not to make a profit. If the latter occurs, the society may not distribute it among its members.

Institute: An institute is a legal entity of public or private law established for the purpose of performing non-profit activity. It is similar to a limited company or unlimited company, but we find quite a few specifics in the institute: there is no planned initial capital, in a way the institute resembles a society.

Limited liability company: is a legal entity and is an independent holder of rights and obligations in legal transactions, guaranteeing the assumed obligations only up to the amount of its own assets. The share capital of a limited liability company consists of share contributions of shareholders, on the basis of which the latter acquire their business share, expressed as a percentage, with its value in the share capital. The company can be established by one or several domestic or foreign legal and natural persons. The most important feature of a limited liability company is that the partners are not liable for the obligations of the company with their assets.

European Cooperative and cooperative: a cooperative is an organization of a predetermined number of members, which aims to promote the economic benefits and develop economic or social activities of its members and is based on a voluntary approach, free exit, equal participation and management of members.

Unlimited liability company: an unlimited liability company is a personal partnership of two or more persons who are liable for the obligations of the company with all its assets. A company with unlimited liability must thus be established by at least two domestic or foreign physical or legal persons who decide to pursue an economic activity together. All partners are responsible for the obligations of an unlimited liability company with all their assets, so it is recommended that the latter really trust each other.

Limited partnership: A limited partnership is a company of two or more persons in which at least one partner is liable for the company's obligations with all its assets (general partner), while at least one of the partners is not liable for the company's obligations (limited partner). Thus, as already mentioned, for the establishment, at least two partners are required, one of whom must be liable for the obligations of the company with all the assets and the other only up to the amount of his/her contribution to the company.

### 2.2.2. A Central Europe perspective

As we can understand from the paragraphs above, in Europe the regulation of SEs is the direct result of a dual supporting legal framework combining EU law and member state competences. European Union has adopted both cross-border financial programmes and directives to promote the growth of SEs, however, as we can see from the analysis of what emerges among Central European countries, member states have incorporated these directives into their legal systems in different ways and at different levels and they have also independently enacted specific statutes to promote the development of SEs (Nicholls 2010), since it is member states that retain regulatory power over private organisations, including SEs (Santuari 2020).

It is possible to highlight a lack of systematic national level evidence on the type and scale of activity and of related policy frameworks that makes it extremely difficult to identify common patterns of development across Central Europe as well in the whole EU.

Central Europe presents a multiple scale of situations that goes from the absence of legal frameworks to the presence of articulated specific laws governing social entrepreneurship.

Austria, for example, does not have a legal framework addressing SEs and the existing legal framework does not (since there is no legal definition for SE) directly name any activities that SE are supposed to follow; in Germany as well no specific legislation on SE exists and there are eight different types of organisations that might be considered as SE and public agencies still diverge in their understanding of the concept; Hungary too, doesn't have an explicit legal form for SEs and a specific law for SEs or a long-term strategy either, resulting in a confusing legal and policy environment. According to Etchart et al. (2014), the unpredictability of the regulatory environment is a factor that has a negative impact on SEs. A mixed and undefined situation is present in Croatia where there is currently no specific law regulating SE but where a Strategy for the Development of Social Entrepreneurship has been implemented from 2014 to 2020. It was a legally non-binding recommendation document adopted by the Croatian Government as a prerequisite to further access EU's ESF funds. Even if non-binding, this recommendation had an important role since there has been a growing need for diversifying available sources of finance for social entrepreneurs in the Country.

Uncertain is as well the situation in the Czech Republic, where the legal framework does not prevent the creation and development of SEs, but it does not encourage their establishment either. This situation is due to a lack of a clearly defined principles and expressions in the field of social economy and social entrepreneurship and there are multiple legal acts that regulate the area of social entrepreneurship: Civil Code, Labour Code, Accounting Act and the Commercial Corporations Act that makes the legislation addressing social entrepreneurship in the Czech Republic confusing and thus insufficient.

Finally, Slovakia, Slovenia and Italy have the most advanced regulatory situations regarding social entrepreneurship. In Slovakia, social entrepreneurship has got a legal framework governed by Act 112/2018 on social economy and SEs<sup>3</sup>. Companies which apply for the statute of a SE

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<sup>3</sup> Available at: <https://www.aspi.sk/products/lawText/1/90081/1/2/zakon-c-112-2018-zz-o-socialnej-ekonomike-a-socialnych-podnikoch-a-o-zmene-a-doplneni-niektorych-zakonov> (accessed on December 19<sup>th</sup>, 2020).

and are approved, are then listed in a specific registry for social entrepreneurs, coordinated by the Ministry of Labour, Social Affairs and Family of the Slovak Republic, and can receive incentives listed in the above mentioned Act. In Slovenia, thanks to the Social Entrepreneurship Act, available since 2011 (Zakon o socialnem podjetništvu – ZSocP, updates of the legal framework in 2014 and 2018) there is an official Slovenian social businesses register, established and monitored by the Ministry of Economic Development and Technology.

Italy seems to have the most advanced situation. The 2017 Act sets out a clear legal framework by which both companies and associations/foundations can be incorporated under the legal form of SEs to pursue a social mission while performing a wide range of activities of general interest. Pursuant to EU law, the 2017 SEs Reform Act intends to empower and, accordingly, to entrust SEs with the accomplishment of all those activities that may have a significant impact on local communities (European Commission 2011). The 2017 Act favours the development of SEs and nudges their performances as economic and social operators. In this respect, the 2017 SEs Reform Act definitely marks an important step on the progressive legal recognition of the role and functions of entrepreneurial non-profit organisations sharing with public authorities the responsibility to accomplish social and community goals (Santuari 2020).

## 2.3. Benefits, gaps and obstacle due to Social Enterprises legal form and status

### 2.3.1. Accessibility and relevance of legislation on Social Enterprises

With regards to the accessibility and usability of legislation on social entrepreneurship, what emerges from a country-by-country analysis is the correspondence between the lack of specific legislation and the difficulty in accessing and understanding the regulatory framework.

Among the Central European countries considered, a dual condition can therefore be identified: in Italy, Poland, Slovakia and Germany, the content of the Law is clear and easily accessible or very well supported from a network of public bodies and private consultants. For example in Germany the legislation on SEs is not easy to understand at first glance but it is accessible to entrepreneurs thanks to initiatives such as the SE Network Germany, the SE Academy, Ashoka Germany, the Do School, the Social Impact Hubs, the Social Impact Corporation, the Chambers of Commerce, the Incubators of Universities and many other projects support social entrepreneurs to make the right choices from a legal perspective.

On the other hands, in Croatia, Austria, Slovenia, Czech Republic and Hungary SEs complain in the best scenario an extremely complex and highly bureaucratic process to access the information and in the other cases a real lack of information and support in the phase of candidature for and obtaining the status of SE and on the eligibility criteria as well as the lack of literature, data and databases of social entrepreneurs. In Slovenia where the existing legislation is quite complicated, the access requires a lot of bureaucracy and demands a lot of specific knowledge and skills.

On the other hand however, in Austria for example, even if there isn't a specific law and this makes it impossible to access specific information, if a company that intends to operate according to the principles of social business is founded, it is relatively easy to find information about tax-breaks. Usually tax-consultants as well as public services or incubators for start-ups offer advice regarding legal-form-related tax issues which

proves to be the most regulated and outlined aspect even where there is no comprehensive law on social entrepreneurship.

### 2.3.2. Specific benefits for the Social Enterprise legal form and status

When it comes to look at the specific benefits deriving from regulations concerning social entrepreneurship, what we can certainly see is the predominance as the main and 'basic' benefit of different types of tax exemptions and tax breaks. Beside Croatia, where there are no specific benefits, nor a projection of an estimated time in the next year(s) when any such benefits might be introduced and actually implemented, in the other countries, even if there is no specific legal form for SE, there are still some possibilities for tax – breaks. The fiscal framework for SEs is anyway really fragmented and different benefits and exemptions apply for the different legal forms. Some examples are:

associations and foundations

- specific tax and duties benefits
- exemptions (e.g. exemption from paying VAT for some activities; contribution exemption)
- “duties exempt status” by subjective right
- exemption from local business tax social cooperatives
- subject to certain tax benefits and exemptions
- VAT exemption; corporate tax exemption after non-business-related income
- can set up a fund from their profit to cover costs of payments (members and their families)
- a member can establish a sui generis type of employment relationship in specific cases
- non-profit companies
- have certain tax benefits and exemptions
- VAT exemption based on activity
- public benefit provisions (if they have the public benefit status, some of the legal forms do not need to pay taxes after their public benefit activities)
- deduction of a donation to an association from the tax

Other types of benefits resulting from social entrepreneurship regulations are found in those countries where they are obviously more structured. In Slovenia, for example there are financial incentives for employment of disabled persons and vulnerable groups (social taxes and retirement charges are paid by the state) and financial incentives for education of management in the first two years of company's operation, related to work with vulnerable groups. In Hungary instead, public benefit status can be awarded to organizations that perform public benefit tasks. Several legal forms can apply for this status. In Slovakia, in addition to a great potential offered in facing labour market challenges, the development of activities in the areas of housing, culture, education, health care and various other areas of public policy has been introduced in the law. The support of enterprises in a wider area of social economy provides: investment aid that may be provided in form of financial instrument in the implementation of which funds are provided in form of repayable assistance, a combination of repayable and non-repayable form, conditionally repayable contribution, non-repayable financial contribution, subsidies for a registered SE, sale of real estate at lower price than the general value of the property or in form of a lease of real estate at a lower price than its real value, and income tax relief according to a special regulation.

Compensatory aid that can be provided to an enterprise in a wider area of the social economy if, as a result of achieving a positive social impact, it is disadvantaged compared to entrepreneurs who carry out a similar activity for the purpose of making profit.

Aid to support demand is usually implemented in the form of purchase of a service voucher from a registered SE that has provided a home and garden care service.

In Italy the 2017 SEs Reform Act (Third Sector Reform) provides:

- a "no-tax" area for any profit that is reinvested in the organisation's activities and a 30% return on investors' revenue;
- significant innovation which consists of the possibility for SEs to distribute profits among their shareholders up to a limited cap;
- recognises freedom of private enterprises, which is included in Article 41 of the Italian Constitution and provides that private en-

terprises can also be engaged to pursue the public interest. Due to their social mission and internal organisation, SEs contribute to the social achievement that Article 2 provides for;

- social bonus: Legislative Decree 117/2017, Art. 81, a tax credit equal to 65 percent of the liberal cash disbursements made by individuals and 50 per cent if made by entities or companies in favour of Third Sector entities, which have submitted to the Ministry of Labour and Social Policies a project to support the recovery of unused public real estate and movable and immovable property confiscated from organised crime assigned to the aforementioned Third Sector entities and used by them exclusively for carrying out activities referred to in Article 5 in a non-commercial manner.

No special fiscal benefits apply for SEs 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 SEs 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).

**2.3.3. Specific obstacles for the Social Enterprise legal form and status** Croatia, Slovenia, Slovakia and Austria, for opposite reasons (favourable legislation as in the case of Slovakia or no legislation at all as in the case of Austria) do not present any particular legal obstacles to setting up a SE. For the same reason in the Czech Republic the main obstacle for SEs is exactly the non-existence of the social entrepreneurship Act.

However, in most countries a lack of wider support or motivation to conduct business in the form of a SE is evident. General obstacles we can encounter in CE countries can be grouped as following:

- administrative obstacles: entrepreneur needs to place extraordinary effort in seeking incentive for the establishment or development of a SE; problems with meeting payment deadlines by customers, therefore the entrepreneur often has problems with the solvency of his suppliers; SEs are not sufficiently supported by public processes – such as socially responsible public procurement;
- organizational and financial obstacle: difficult access to the in-

formation to accede to the grants calls; problems in cooperation with offices, often including different interpretations of the same provisions by different administrative bodies; high salary expectations of employees with a simultaneous lack of qualified staff on the labour market; too high taxes; safeguarding stable flows of resources to ensure adequate coverage of citizens' needs; too short payment terms with suppliers. In some legal systems it is forbidden for the SEs to distribute, in any way, profits and operating surplus funds and reserves, however called, to founders, partners or associates, workers and collaborators, not even in the event of their withdrawal or any other case of individual termination of the employment relationship.

- informative obstacles: lack of literature, data and databases of social entrepreneurs; lack of knowledge about the concept of SE or incomplete definition of the SE as it is related exclusively with the employment of marginalized groups; complex legal regulations, legal aspects of running a business are not clear; SEs often encounter difficulties in accessing bank loans due to their still-limited presence and structuring as well as to insufficient knowledge of the peculiarities of SEs on the part of the banking system.

In Hungary a specific and interesting obstacle emerged. It concerns the Social Entrepreneurs feeling that existing legal forms are associated with many negative connotations that hinder them from achieving better results. For instance, the existence of cooperatives is considered useful, but the previous unfavourable use of grants and funds portrays these organizations in a negative light to the society.

## 2.4. Innovative case studies of legal support

Even in countries where there is no specific legislation, there are grass-root forms and models of social entrepreneurship emerging. Being “unregulated” opens up in fact to elements of innovation and creativity. In the majority of the CE countries indeed no specific innovative case related to the legal framework where identified but in mostly all of them we can encounter some relevant and interesting SE innovative experience. Nevertheless, there are two interesting cases about possible innovative scenarios in the legal and legislative framework for SEs that we will present below as food for thought for future legal recommendations on what can facilitate and incentivise the work of SEs in the Central Europe countries: one is the Regulatory Sandboxes in Germany, a national level innovative case; and the other is the Cooperative agreement in Bologna (Italy). These two cases are interesting to observe because they show us two ways to innovate legislation that in both cases can be considered as good practices from which other European countries can also draw inspiration.

### 2.4.1. An alternative search engine, Ecosia: environmentalism with a business mindset (Germany)

An interesting innovative example is the one of the steward-ownership based on an example of a very well-known social entrepreneur organisation in Germany: Ecosia (<https://info.ecosia.org>).

Ecosia is an alternative search engine founded by Christian Kroll in 2009. It uses its profits from search queries to plant trees in areas that are most impacted by deforestation. It has successfully planted more than 60 million trees in 15 countries, according to a case study by the Purpose Foundation.

Ecosia is incorporated as a limited liability company (GmbH). The German law does not prohibit the owners from the sale of the company, the

change of purpose of the company, or the business activities. The only requirement established by the law is that the owners have to decide by majority to proceed – and certain rules of minority owners are respected. In order to make a clear statement about the long-term purpose of the company, Ecosia GmbH has decided to become a company under steward-ownership. The reason for doing so is described as follows:

“What would become of Ecosia if something happened to one of us? How do we ensure that the company, which would theoretically be worth millions of dollars on the market, is never sold? How do we protect its mission and independence for the long-term?”

Several alternative ownership solutions were sought. For instance, it was discussed to convert the business to a German non-profit or establishing a foundation. As discussed above, these alternatives did not have the same benefits as being incorporated as a company.

Thus, in 2018, the two owners, Christian Kroll and Tim Schumacher, moved Ecosia to steward-ownership-model, supported by the Purpose Foundation.

The ownership structure is now structured as follows: Christian Kroll owns 50% of the voting rights and Tim Schumacher 40% of the Ecosia GmbH voting rights. The remaining 10% is held by the Purpose Foundation, which does not receive any rights to a dividend, but can block the sale of the company.

The benefit of this approach is that the Purpose Foundation cannot block entrepreneurial decisions, for instance the agreement on the tax statement of the company, but at the same time the long-term perspective is ensured.

Based on this approach, several social entrepreneurs and large entrepreneurs have lobbied the parliament to develop a new purpose-based limited liability company, where steward-ownership as discussed above could be easily set-up, and which would also allow corporates to allow other stakeholders, such as employees to become decision-makers in the future development of a company. This approach has been supported by almost all political parties in the German parliament.

This approach is not without controversies. The German Ministry of Justice has been very sceptical towards the suggestion but has confirmed

to review the proposed law changes. Other associations have pointed out that it would be better to make it easier to create foundations which would act as owners of companies (so-called Familien-Stiftungen).

#### 2.4.2. Cooperation Agreements to share responsibility for the care and regeneration of the city (Italy)

Since 2014, citizens and the administration have been able to enter into “cooperation agreements” to share responsibility for the care and regeneration of the city ([www.fondazioneinnovazioneurbana.it/pattidi-collaborazione](http://www.fondazioneinnovazioneurbana.it/pattidi-collaborazione)).

The city of Bologna was the first in Italy to adopt the Regulation on collaboration between citizens and the Administration for the care and regeneration of the urban commons: a tool, which has since spread throughout the country, created to support and enhance the autonomous initiative of citizens, whether individuals or associations, for purposes of general interest.

This tool opened a process of change aimed at encouraging the sharing of responsibilities in the care and regeneration of the city, allowing citizens to do their part by signing “cooperation agreements”.

Bologna responded with numerous projects, some of which were very different from each other and involved different areas, from the centre to the suburbs. In the first three years (2014-2016), 245 collaboration pacts were signed in the city.

Proposals for collaboration can be submitted via the digital platform called Community of the Civic Network Iperbole, in the Common Goods section, where information on the process, how to participate and current initiatives are available.

Both associations and individual citizens, can send in a proposal. If the proposal is deemed admissible in the light of the recent public notice, it is then published online for 15 days, during which anyone can comment on it. At the end of the publication period, the co-design phase will begin.

Collaboration pacts can concern proposals for the care and regeneration of tangible, intangible and digital urban commons, which citizens and the Administration, also through participatory and deliberative procedures, recognise to be functional to individual and collective wellbeing.

By way of example, tangible assets are meant e.g. streets, squares, arcades, flowerbeds, parks and green areas, school areas, buildings, etc.; intangible assets are e.g. social inclusion and cohesion, education, training, culture, civic awareness, environmental sustainability, reuse and sharing, etc.; digital assets are e.g. websites, applications, social networks, computer literacy, etc.

Collaboration between active citizens and the administration can take place in different ways: through occasional care, constant and continuous care, or shared management and regeneration.

Interventions can include care, regeneration and shared management of public spaces; care, regeneration and shared management of buildings; promotion of social innovation and collaborative services; promotion of urban creativity; digital innovation.



**PART 3**

**FRAMEWORK  
MODEL  
AND SOCIAL  
INNOVATION**

## 3.1. Methodology

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The analysis work carried out to identify drivers for SEs and build a framework model to support social innovation, which will result in this deliverable, is co-developed by the eleven project partners cooperating within the CE Responsible project, like many of the previous analyses conducted in this project. Each partner is responsible for identifying the drivers related to their local contest, using their own defined methodology, in order to meet all the specific local needs and working methods and combine them with the objectives of the project. This *let it be process* will allow each partner to better adapt the analysis to their own activities and to build on their existing stakeholder networks and working groups.

Part of the analysis is based on referenced documents and official websites (see Reference), investigated through the PEST approach. PEST is an acronym for Political, Economic, Social and Technological. PEST Analysis is a management method whereby an organization can assess major external factors that influence its operation in order to become more competitive in the market. As described by the acronym, those four areas are central to this model.

This analysis is often used to assess these four external factors in relation to particular business situation. Basically, a PEST analysis helps to determine how these factors will affect performance and activities of a business in the long-term. Within this project, the PEST Analysis was applied to identify drivers and potential challenges for Social Enterprises (hereafter SEs).

Being aimed to identify the main governance solutions and business models for SEs throughout Central Europe, the analysis is embedded in a context made of both the legal and the policy framework operat-

ing in the European Union and in each member state involved in CE Responsible.

The following sections outline the results of the above described methodology, organised according to the different issues addressed, and collecting inputs identified for each thematic area.

## 3.2. The governance

The terms SEs relate to different realities in the different European countries, with a new commitment of society and the socio-economic system for the achievement of objectives of equity, solidarity and social inclusion. They are production companies that produce or exchange goods and services without profit to achieve collective objectives and purposes of general interest.

A 2011 European document uses the term without distinction between social business and SEs, to indicate “the following types of business: those for which the social or corporate objective of the common good is the reason for commercial activity, often with high levels of social innovation; those whose profits are reinvested for the achievement of the social objective; those whose organizational model and proprietary system reflect their mission, using the principles of democratic participation and placing social justice at the centre” (*Bruxelles Com [2011] 682/2 Creating a favourable climate for SEs, key stakeholders in the social economy and innovation*).

They therefore play a plurality of roles. They create employment and therefore economic development. Also, they produce goods and services contributing to the construction of welfare systems, especially at local level. This happens through a set of services capable of responding to the needs of the population and, generally, aim to improve the quality of life, especially for the most fragile people.

In order to achieve these objectives, the SE requires complex governance, that is, a responsible and transparent management which may be required, among other things, to involve beneficiaries and workers.

For its own purposes, the SE offers its services, goods, services or promotional actions to society as a whole, but also specifically to public entities (bodies with competence in matters of welfare, culture, etc.) and to companies committed to social responsibility.

Therefore, it is evident that the characteristics of SE in the various countries are determined not only by the culture and solidarity traditions matured in different historical periods, but also by the present welfare model and by the different weight that the public part has in it.

A first step is to place the SE in the broader panorama of third sector entities. To this end it may be useful to dwell rapidly upon the National cases and the evolution of the SE sector through time.

### 3.2.1. The historic evolution and the current national contexts

The nine countries involved in CE Responsible share more than a single experience with respect to social issues and SEs functioning throughout recent history. As a matter of fact, Germany, Austria, Czech Republic, Slovakia, Hungary, Slovenia and Croatia have been characterized by the so called "Bismarckian legacy", vehiculated by the belonging of all of them but Germany to the Austro-Hungarian Empire, that rooted between the end of XIX Century and the beginning of XX a strong third sector with a few large non-profit organisations closely associated with the State dominating the sector. This organisational welfare mix has been shaped by:

1. the strong influence of the Catholic Church and its close relationship with the State which has led to the establishment of some of the largest social service delivery organisations;
2. the strong influence of socialist politics and the close affiliation of large welfare organisations to political parties;
3. the corporatist approach to State regulation: a close relationship between major NPOs (Non-Profit Organizations) and the State, granting them the right to influencing decision-making on national legislation (Leichsenring 2001).

The combination of these developments has led to a strong social system, resistant to change, covering the majority of social services via few large welfare organisations, and little receptive to new entrants. Countries in this tradition are characterized by large and mostly State-financed non-profit organizations with close affiliation to public bodies, in contrast with the Anglo-Saxon tradition, where within the context of a liberal civil society regime, the sole social entrepreneur and his small business play

a major role in delivering social services (Light 2006; Harding and Harding 2010).

In this way, in the Czech Republic and Slovakia a long and rich tradition of solidarity, mutual help, civil organizations and cooperatives stemmed out following the Czech National revival, with the first law defining cooperatives steps back to 1873 (the eldest productive coop in the country was established in 1892) and the same dynamics can be applied to Hungary, where the first cooperative dates to 1845. Slovenia has a long tradition of civil society self-organisation and self-reliance, and up until the end of World War II, associations and cooperatives were the primary providers of public goods and services, accounting around 6,000 associations and 1,700 cooperatives in 1938 (Črnak-Meglič and Rakar 2009), while Croatia in the same years saw the birth of brotherhoods and other mutual organizations related to Catholic Church, and of foundations with cultural and educational goals established by noble families.

In Germany, the second half of the 19th century saw the birth of hundreds of private charity organizations and social service institutions financed by donations and membership dues (Zimmer et al. 2005). The originally private initiatives developed into a system of five welfare associations (*Wohlfahrtsverbände*), which were granted privileged legal status and privileged public funding (Zimmer 2014). A culture of co-operation between public and private welfare provision have been developed simultaneously at the community level. This inaugurated a habit in public-private provision of social services still valid today and links private and public welfare institutions on all levels of government (Zimmer et al. 2005).

The second relevant hallmark is the end of the World War II in 1945, that determined for countries like Austria, Germany and Italy the enforcement of a highly developed and regulated welfare state, and for all other countries the subjection to the communist rule, both in the sphere of influence of USSR (Poland, former Czechoslovakia, and Hungary) in 1948, and under the Titoist regime in the newly established Republic of Yugoslavia (Slovenia and Croatia).

The new social environment imposed by communist regimes cancelled substantially any room for civil society, gathering all productive coop-

eratives and each association under the strict control of the government (Dohnalova et al. 2021). In Hungary, the establishment of new foundations was prohibited, being allowed just associations in some particular fields such as sports and leisure. Cooperatives membership was substantially compulsory for the population, and regulated by the National Government (Horvath 2010). In Poland, a country with a long tradition in organization supporting disadvantaged people (young, poor, unemployed and disabled), foundations are formally eliminated in 1952 and their assets incorporated by the State (they will be restored in 1984), while associations were integrated into state-sponsored mass organization, fully controlled by the Government (Ciepielewska-Kowalik and Starwaska 2021). In former Yugoslavia, civil society was marginalised by the paternalistic approach of the State.

This lasted until the 1990s, when the end of the socialist era, culminated in the civil war, pushed civil society to arise slowly, focusing on humanitarian assistance to displaced people. The transition took place in Czechoslovakia too (as known a unique country until 1<sup>st</sup> January 1993), when the “Velvet revolution” highlighted the relevancy of civil society and restored the central role of associationism in the country. In Poland civil-society groups arose since 1970s, joining forces within the opposition camp (civil rights movement, trade unions and the most famous *Solidarność*), with the strong support of the Catholic Church. The process grew up during the 1980s, ending in 1989 with the overthrow of the regime (Ash 2002; Kenney 2008).

Welfare State was one of the main features of renewed governments in the rest of Europe. In Austria, due to the push by the two dominant parties (the Social Democrats and the Austrian People’s Party), two persistent phenomena emerged: on one hand the strong influence of Non-Profit Organizations (NPOs) on politics; on the other, the implementation of a system which involves the labour movement, professional associations and the NPOs themselves in major decision-making processes (Neumayr et al. 2007). This system – called the social and economic partnership (*Sozialpartnerschaft*) – discuss issues of economic and social relevance with the aim of avoiding social turmoil by working out compromises on a voluntary basis (Reiner 2011). According to the critics, whilst granting

great influence to civil society, it also contributed to the establishment of rigid power structures (Pennerstorfer et al. 2013).

In Germany, the welfare associations developed during the 1960s and the 1970s into the most important providers of social and health services (Anheier 2014; Evers, Schulze-Böing 2001) and the biggest private employers in Germany (Heinze et al. 2011). The specific interpretation of the principle of subsidiarity in Germany was incorporated in the late 1960s into the country's social law, guaranteeing the Free Welfare Associations a privileged position within the growing market of social and health service supply by granting them public funding and protecting them against competition (Evers, Schulze-Böing 2001).

During the 1980s, structural unemployment and high inflation sent western welfare systems into a deep crisis: in Austria, the so called "Austro-Keynesianism" was reformed, leaving apart the strong emphasis on full employment in favour of experimental labour market policies aimed to activating self-employment and dealing with long-term unemployed marginalized groups (drug addicts, women after childcare break, unskilled and disabled). This process opened to a "social services market" populated by private organizations and SEs (Leichsenring 2001). In Germany, the institutional changes of the traditional welfare system in the late 1980s and 1990s were a driving force for the establishment of SEs, in last years pushed progressively from the introduction of market and competition elements in the welfare sector (Evers 2005; Heinze et al. 2011).

The third and, until now, last milestone to point out in Central Europe social politics development is the deepening of the European integration process, with the evolution of the deal that established the Economic Community in a real political subject (the European Union) in 1992, and the enlargement of the EU to include progressively Austria (1995), Hungary, Poland, Czech Republic, Slovakia and Slovenia (2004), and Croatia (2013). This meant the full adhesion to the so-called *Communitarian Aquis*, i.e. to the array of rights, obligation and principles gathering and binding all Members States. Connected to our field of interest, this implies on one hand the introduction of a common framework legislation to regulate and direct the provision of welfare and social services accord-

ing to the single European market principles, on the other the accession to the EU financing for this type of policies, starting from the European Social Fund (ESF).

The EU accession consolidated for many of the previous countries the process of transition opened by the historical facts of 1989-1992 and culminated with the end of the Communist rule. This stimulated the re-emergence of a plurality of civil society initiatives and witnessed the flourishing of a significant number of NPOs and the pioneering establishment of the first SEs. In Slovakia, entering the European Union promoted the process of legal institutionalisation of SEs through two distinct strategies: first, the reform in social services, which resulted in the transformation of the public-sector-driven institutional care model to a community-based service system, open to the participation of non-state actors in the provision of a variety of social services. Second, the legal recognition of SEs, prompted by the introduction of a legal framework specifically designed to regulate enterprises integrating disadvantaged workers, the so called WISEs (see *infra*), and followed by the acknowledgement of social economy and SEs (Act 112/2018). In Hungary, EU accession coincided with a season of reforms in the NPOs world, such as the establishment of the social company form (related to some kind of market activity) and the obligation for public-benefit companies to take the form of NGO, before a more centralized and national-oriented approach imposed the mandatory presence of institutional bodies (mainly local authorities) in the membership of social cooperatives and the registration as “foreign-funded” to all organizations receiving financing from organizations located outside the EU. In Croatia, the attempt of defining SEs through a devoted “Strategy for Social Entrepreneurship development” (2015) was informed by the EU interpretation of the SE concept, even though the implementation of the Strategy failed (Vidovic and Baturina 2021). The same dynamics occurred in Poland, where the access to EU funds such as EFS and, mainly, the Equal programme stimulated the development of a market economy and contributed to the formation and development of non-governmental organizations (NGOs), including SEs (Praszkier et al. 2014).

The interpretation through the previous hallmarks gives back a picture for the evolution of NPOs and SEs sector that can be represented as follows:



Figure 3.1. Classification of countries according to NPOs sector's historic establishment.

This represent the historic framework in which SEs are called to spread their activities in the considered countries.

### 3.2.2. Identified drivers and barriers for Social Enterprises

The previous section is aimed to define the long-run elements influencing the current activities of NPOs and SEs in the nine countries involved in the project. In this section we reconsider them together with the CE Responsible partners' contribution, to identify the main drivers and challenges that SEs must address for their day-by-day activity in the project area.

The general elements extracted from the analysis are:

- I. a long-lasting tradition of mutual help, civil organizations and cooperatives, coming from the so called "Bismarckian legacy" and the church;
- II. the cut given by the WWII, that produced the enforcement of the welfare state in all countries, with the strong diversion of Western countries

- (Germany, Austria and Italy) from the others, where communist regimes imposed a rigid State control on civil society and organizations;
- III. the end of the communist rule, with the twofold legacy of a new flourishing of civil society (Solidarność in Poland, the Velvet revolution in former Czechoslovakia, the humanitarian assistance organizations after Yugoslavia disintegration in Slovenia and Croatia) on one hand, and the mistrust for cooperatives and other forms of socially organized work perceived as proper of the communist era;
  - IV. the diffusion of common elements in the organization of welfare and third sector, due to the confluence of all considered countries in the European Union;
  - V. the long-run welfare state crisis, that pushed the privatization and the use of managerial mechanisms in the sector, and a higher recourse to grants and projects-based financing;
  - VI. a resurgent State control on organizations and civil society in some countries, drawing attention of the European union itself.

Starting from a so rich endowment of hints and trends, CE Responsible partners have inquired the most relevant drivers and obstacles detected in the CE countries for the activity and the success of SEs. The general picture highlights many common items, but even place-based idiosyncratic differences. Among the formers, many partners coincide in reporting as drivers the existence of networks supporting the SEs. They include social entrepreneurs (likewise Austrian SENA – Social Entrepreneurship Network of Austria) and organizations (Austrian Arbeit plus, gathering 200 non-profit and labour market-oriented SEs), funding organizations (Austrian Vienna impact Hub, Pioneers of Change), places for exchange of information, good practices and connecting universities, SEs, and public institutions (German Social Impact Hub and SEs Academy, Slovak Business Agency), associations supplying professional services (Slovenian CNVOS). Finally, in all involved countries Ashoka organization is active, with the international Ashoka Support Network (ASN) backing all Ashoka Fellows and Changemakers<sup>1</sup>.

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<sup>1</sup> Ashoka is a worldwide active NGO, established in 1981 by US social entrepreneur and former Mc Kinsey executive Bill Drayton. Currently Ashoka is a network of SEs active in more than 90 countries throughout the world and involving more than 3,700 activists (“Fellows”).

A recognized driver is given by the public financing, still the first source of resources procurement for SEs. In Austria, this aspect is covered by The Financing Agency for Social Entrepreneurship (FASE), supporting selected SEs in the procurement of growth capital. In Germany, a wide range of public institutions is devoted to financially support SEs, both at the national and at the regional level (Kreditanstalt für Wiederaufbau, KfW). In the Czech Republic, main supporting schemes for SEs are non-specific, and available in the form of grants for SMEs by Ministry of Trade and Industry. The same is reported in Croatia, with State institutions granting investment aid for entrepreneurship development. Hungary, on the contrary, claims the current absence of national grant schemes and the total reliance on EU sources for SEs.

The situation is different with private financing, reported more often as a barrier than as a driver for SEs growth. Nonetheless, interesting experiences have been implemented in Austria with the "Social Entrepreneurship Venture Capital Fund" launched by fair-finance in 2019, and the loans with a preferential rate to SEs provided by ERSTE bank's SEED programme. The same opportunity is available also in Slovakia and Czech Republic, while we can find KPMG's Programme for a Responsible Society and MagNet Bank's programmes in Hungary, and some opportunities by local banks (Deželna banka Slovenije and Delavska hranilnica) in Slovenia.

The political support to SEs operation is not so plain and accepted throughout the central Europe regions. As a matter of fact, the only countries with a full and specific legal framework on the issue are Slovenia (Social Entrepreneurship Act, introduced in 2011 and amended in 2018), Italy (Reform of the third sector through Delegated Law 106/2016 and Legislative Decree 117/17), and Slovakia (Act no. 112/2018 Coll. on Social economy and SEs). For many of the remaining countries, political support is appointed to strategical plans, as occurring in Austria (Government program 2020-2024 on the role of "social entrepreneurs") and Croatia (National Strategy on civil society), while five out of six parties in German Parliament demanded improvement of the economic and social conditions of SEs. Another kind of support is reported as cooperation projects among SEs and local governments in the Czech Republic.

Another issue is the awareness about the importance of SEs in institutions and civil society. A growing knowledge and feeling of awareness of the importance of the SEs sector in State, regional and local institutions is conveyed in Croatia and Slovenia (in this case in form of growing support of local socially and environmentally responsible products and services by consumers), while in Germany it cannot be disentangled from the increasing awareness in society for emerging problems such as climate crisis and lack of education opportunities. Furthermore, in Germany proving the social responsibility activities implemented has become legally required for a larger share of corporates, forcing a higher awareness in the entrepreneurial world. Nonetheless, even in the same countries characterized by the raise in awareness is reported a low perception of SEs results (for instance in Croatia, besides Slovakia) and a feeling of blurriness with the landscape concerning NPO and SEs' world (in Austria, Poland and Slovakia) starting from the difficulty in distinguishing SEs from other kinds of legal organizations (Czech Republic, Germany).

A quite common tool to raise awareness and strengthen networks is the conception of prizes to be awarded to SEs and NPOs. The most relevant are reported in Austria (Social Impact Award, activated even in Slovakia, Trigos Award, Next Award, Austrian SDG Award...), in Germany (Sustainable Social Entrepreneurs, granted by the Federal Ministry of Economics since 2009) and in Hungary (UniCredit bank's "Social Innovation" competition, activated even in Slovenia).

A perceived point of relevance for SEs regards start-up SEs (to which is dedicated specifically next section 3.5.2), with both supporting services for the start-ups of social entrepreneurs (Austrian Chamber of Commerce) and a dedicated grant from Austria Wirtschaft Service (AWS Social Business Call), with a maximum of € 100,000 awarded to start-ups in the field of social innovation and the labour market. Finally, it must be noticed the new attitude of some Croatian Unicorn companies<sup>2</sup> such as Infobip, Infinum, and Rimac in investing in their socially responsible activity and subcontracting smaller local businesses with positive impact.

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<sup>2</sup> The definition of "Unicorn companies" identifies private start-up companies with a stock value over one billion dollars.

Finally, other drivers have been idiosyncratically related to just one country and social system. This is the case for educational and training programmes on the use of digital tools for SEs, for mentoring activities and for the self-investment of financial revenues as a mean for SEs' growth. The barriers identified for the full success of SEs are equally interesting than the elicited drivers. The more cited obstacle is the mentioned blurriness of the legal framework, lacking a precise definition of SEs and a dedicated law in all countries, except for the cited ones (see *supra*).

One of the direct effects of the weakness of legal anchoring is insufficient direct financing. Due to a tangible scepticism from financial institutions towards the profitability of SEs, and to the poor diffusion of fair finance institutes in many Central Europe countries, NPOs show an excessive dependence on public funds and grants, mostly from the European Union, implying financial instability. This entails a downside competition among SEs on inadequate resources, with the further issue of the poor co-financing ability for most of them, and a squeezing in the salaries for the workers of the sector. In some other cases (Slovenia), the analysis pointed out even a request for tax incentives and exemptions, even though in most countries tax breaks schemes are available (see *infra*).

A second group of barriers for the development of the third sector is related to institutions. The main problem is the overly bureaucratic and administrative system, perceived as very demanding for organizations weak in staff and still based on voluntary work. Support from institutions to SEs is fragmented and short-termed, even because of the poor institutional coordination at different levels (national, regional and local). This favours ETSs (Third Sector Organization Entities) stronger and already funded, accentuating the path dependency<sup>3</sup> of the development process for organizations, and the in/out group feeling for newcomers.

The third and last group of obstacles deals with the distinctive features of the SEs. They are burdened with low internal education and experience with respect to administration and business skills, entrepreneurship and

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<sup>3</sup> In Economics "path dependence" is any situation where the final outcome observed is the effect of the historic sequence of moves that led to it. This means a persistency and a self-fulfilment of the outcome difficult to be changed.

knowledge of digital tools, and representing a very small fraction of the overall economy, a still infant sector with low innovation force.

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|---|--|
| <p>Strengths:</p> <ul style="list-style-type: none"> <li>- Common EU accession</li> <li>- Bruxelles Com [2011] 682/2</li> <li>- Long tradition in mutual help</li> <li>- Existence of networks supporting SEs</li> <li>- Public financing</li> <li>- Prizes to grant innovative ideas and start-ups</li> <li>- Raising popularity among respective communities</li> </ul> | <p>Weaknesses:</p> <ul style="list-style-type: none"> <li>- Mistrust for socially organized work in former communist countries</li> <li>- Public finance crisis</li> <li>- Nationalist revival and state control on civil society</li> <li>- Insufficient private financing</li> <li>- Lack in legal framework, with blurry - definition of the sector and of SEs</li> <li>- Bureaucratic and administrative approach by institutions (EU included)</li> </ul> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> <li>- Higher levels of cooperation among SEs organizations, local governments and private sponsors</li> </ul>  | <p>Threats:</p> <ul style="list-style-type: none"> <li>- Persistence of ineffective SEs governance models</li> <li>- Funds availability (public in particular)</li> </ul>  |

Table 3.1. The governance issue, SWOT Analysis.

### 3.3. Business strategies and models

ETS, and even more so SEs, imply a complex organization, which also differs by type. A complexity that must take into account some aspects. Broadly speaking ETS and SEs operate in the social, cultural health, leisure sports, environmental sectors, etc. They produce goods and services that contribute to the construction of welfare systems, especially local ones, through a set of services to respond to the ever-changing needs of the population, and more generally aim to improve the quality of life, especially for the most vulnerable people.

ETS and SEs must relate not only to traditional public customers (through various forms of collaboration regulated by cooperative or competitive instruments), but also private, socially responsible companies, which could commission them precisely the activities with which they concretely exercise social responsibility of business.

In order to achieve their objectives, ETS and SEs must activate responsible and transparent management which may be required, among other things, to involve beneficiaries and workers. To support social entrepreneurs in the long term (those who have already gained experience especially in collaborations with public bodies, but also new start-ups) it is also necessary to invest in improving entrepreneurial skills, orienting them towards economic and social innovation.

In next Section we outline the main business models and framework for ETS organizations in the involved countries, searching for trends and similarities that could act as ideal types for ETS functioning.

#### 3.3.1. The business organization and planning

According to national regulation, common law practice and habits in funding and in strategic orientation by institutions, the scenarios for ETS and SEs are quite different in each country.

In Italy, the third sector was born fragmented into many different entities

(social cooperatives, voluntary work, committees, foundations, various associations). Nonetheless, organisations of the third sector which activated spontaneously and in a fragmented way among civil society, have been codified in a set of laws on voluntary work, social cooperatives and social promotion associations only in the early 1990s. Social cooperatives, automatically recognized as SEs by the 2006 third sector reform, are classified since 1990s in "type a" and "type b" cooperatives, with the former addressed to services for the elderly with minor disabilities, etc., and the latter carrying out various productive activities of goods and services (e.g. public parks maintenance, separate waste collection, social places management, etc.) with the main mission of including different kinds of disadvantaged workers (mental and physical disabled people, ex-addicted, ex-convicted).

The third sector actors asked to be recognized as a partner capable of entering into the programming of social policy (as it was partially recognized by the law), individual services or actions, thus being recognized as an attentive "sensor" of the needs of the population and a flexible implementer of actions with new working methods and new responses to the ever-changing needs of the population. This type of collaboration between public and private has always been flanked by financial contributions in support of initiatives promoted by various associations, through specific financing lines linked to the types of subjects (e.g., free forms of association) or to the topic (e.g., educational poverty).

The most recent and widely used definition of "Municipal and Community Welfare" (Law 328/2000) recognizes the role of the public as a guarantor of citizens' rights and as a manager of services, both directly and in entrustment (outsourcing) to subjects third parties; but it comes to recognize the third sector, as well as the civil society initiative, a further important role in building community ties. In other words, the community becomes a resource for welfare.

The Third Sector Reform (Delegated Law 106/2016 and subsequent Legislative Decree 117/2017) focused on a multiple and quite different operators: very large cooperatives of many hundreds of employees (members and non-members) in which internal mutuality prevails, which require complex managerial management, and smaller cooperatives,

often born to offer solidarity to particular groups of fragile population, in which social and political commitment prevails over community problems. The reform introduced the regulatory category of "Third Sector Organisation" (ETS) into the legal framework for all organizations in possession of specific characteristics: lack of profit; civil solidarity and social utility purposes by carrying out activities exclusively or primarily of general interest.

The main change for all entities involved is the transition from an informal to a professional responsibility which corresponds to a series of obligations that make them similar to companies (accounting obligations, statutory financial statements, social report and other obligations in case of larger ETSs). In this context, SEs are not intended as a new legal form, but as a characteristic of the subjects previously indicated and of other subjects such as General partnership and Limited liability company (Ltd), provided that they meet the characteristics described for ETS. SEs mainly carry out an economic activity. For this reason, social cooperatives and their consortia are automatically recognised as SEs. In addition, they must ensure that stakeholders are involved in the governance of the company.

Due to the role that the ETS must play in raising the levels of active citizenship and in supporting the development of community welfare, particular interest must be placed in the institutes of co-programming, co-planning and accreditation. The co-planning concerns specific projects for which the collaboration between public and private overcomes the competitive modalities such as those activated by the tenders and experiments cooperative relationships, which provide for an extended participation of the subjects interested in the design in various ways, before and after the "expression of interest" of the public body.

Austria's third sector has a long tradition dominated by the so called "Big Five" – the five large welfare organizations closely associated to the political parties and to the Catholic Church -entrusted to carry out most of the public sector's social services. This affiliation results in many different fields: sports, automotive clubs, alpine associations etc., and ends in a reduced possibility for independent providers to survive (Pennerstorfer et al. 2013).

A partial exception is given by cooperatives, historically rooted in Friedrich Wilhelm Raiffeisen action during 19<sup>th</sup> and 20<sup>th</sup> centuries, creating one of the best-known brands in Austria due to the territorial ramification of the homonymous bank (nowadays a public limited company and still the third largest bank in Austria), but also owner of 800 other cooperatives (all in the field of agriculture). Another relevant producer cooperative is the "Lagerhausgruppe" (depository warehouses, supplying goods for agriculture and construction), with 117,000 members, mostly in dairy (they produce 95% of Austrian milk).

Apart from cooperatives, the model of services provision based on public expenditures get into crisis in the 1980s, and from the 1990s onwards measures to reduce public cost of service production started. Applying new public manage approaches, but also under the influence from the European procurement directive, a shift from lump sums to performance-related payments and service contracting was initiated (Neumayr et al. 2007), increasingly opening the field to new SEs. Since 2005, 30.6% of total NPOs revenue was commissioned based on performance-based contracting (49% in the area of social services), with only 13.1% still being paid out in lump sums, spreading a new market-based approach even through traditional NPOs (Lehner 2011).

The role of venture philanthropy and charitable foundations is still young and emerging in recent years. ERSTE Foundation, Martin&Gerda Essl Foundation, Georg Starhemberg and the Turnauer family are some of the foundations interested in the issue, as well as some corporate sponsors (Coca Cola, A1). However, there is still large potential for further growth of investment from charitable foundations as international comparison confirms: whereas annual financing from charitable foundations amount to 1-5 € per person, the same indicator in Germany amounts from 180 to 230 €. In addition, the low number of charitable foundations is explained by scholars with restrictive tax regulations, a small number of role models, lack of transparency in the foundation sector, and, most importantly, the assumption that "it is the State's most fundamental task to realize social agendas" (Schneider et al. 2010).

In Germany, the debate on SEs developed in correspondence with new national caesuras such as the establishment of the Ashoka and the

Schwab Foundations as umbrella organizations supporting the development of social entrepreneurs, suddenly followed by other champions in the German foundations' world (Mercator, Vodafone, Bertelsmann). Finally, the need to economize due to the budget cuts in late 1980s and 1990s, raising awareness that new ideas for potential links between the market and the State were needed (Evers, Schulze-Böing 2001).

All SEs pursue economic activities, but their nature is heterogeneous, depending on donations, membership fees, committed stocks, private capital and mixtures between all of them (Pöllath 2011). The MEFOSE survey<sup>4</sup> highlighted the hybrid financial structures of SEs, relying on different sources. Albeit the heterogeneity of forms does not vary according to organizational size, the percentage of performance-based funding deriving from the social insurance system and public authorities gains importance with it (Scheuerle and Glänzel 2012). Self-generated profits and financing through bank investments play in the German case, a quite marginal role.

As anticipated in previous Section 2, financing of SEs is frequently described as one of their major obstacles for the sector development (Achleitner et al. 2011; Schwarz 2014; Vollmann 2008). In MEFOSE study 48% of the 1,700 surveyed SEs report the financial sustainability as the main challenge for their survival (Scheuerle and Glänzel 2012): since SEs operate under a broad range of legal forms, often hybrid, their needs are not well-addressed by the existing financial system. The same survey distinguishes between internal and external financing for SEs. The former refers to earned income from (profit-oriented) business activities and own capital resources (Vollmann 2008; Spiess-Knafl 2012). Part of (profit-oriented) business activities are also social services compensated by the government, and traditionally provided by the Free Welfare Associations (Spiess-Knafl 2012; Evers, Schulze-Böing 2001; Zimmer 2014). External financing can be derived from a broad range of sources. On the one hand, income sources including, donations, price money, volun-

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<sup>4</sup> The MEFOSE study was conducted by a consortium of several German universities over two years (2010-2012) and was the first large scale attempt to assess the phenomenon of social entrepreneurs in Germany.

teer activities, fellowships and diverse incomes like foundation capital. Although it is regularly argued that Germany has a strong attitude to donate, such foundation grants and donations amount only to 3.4% of non-profit income (Schwarz 2014). In recent years the financial support for SEs increased significantly, especially in the form of price money and fellowships, with prominent examples such as the Ashoka fellowship or the Social Impact Start.

Since many SEs in Germany work under the legal form of associations, membership fees are considered as a separate category of external financing (Scheuerle and Glänzel 2012). In the category of external capital stock Germany currently witnesses a diversification: loan banks and other financial institutions interested in financial returns are, however, of little interest for SEs due to the high financial return requested (Achleitner et al. 2011). More recently financial institutions providing socially responsible investment emerged in Germany. One model emphasizing the maximization of social returns by minimizing financial return is still in its early development stage.

The second model focuses on the maximization of financial returns by fixing a minimal social return. Moreover, grant-making foundations provide external income for SEs, as well. However, such financial support is often granted as project funding and hence disadvantages sustainable organizational development. More recently foundations started to change their funding approach towards a more sustainable and cooperative model (Spiess-Knafl 2012), project funding remains, however, in general the main funding practice in this area. Venture philanthropy in Germany is turning into an attractive alternative investment scheme, although still in its infancy; so are social capital markets, which are described by experts as an important precondition for the development of SEs (Achleitner et al. 2011).

Three financial development phases can be identified for German SEs along time, going from the establishment (pilot) period, to the scaling up phase (Freiburg and Dienst 2014): during the pilot period, SEs establish their organizations. The Finanzierungsagentur für Social Entrepreneurship (FASE), a financial agency for social entrepreneurs established as a spin-off by Ashoka Germany, estimates that during this period SEs

need investments up to 50,000 Euros, which they mostly raise through donations, prizes, fellowships or private capital, often in form of loans (Freiburg and Dienst 2014). Financial supporters for this early development stage of SEs are foundations, mostly in form of project funding, fellowships, such as the Ashoka fellowship, but also prizes as awarded by the Social Impact Labs. During the second stage, SEs tend to develop hybrid financing structures in the range between 50-250,000 Euros (Freiburg and Dienst 2014). Only a quite limited number of financial institutions provide resources at this stage for social projects (Schwarz 2014), among them, the joint program of the KfW and the BMFSFJ and the aforementioned FASE agency. To convince potential investors, solid business plans are necessary and these demand resources and support by experts is one of such financial programs. Nonetheless, financial support institution assisting SEs in this development stage are still rare. The third and last development stage refers to SEs able to scale up their operational business, mostly in the range from one million Euros onwards (Freiburg and Dienst 2014). For this phase, financial institutions such as BonVenture or Auridis can provide support.

The MEFOSE survey estimated that SEs in the first development stage were the most numerous (103 out of 208), while 41 SEs were in the second stage, and 64 in the third one. Those numbers reflect the underdevelopment of the financial system for SEs in Germany, especially for the early stages, that produces only a little number of SEs successfully reaching the final phase.

In the Czech Republic the legal framework acknowledges as SEs exclusively the Work-Integration SEs (Act 435/2004). However, thanks to EU ESF, the notion of SE has become broader, encompassing job creation even for socially disadvantaged groups such as young people and women, homeless people, former captives, victims of crime and domestic violence, people with addictions, and so on.

In this wider sense, SEs include public benefit organizations, associations, legal persons established by church and religious entities performing economic activities to support disadvantaged groups, cooperatives, business companies with purposes other than business; self-employed people from disadvantaged groups.

In the current Czech social economy system, four main models are available (Dohnalova et al. 2021).

1. Associative, involving civil society organizations and NGOs; related to the changes enforced with the New Civil Code in 2014; it stands on the presence of volunteers in the organization structure.
2. Cooperative, both productive and social cooperatives, the latter active in job-creation, social services and health care, housing and sustainable development. A cooperative cannot perform activities different from the ones for which it has been founded.
3. Business, involving companies (Ltd and public companies) and self-employed individuals; they can be for- and non-profit.
4. WISE (see *supra*), the most frequent SE in the Czech Republic and the only form of SE officially defined and recognized; it is even the only form that can apply for the grants of the Human Resources and Employment programme of the Ministry of Labour and Social Affairs). It is mainly connected with the employment of disabled people.

According to Act No. 112/2018, SE activity in Slovakia is defined by following criteria:

- a. it performs an economic activity in a systematic and independent way, in its own name and under its own responsibility;
- b. its main objective is to achieve a measurable positive social impact;
- c. it achieves a positive social impact through the production (or distribution) of goods or the provision of services [...];
- d. it creates a profit from its activities and uses more than 50% of the profits after taxation for achieving its main objective as referred to in point b); II. distributes part of the profits under the Commercial Code, and divides it according to procedures and rules that do not disrupt the main objective as defined in point b);
- e. it involves stakeholders in the management of its economic activities.

It has to be underlined that a particular entity performing activities in the social economy is not necessarily a registered SE, but a "social-economy subject" according to Act No. 112/2018, i.e. associations, foundations, non-investment funds and NPOs providing public-interest services, religious associations, trade companies, cooperatives or individual entrepreneurs who (1) are not mostly or fully financed and managed by the

state; (2) perform activities pertaining to an area of the social economy (i.e. their main objective is to achieve a positive social impact); (3) are not-for-profit, or use their profit to achieve a positive social impact.

Social-economy subjects are established and managed under the specific legislation related to their legal form (e.g. civic associations are managed under the Associations Act).

Based on legal forms, sectoral affiliation, social aims, fields of economic activity, scale and kind of employment, different NPOs models are available in the Hungarian practice. They range from associative forms active in alternative and solidarity economy (time banks, *kalàkas*<sup>5</sup>, etc.) to SEs running market activities (Enterprising Civil Society Organization, start-ups) to work-integration entities, whose first mission is job-creation for disadvantaged job-market groups (women, ethnic minorities, disabled). Quite idiosyncratic of the Hungarian reality are the so called "local development community enterprises", i.e. local project serving the development of a village, usually supported by local government and hiring through public-work programmes;

The advantage of the Polish regulations is that it gives the possibility to choose between numerous organizational forms according to planned activities. The most popular SEs are cooperatives (both traditional and social), entrepreneurial non-profit organizations (NGOs, associations and foundations, faith-based charities), vocational-activity establishments.

The majority of NGOs in Poland are registered as either associations or foundations. Barely mission-oriented at the beginning, they are increasingly more involved in ensuring financial sustainability (Praszkier et al. 2014).

Cooperatives are registered as private enterprises. Notwithstanding a two centuries history and 15 operational branches, traditional cooperatives play nowadays a rather insignificant role in the SE landscape. On the contrary, due to 2006 new legal framework providing supportive policy measures for their set-up and operation, social cooperatives appeared. Their role is the social and work integration of marginalized

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<sup>5</sup> Kalakàs is a local term to identify a reciprocity-based form of exchange of work.

groups (i.e. individuals in danger of social exclusion, unemployed, low employability prospects, disabled, homeless, alcohol or drugs addicted, ex-prisoners and refugees); the inspiration was the Italian law on social cooperatives. Being a quite new phenomenon, many social cooperatives are still in the infant phase, trying to secure economic sustainability, mostly related to regional grant opportunities of ESF. They increased from 70 in 2007 to 1,600 in 2017 (900 active), being definitively institutionalised in 2010s (Ciepielewska-Kowalik 2021).

Social cooperatives rely on ESF and supportive measures. In 2017 they produced an annual income of 70 million euro, 73% from market revenues, 25% of resource mix, 2% others (such as members' fees). They employed 5,500 workers with specific or regular contract and 3,200 on civil-law basis (Ciepielewska-Kowalik 2021).

After many years we can observe a growing cooperation between SEs and the public authority, in particular with local governments, as well as with the Offices of Labour and Social Welfare Centres. On the other hand, the relationship between the administration and SEs is still characterized by a high degree of bureaucracy. Initially, the activities of SEs focused mainly on the employment of excluded people. Over the years, social companies have started to provide more specialized goods, such as care services for the elderly, cleaning and catering services. It also evolves in the domain of arts and crafts. SEs, to a greater extent have become competitive to business.

The activities of some SEs exert also a positive impact on the integration of NGOs which often have influence on the formation of local laws. Some organizations grew to such an extent that the current leaders are educated in order to launch and conduct further communities abroad. Maintaining contact with social entrepreneurs from other European countries (France, Germany, Denmark) has become a common practice. It allows consolidating and duplicating good practices from abroad on the Polish ground. Moreover, thanks to support networks small initiatives can survive. Networking is a good practice, popular also within the country (Praszkier et al. 2014).

For most NPOs and cooperatives it is easy to find no long-term strategy, insufficient competence in the board members, and the prevailing

underestimation of marketing (Przywara 2013). At the same time, SEs are often filling a significant gap on the job market and are becoming an only chance for the disenfranchised persons (Praszkier et al. 2014). A financial capital is needed, especially at the initial phase, when an enterprise is being established, as well as later at the stage of development and promotion. At this point it would be advisable to think about future strategy, which would guarantee financial independence and self-reliance.

Banks still play a minor role in the development of social economy. They are reluctant to offer loans either for the start-ups or for the development of SEs. Nonetheless, some financial institutions promote the development of SEs, such as the National Economy Bank, which provides loans for a start and development of social activities.

SE in Croatia is organized according to three main models (Vidovic and Baturina 2021):

1. Employment purpose (or “people-driven”);
2. Financial sustainability goals (or “income-driven”);
3. Search of innovative solutions (or “innovation-driven”).

“People-driven” SEs are *de facto* “Work-Integration SEs” (Borzaga et al. 2008) driven by the intention of creating job opportunities for vulnerable people with limited access to the job market. As a consequence, their economic activity is mainly chosen to suit the capacities of those vulnerable groups. Usually they operate under the cooperative legal form and are financed by EU programmes and other strategies for work integration.

“Income-driven” SEs are income generating company not for the purpose of generating profit, but to ensure the economic sustainability (and visibility outside the social market) of the socially oriented parent NPO. Due to limitations, the most common legal form in this case is Ltd for the “trading arm” subsidiary of an NPO, running youth hostels, restaurants, companies providing services to other SEs.

“Innovation-driven” SEs are motivated by the provision of new solutions to a recognised social or environmental problem not met by the social system. The starting point is the majority of cases the development of an innovative project, which grows up to the establishment of a SE. This kind of entities have good scaling up potential and the opportunity of transfer-

ring know how at a higher level, even though their operativity remains local the most (Brandsen 2014). The common legal form in this case is Company, mainly Ltd. Among the existing cases, a university spinoff producing hi-tech systems for voice-operated home devices, waste collection through cargo-bikes, communication tools for people with dyslexia or visual disabilities (Vidovic and Baturina 2021).

Apart from the previous ideal-types, SEs tend to mash up together different legal forms and different source of financing. As a matter of facts, one of the main problems is short-living of SEs due to the failure in achieving financial sustainability, mostly since changes in 2000s, that reduced the donor-based funding and forced most active SEs to a stronger market orientation.

The National Strategy for Social Entrepreneurship development (2015) failed in channelling the huge EU funds on SEs, while the social-investments market is still in its infancy phase, crowdfunding likewise. As a consequence, SEs suffer from a deep shortage of resources. Beside from public funds (the majority of which coming from EU funds), SEs experience few other funding opportunities.

Slovenian SEs rely on two streams of external financing: (1) financial products offered through the Good Exchange programme initiated by SKUP (a community of private associations); and (2) smaller bottom-up initiatives (e.g. the start-up fund within the social incubator KNOF).

According to stakeholders, financial supply does not currently meet SEs' demand, while investors notice that SEs lack a viable business model (Šporar et al. 2018). As a matter of fact, the social investment market remains underdeveloped, and the public sector still provides the majority of services. In terms of private investors, the first private impact investment fund (i.e. Fund05), was established in 2012.

Nevertheless, most SEs seek financing opportunities through regular commercial bank loans, using their own property as collateral. Access to loans is a challenge due to the nature of SEs business models and their past financial results, that often suffer from liquidity issues. In the Slovenian financial network, several initiatives offer seed money but do not specialise in SEs.

In 2012 and 2013 the Unicredit Foundation launched a programme of financial awards for the best SEs as a banking sector financial initiative.

Two other local banks (Deželna banka Slovenije and Delavska hranilnica) have special offers for SEs. Albeit crowdfunding has not yet developed among Slovenian SEs and crowdfunding platforms are accessible to all, they lean primarily toward start-ups (Babič and Dabič Perica 2018).

In terms of public financing, EU funds are widely available and represent a high share of SEs financing (Šporar et al. 2018). Even though an element of market competition exists among organisations that apply for public tenders, funding acquired through national and European public tenders is perceived as public source in Slovenia. A total of 818 million euro has been allocated from the European structural and investment funds in programme period 2014-2020<sup>6</sup>.

Hence, most SEs currently finance their operations through public grants, the sale of goods and services, and regular commercial bank loans. Furthermore, donations do not present a well-developed source of finance for SEs, since the tax allowance system does not particularly stimulate donors. Sponsorship has become more common, however, predominantly from sport organisations.

In the discussion on public financing, stakeholders raised the principal issue of a lack of long-term strategy in SEs financing. Firstly, their main activities aimed to the public good are predominantly based on short-term project financing, with constant applications for public tenders. Secondly, the employment of people from vulnerable groups predominantly relies on short-term, public entity solutions. As a consequence, some stakeholders believe that insufficient government financing presents a barrier for the development of SEs, whereas others consider precisely the dependence on government sources the key barrier.

### 3.3.2. Trends and tendencies in the business model of Social Enterprises

From the previous *excursus* on the functioning of ETSs in Central Europe countries, we can extract a set of useful information for the framework models used by SEs in the area.

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<sup>6</sup> Established goals include the support to at least 270 SEs and 12 SEs' networks (Babič and Dabič Perica 2018).

The first one is that Ses are characterised by high levels of complexity, and their operational model descends from the general legal and institutional framework where they are requested to work.

Born to deal with social welfare provision and, as regards cooperatives, with agricultural work, after last reforms the fields of operativity for Ses are nowadays very wide, going from environment to culture, from political criticism to local development, besides of any kind of social related activity (social services and support to fragilities, child- and elder-care, healthcare, housing, management of social spaces, and so on).

The multitasking attitude is not independent from the hybrid financial structures of Ses, substantially obliged to be available for three or four different financial internal and external sources, often granted in the form of project funding and not covering ordinary activity.

This happens from 1980s, when the prompting raise in oil prices and the long-run increase in public expenditure generated the so called "stagflation" (a crisis of the word "stagnation" and "inflation", until mid-1970s showing themselves only in reciprocal alternance, never together). This implied severe difficulties for public finance and the crisis of the post-war welfare state, that suggested in Western countries a progressive shift from budgetary financing to performance-related payments and service contracting.

From a financial perspective, the standard evolution of Ses in the considered countries passes through three phases:

- the pilot phase, when the organization is established, often due to the contribution of a foundation or of a public institution (in non-rare cases represented by a money prize awarded to a business idea for social innovation);
- the development phase, when hybridization of financial sources takes place, together to market orientation;
- the scale up phase, when resource flow is more continuous and the activity of SE gains in stability.

Due to both the lack in financial support during the second phase and the difficulties in business planning, only few SEs reach the third phase and consolidate.

With respect to activities, the analysed systems show that ETSs and SEs are ranging from strictly public to open-to-market activities, and from entrepreneurial to volunteer orientation.

A first model is given by solidarity economics initiatives, a redefinition of community-based practices to deal with main social and economic problems, often with a strong political criticism commitment (against neoliberalism, pro-environment and feminism, supportive towards immigrants, and so on). It involves primary civil society and relies on the activation of volunteers in the organization.

Another model widespread in the whole region is the cooperative one, both productive and socially oriented. The first one – that have been the economic pillar in former-communist countries and is still a relevant economic form in a very developed area such as the Metropolitan City of Bologna – is common in agriculture and the food industry, commercial retail and constructions, while the second is active in social and public services provision, like health care, housing and – from more recent times – sustainable development.

Social cooperatives cover partially a field of activity in some countries managed by “Work-Integration SEs” (Borzaga et al. 2008), i.e. aimed to the creation of job opportunities for vulnerable people with limited access to the job market, such as the aforementioned WISE (the only kind of SE officially recognized in the Czech Republic), Croatian “People-driven” SEs and Italian B-type cooperatives. In Italy in last years a new kind of cooperative is coming out: it is called “Community cooperative”, it has still problems of legal identification at the national and at the regional level, and it is recourse to in inner and marginal areas of the country, to deal with depopulation, closures of commercial activities, and day-care to still remaining inhabitants, often aged. This category of ETSs stands on professional workforce and on public budget, mostly assigned through tenders and in form of grants.

Other kinds of ETSs are more market-oriented, taking the standard forms for companies (Ltd, public companies, etc.) or the one of Enterprising Civil Society Organization, when expression of CSOs engaging increasingly in market activities (organic production, running bookshops, services in the consultancy market) to complement private donations and public

grants, getting in this way higher financial sustainability. Many Ses belonging to this group are social start-ups, in some cases “commercial arms” of NPOs born to deal with a specific economic issue, but with a strong social or environmental emphasis, and a pro-innovation attitude; they are usually active in the fields of Information Technology, waste management, and culture.

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| <p>Strengths:</p> <ul style="list-style-type: none"> <li>- Multitasking attitude of ETSs</li> <li>- Different business models applied, from semi-public to market-oriented</li> <li>- Existing funding programs for SEs</li> </ul>                    | <p>Weaknesses:</p> <ul style="list-style-type: none"> <li>- Need for different financial sources</li> <li>- Progressive shift from budgetary financing to performance-related payments and service contracting</li> <li>- Few SEs consolidating to the scale up phase (infancy of the sector)</li> </ul> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> <li>- Evolution of the market and of ETSs’ skills</li> <li>- Tax reforms for the benefit of ETSs</li> <li>- New fields of development related to climate and environmental issues</li> </ul> | <p>Threats:</p> <ul style="list-style-type: none"> <li>- Persistence of blurry legal frameworks</li> <li>- General reduction in consumer purchasing power (even due to pandemics)</li> <li>- Absence of a strategic policy approach by governments</li> </ul>  |

Table 3.2. The business model issue, SWOT Analysis.

### 3.4. Awareness and relationships in the world of Social Enterprises

A relevant step of this work is aimed to consider the degree of internal and external awareness for the activities and the social impact of both SEs and standard companies.

The issue deals with the promotion within the enterprise ecosystem of Corporate Social Responsibility (CSR), i.e. the *process* whereby firms integrate social, environmental and ethical concerns into their core strategies, operations and integrated performance, in close collaboration with their stakeholders, with the aim of maximizing and sharing the creation of value for their owners/shareholders, stakeholders and for the society as a whole on one hand; of identifying, preventing and mitigating their possible adverse impacts on the other.

Public authorities have an important role in supporting and encouraging companies to conduct their business responsibility. European Union in particular, introduced over last years a mix of voluntary and mandatory actions to promote CSR and implement the UN 2030 agenda for sustainable development. In 2011, the European Commission adopted its renewed strategy for CSR, which combines horizontal approaches to promote it with more specific approaches for individual sectors and policy areas. More specifically, the EU's policy is built on 2011 renewed strategy for CSR, which stresses the importance of enhancing the visibility of CSR and disseminating good practices, through the integration of CSR into education, training, and research. The strategy also improves self and co-regulation processes and companies' disclosure of social and environmental information.

In this section we report the analysis carried out on Central Europe countries with respect to the issue of awareness on SEs activities from both business companies and ETS (Section 4.2) and on the existing relationships between the two kinds of activities (Section 4.3).

### 3.4.1. Awareness

CE Responsible partners have been requested to highlight the most relevant drivers and obstacles detected in the CE countries for the full unfolding of “awareness” as previously described. This led to the following list of elements. The drivers can be classified in three groups according to the subject.

The first group deals with CSR, whose progressive success implies a higher permeation of the two worlds of SEs and business companies. Such a success is both market – and institution-driven, being on one hand motivated by the attitude of consumers, company stockholders and investors to ask for social responsibility, on the other stimulated by public intervention in forms of legal obligations and financial incentives.

In this way, CSR activities are reported as “progressively considered a ‘must have’ for Austrian companies”; Czech companies demonstrate more concern about their CSR, even due to investors increasing attitude with ethical issues, while in Croatia employees from companies with a CSR policy are reported as “happier” by a statistical investigation. The voluntary nudge to CSR is proper also in Poland, where largest joint-stock companies (the so called “WIG20”) strive to conduct regular non-financial reports on their companies’ social activities.

Nonetheless, CSR is even pushed forward by many public policies, from EU regulations, that show greater acceptance of social responsibility in business, to Slovakian National CSR strategy (created as a part of National Sustainability one), the measures promoted by Austrian Ministry of Social Affairs, the obligation for German large companies to publish reports on their social and environmental impact, from 2020 extended to their suppliers, while tax-deduction for costs related to CSR activities is claimed in Slovakia.

The second group of drivers is related to the shift towards green policies and the environmental friendliness of companies progressively demanded by consumers and stakeholders: climate and social issues are highlighting the need for companies to consider goals and target different from profits, even in response of the increasing awareness of customers in both responsible consumption (local, organic, fair trade products, etc.) and social and environmental behaviour of providers.

The third and last group is associated to distinctive features of single countries and ranges from the existing long tradition of cooperation between for-profit companies and ETSs (Slovenia) to the increasing presence of SEs and widening of the ecosystem connecting them to corporates (Germany), from the higher attention for social impact stimulated by social media and internet instantaneous dissemination of information (Slovakia) to the presence of a national network for social responsibility, exchanging knowledge, innovation and good practice (Slovenia), or the need for social welfare organisations and public institution to identify innovative solutions to social problems (Germany).

A set of obstacles on the way of awareness has been recognised by partners with a prominence of two kinds of them: the first one is the low visibility of achieved positive effects on business of social entrepreneurship and CSR (Croatia), due to both the lack of knowledge and information within organizations about CSR (Slovenia) and to the existing ambiguities in social and environmental impact data and reporting, being procedures not standardized across the EU (Germany).

The second is the high monetary and resource costs of measuring, validating, and certifying social impact, so that just big corporates can afford them (Germany, Slovakia, Slovenia).

Furthermore, it has been highlighted on one hand the managerial slackness in guiding CSR (Slovenia) or environmental (Austria) adjustment processes for their companies, even for lack of internal competencies (Czech Republic), on the other the still insufficient level of national promotion of the need for CSR initiatives (Slovakia, Hungary), for instance in the form of tax incentives (Slovenia).

As a consequence, CSR seems to remain a question of goodwill for big companies, whereby they are neither hindered nor particularly encouraged (Austria, Croatia).

### 3.4.2. Relationships

Contacts and collaborations among business companies and SEs are already ongoing in many Central Europe countries: in Austria, there is a long history of companies long supporting associations or NPOs, while some SEs' business models are based on cooperation with conventional

companies (e.g. social supermarkets). The same happens in Croatia, with CSR programmes of large companies often including cooperation with SEs (business-to-customer engagement, employee-to-employee collaboration, supply chain optimization, growth consultancy, marketing and visibility), and in Germany, where collaboration between SEs and other stakeholders is increasingly seen as relevant for building an innovative and inclusive economy, and the growing awareness about the behaviour of corporates, and the demand for accountability boost likelihood of collaborating.

To develop and consolidate the relationship, opportunities have been highlighted by the local analyses, such as a further raise in awareness of profit-oriented companies on SEs, to respond accordingly to their needs (Austria) or the put into practice of assistance and some kind of tutoring by major corporations, to ease the access of SEs to financing prospects, new markets, and investments (Poland).

A second family of drivers calls into question an institutional action. In this sense, requests involve tax reliefs for companies for products purchased from SEs (Croatia), the implementation of programs addressing scouting, acceleration and support to SEs (Czech Republic), and the consolidation of the legal framework pushing big corporates to report their social and environmental impact, signalled as a primary cause of collaboration among them and SEs (Germany).

Finally, a strong driver for supporting linkages between the two kind of companies has been indicated in the creation of virtual and physical networks such as ZICER, the Zagreb innovation centre working as a network platform (Croatia), a trend deeply facilitated by digitalization and technology (Austria, Hungary, Slovakia and Slovenia).

The reported impediments are manifold and heterogenous. The first one is that collaboration is not natural and asks for transaction costs to be overtaken by both sides: for SEs, can be difficult to comply with the requirements set by business corporates to be included in their suppliers' CSR programmes, for corporates CSR is rarely seen as urgent (Germany) or difficult to be understood (Slovenia). Another barrier to overcome for collaboration is the objectives alignment between the two kinds of enterprises (Slovakia), and even the use of the same technical language (Hungary) that hinder finding a common base (Slovenia).

The second group of obstacles is related to politics. The most often mentioned lack of a defined legal framework for SEs deters collaborations with existing companies in many countries (for instance Germany), but even the missing political will to encourage focused networking between stakeholders is pointed out (Croatia, Slovakia, Hungary).

The last group, the most numerous, claims for the inadequacy of SEs – mainly with respect to the financial knowledge – as the key obstacle for collaboration. The reported issues regard the small scale of the SEs ecosystem (Germany) and the absence of scaled SEs that would serve as a good practice example (Croatia); their non-competitive attitude, responsible for their relying on public financing (Croatia, Slovenia, Poland, Hungary); the lack of managerial skills among SEs to interest for-profit business partners (Slovenia). A second suggested limit of SEs is technological illiteracy, which causes SEs to lag behind the corporate and business sector (Croatia, Germany, Slovenia, Hungary).

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| <p>Strengths:</p> <ul style="list-style-type: none"> <li>– Higher attention for CSR from producers and consumers;</li> <li>– Higher request for environmental and social issues (critical consumption);</li> <li>– EU and other institutions support to CSR;</li> <li>– National tradition in mutual cooperation;</li> <li>– Established networks and incubators;</li> </ul> | <p>Weaknesses:</p> <ul style="list-style-type: none"> <li>– Low visibility for CSR’s positive effects;</li> <li>– No official reporting system for CSR impact;</li> <li>– Cost of the activities;</li> <li>– No legal obligation for CSR;</li> <li>– SEs’ financial and technological illiteracy;</li> </ul> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> <li>– Increase in legal obligation to CSR reporting;</li> <li>– New tax incentives;</li> <li>– Raised awareness about benefits from collaboration among for-profit entities;</li> </ul>   | <p>Threats:</p> <ul style="list-style-type: none"> <li>– Lack of focus on collaboration;</li> </ul>  |

Table 3.3. The awareness and relationships issue, SWOT Analysis.

## 3.5. Innovation of social services

Innovation is currently considered the main ingredient to have stable and durable development in any human activity. Besides of being a topic complex and difficult to be dealt with itself, social innovation is a quite neglected issue. It has been defined by the WILCO project as “ideas which are turned into practical approaches, and which are new in the context where they appear and attract hopes for better coping strategies and solutions and are marked by a high degree of risk and uncertainty” (Welfare Innovations at the Local level in favour of Cohesion, WILCO, 2014)<sup>7</sup>.

In this chapter we consider at first the relationship with the issue of social innovation in each involved country (Section 3.5.1), and then we focus on start-ups and on the services that could support their establishment (Section 3.5.2). The latter treatise calls into question the concept of *al-trupreneur*, namely a socially responsible entrepreneur not running a SE *strictu sensu*, but a business company.

### 3.5.1. Social innovation

Social innovation is often unintended (Kesselring and Leitner 2008). The authors identify key barriers to the diffusion of social innovation in the need for radical rethinking in politics and economy, the lack of sustainable funding, limited public awareness and legal conditions.

Performing an analysis on 25 projects submitted to a social innovation prize in 2007, they conclude that social innovation is mainly localized within business enterprises and traditional NGOs, and they show that especially small enterprises have significant potential for innovation where-

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<sup>7</sup> Funded by the EU, WILCO project aims to examine, through cross-national comparative research, how local welfare systems favour social cohesion. Special attention is paid to the missing link between innovations and their successful transfer and implementation to other settings.

as larger ones are more prone to follow institutionalised guidelines in relation to societal engagement.

In many countries the role of stimulating and supporting social innovation is demanded to public prizes, that play the role of advertising social innovation, among other SEs, business companies, and other kinds of stakeholders. This is the case for Austria, where in 2004 a nowadays very famous prize awarding social innovation ("Sozialmarie", from the homonymous granting foundation) was launched. Three years later, ERSTE Foundation launched a biennial award fostering social innovation called EFASI (ERSTE Foundation Award for Social Integration), with more than one million euro awarded so far.

Another example is the Responsible Innovators Award (Premio Innovatori Responsabili) in Emilia-Romagna Region (Italy), open to companies, cooperatives, SEs, no-profit organisations and universities which carried out significant socially responsible initiatives contributing to the implementation of Agenda 2030 SDGs. Through this policy, the Emilia-Romagna Region intends to promote and enhance the social value of companies' innovation which has demonstrated to be flexible, adaptable and to respond with new solutions to social and economic needs.

Furthermore, the Metropolitan City of Bologna implements an innovative policy supporting socially innovative business projects, called Social Innovation Projects (Progetti di Innovazione Sociale), for the definition of co-designed personalized strategic support paths, and training opportunities on issues related to social entrepreneurship. The program is implemented with the support of Social Seed, a laboratory for social innovation in the third sector. The call for projects is aimed at entrepreneurial social innovation projects by already established third sector entities, e.g. cooperatives, associations. Applicable projects must be addressed to job creation, generating social impact in the Bologna Metropolitan territory, pursuing economic sustainability in the medium term (3 years), developing territorial collaborations for the project implementation.

The afore mentioned MEFOSE study considers social innovations and their relations to German SEs, finding that 31.1% of the surveyed organizations described their products and services as innovations, 30.7% as addition to the existing offers and 38.2% as in competition with the

existing services and products (Scheuerle and Glänzel 2012). Nonetheless, the study tends to reject the interpretation à la Vidovic and Baturina (2021), according to whom social entrepreneurship is innovation per se, warns against the overrating of the innovative scope of products and services provided by ETSs and claims for further studies on the real innovation by SEs.

In the Czech Republic, there is non-direct support to social innovation, but the general backing schemes for SMEs can lend support to SEs via the network of regional innovation centres or the Technology Agency of the Czech Republic, aimed to favour applied research (Fraňková 2019). In addition, the public benefit organization P3 (People, Planet, Profit) promotes innovative approaches to business with a positive impact on society (see *supra*). Other innovative experiences supporting SEs are the modality of Business and Employment Cooperatives (BEC) in of the Olomouc and Moravian-Silesian Region, the ones with highest unemployment rate in the Czech Republic. BEC provides support for disadvantaged people to target their self-employment and integration into the labour market based on the principles of social economy and social entrepreneurship. The innovative aspects of the BEC method consist in leading groups of people to gain entrepreneurial skills through training, coaching, and mentoring them to bear joint responsibility for their decisions and their prosperity. It motivates them to a common participatory benefit, which leads to long-term stabilization and development of entrepreneurial activities and self-employment.

A different but interesting innovation is Zonky, an example of financial company active in the shared economy realm. Due to the low interest rates and the maximum loan amount, it represents a suitable alternative for SEs and start-ups that do not comply with the rigid financial features requested for traditional bank loans.

The debate on social innovation in Hungary is still poor and monopolized by approaches coming from abroad. As a matter of fact, the most active “school of thought” on social innovation in Hungary are NESsT and Ashoka (Fekete et al. 2021). NESsT is an international NPO founded in 1997 with the purpose of promoting SE as an effective tool to take care of and solve social problems, that places a strong emphasis

on the importance of innovation. Its operational model, activated in 10 countries of the world (among which Croatia, Czech Republic, Hungary and Slovenia), provides for financial support (donations, loans and shareholding), education and mentoring during the first 9-12 months, and for incubation in the timespan 24-48 months. Ashoka, the previous mentioned international network of social operators, is more focused on the innovation potential of social entrepreneurs, defined as “individuals who put forward and implement system-changing solutions to the world’s most urgent social problems”.

Notwithstanding the relevance of EU programmes for the growth of social economy in Poland, in the operators’ words it is difficult to find innovative projects arising from them, mostly due to the bureaucratic management of the programmes itself. As a consequence, the main support to social innovation comes from foundations (Stocznia, Barka) and from Ashoka Organization, whose approach is favouring the connection and the networking of activists to promote social entrepreneurship (Sadowska 2009)<sup>8</sup>.

In previous pages, a specific model of Croatian SE, primarily driven by the idea to offer a new solution to a recognised social or environmental problem has been remarked. The motivation lies specifically in implementing an innovative response to a need met by the social system and still unsatisfied. The innovation can take many different forms, from providing an innovative community service to developing high-tech facilities for vulnerable or deprived social groups. According to findings, most of the social innovations remain local, and they are only rarely transferred on a broader scale.

Social innovation is directly cited in Slovenian 2018 amendments to 2011 Act on Social Entrepreneurship, stating that the normative aims to “Facilitate the implementation of social entrepreneurship in all areas of economic and non-economic activities, going beyond the integration of

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<sup>8</sup> The relevance of networking and free relationships among agents for innovation is a notion belonging to the theory of complexity, which claims that the basis for innovation is a generative environment. In this sense, the main task for policy makers invested with the issue of innovation is thickening the relationships among agents, an objective that can be pursued through networking (Lane and Maxfield, 2004).

vulnerable target groups and the provision of social services of general interest and offering more opportunities for social innovation". Nonetheless, local stakeholders complain about the expectation of no change in Slovenian SEs development due to a lack of innovation (Brada Hojnik 2020): they remark that social innovation is a still neglected issue in Slovenian social economy, only partially covered by some tenders and funds.

At the end of this review, some few lines to describe two interesting social innovations that have been conceived in the area: the Slovakian "Municipal SEs" and the Italian "Community cooperatives".

A Municipal SE is a social entity initiated by local government and whose operation is monitored by the municipal council. It can be registered under various legal forms (usually a ltd. company), but all sharing the feature of having as majority owner a municipality or a regional government. The development of Municipal SEs started in 2005, in the context of an EU EQUAL initiative addressed to facilitate the access to official labour market of people from the Roma community.

From a theoretical perspective, the classification of Municipal SE among enterprises is arguable, due to its deep anchoring in public administration. Nonetheless, Municipal SEs are a good model to implement social innovation in areas where institutions other than local governments often do not exist.

The same habit of working in areas deprived of firms, economic activities and human resources characterizes Italian Community cooperatives too. Born in Emilia-Romagna, Community cooperatives are rapidly spreading throughout the whole country, mostly in marginal areas hampered by population decline, ageing and, as a recursive consequence, progressive cut in public services to the citizenship. In these places, a group of inhabitants establishes a new cooperative involving as far as possible the living forces still remaining, and providing a multiple set of services to residents: medicine, mail and groceries delivery, management of places for sociality (bar, social centres), tourism activities (hotel and restaurants management, guided tours, bike-rental), house-works, but even more sophisticated services such as health- and childcare or the management of public goods.

Community cooperatives are imposing as an effective tool to take care of crisis in sustainability of both entrepreneurial activities (the so-called market failures) and of social protection based upon the fiscal deal (the so-called public failures). They are a form of multifunction SE to deal with flexibility to multiple needs of local communities, particularly in declining areas.

### 3.5.2. Support to social start-ups

Social start-ups are often cited as an example of social innovation. The CE Responsible project as addressed the issue of the kind of services currently available for this type of SEs and of the services still lacking in which the relationships with altruistic entrepreneurs could be effective.

Among the former, the involved partners have listed: the start-up service of the Austrian Chamber of Commerce, for supporting new SEs and the just mentioned AWS Social Business Call, that grants 100,000 euros per start-up; numerous websites that connect business angels and start-ups in Croatia; existing incubators and accelerators for start-ups, increasingly open to SEs, in Germany.

Among the latter, from monetary support and knowledge transfer to the development of joint business models (Austria); service development, promotion, knowledge sharing, a relationship as regular customers for SEs, networking opportunities (Croatia), the establishment of a system of shared professionals/experts and the provision of useful contacts in relevant specializations (Czech Republic); business knowledge transfer (in form of training, legal assistance, invitations to cooperation, financing, space to work, or business contacts), co-marketing of the activities of social start-ups as complementary to their own (Poland); legal services, strategic planning, project and organization management, accounting, marketing and public relations, advocacy, management of social media (Slovenia).

This claim for a model in three steps for this relationship, illustrated as follow: at the first (or "Philanthropic") stage, social start-ups are considered as recipients of activities from altruistic entrepreneurs, helping with marketing activities, legislative and basic knowledge exchange. At the second ("Transactional") stage, resource-exchange activities are estab-

lished, such as depth mentoring, networking and sponsorships, funding. At the third (“Integrative”) stage, the two subjects are ready to merge missions, people, and activities.

At last, five categories of support from altruistic entrepreneurs to social start-ups are desirable:

- I. Funding: supporting the seed-funding of social entrepreneurs
- II. Scaling: supporting the growth of social entrepreneurs
- III. Mentoring: supporting the business structure of social entrepreneurs
- IV. Networking: creating new connections for social entrepreneurs
- V. Internationalizing: supporting the global dimension of social entrepreneurs

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| <p>Strengths:</p> <ul style="list-style-type: none"> <li>– The role of prizes for social innovation;</li> <li>– EU programmes for social economy;</li> <li>– Existence of relevant social innovation (Slovakian Municipal SEs, Italian Community cooperatives);</li> <li>– Existing services for social start-ups in some countries</li> </ul> | <p>Weaknesses:</p> <ul style="list-style-type: none"> <li>– Low public support to social innovation in many countries;</li> <li>– Bureaucratic approach of EU programmes;</li> <li>– Bottlenecks in transition of SEs from start-up to long-term development and growth;</li> </ul> |
| <p>Opportunities:</p> <ul style="list-style-type: none"> <li>– Involvement of altruistic entrepreneurs in supporting social start-ups;</li> </ul>  | <p>Threats:</p> <ul style="list-style-type: none"> <li>– Economic difficulties stopping private support;</li> </ul>   |

Table 3.4. The innovation issue, SWOT Analysis.

The research on SEs in the EU Central Europe countries highlighted many similarities and some differences that influence directly the implemented business and operation models. Borzaga and Defourny (2001) suggest three factors to explain country variations in the social economy sector throughout Europe:

1. the level of development of the economic and social systems;
2. the characteristics of the welfare systems and of the traditional third sector;
3. the nature of the underpinning legal systems.

Since a unanimous definition of SEs is still missing, a broad definition, including social entrepreneurial activities in their different manifestations, stretching through all legal forms and stages is advisable. The understanding of social entrepreneurs could support an all-inclusive discussion by practitioners and academics of social entrepreneurs, support mechanisms for these actors, the dissemination of potentially included social innovations and their future role in the changing relationship between the state, economy and private sector, centering the debate on the changing relationship between the state economic and private sector.

Many SEs have been founded on other initiatives, acts in different activities, and provides services or support to communities of various size, but what connects them is focusing on people and their social inclusion into society.

The legal forms under which SEs operate have been repeatedly described as no obstacle on one hand, and a major challenge on the other. Many stakeholders regard rightfully the introduction of a legal definition of SEs as undeniably important. At the same time, they fear that the law can create more administrative pressure and restriction, while not bringing enough significant advantages for SEs in terms of tax breaks, specific financial instruments and so on. It would be advisable to establish a special legal form under which the combination of public interest and profit orientation is supported, and the administrative demand simplified. An alternative approach could be the increase of support institutions and mechanisms assisting SEs in their endeavor to find and establish a fitting legal form for their needs.

In this perspective, the definition adopted by the "Social Business Initiative" (SBI) of October 2011, that had subsequently influenced EU legislation, organises SE key features along three dimensions:

- an entrepreneurial dimension;
- a social dimension;
- a dimension related to the governance structure.

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

What we can observe from CE countries overview is that “there is no one-size-fits-all answer to the question of the right legal form for SEs” and this confirms that there are many obstacles on the path of the harmonization of SE law at the EU level via EU directives as the European Commission as well identified as follow:

- i) not all MSs have specific laws on SE, and therefore there is a lack in material to be harmonized;
- ii) where SE is a matter specifically regulated by law, two different models of SE legislation exist (SE as a legal form of incorporation and SE as a legal qualification or status);
- iii) regardless of the model of SE legislation, differences in the national regulation of SEs remain significant, for example regarding the scope of an SE’s activity;
- iv) the national movements representing SEs might not be in favour of harmonization, given the different cultural approaches to SE that are reflected in the existing legislation;
- v) EU institutions might not wish to harmonize SE law if harmonization is opposed by SEs or their representatives.

As we can see, harmonization of SE law through EU directives is not a recommended strategy, primarily because the premises are currently lacking and so it appears unfeasible at the moment. However, it would be possible and interesting to start observing local legal frameworks to outline a bottom up harmonization strategy in order to improve and strengthen SEs and their role.

In the light of what has been observed, there are some interesting aspects of the German and Italian legal frameworks – expressed as well in the innovative cases – that deserve to be underlined in these final remarks.

The Italian case is very interesting because the 2017 SEs Reform Act has definitely marked an important step on the progressive legal recognition of the role and functions of entrepreneurial non-profit organisations sharing with public authorities the responsibility to accomplish social and community goals (Santuari 2020). Thus, would the 2017 SEs Reform Act constitute a benchmark for other jurisdictions? Thanks to the work done by professor Santuari of the University of Bologna, and combined with the comparison of the different case studies of the CE countries, we certainly should consider it for the legal recommendations.

The main reasons which brought us to this assessment are the following.

- The Italian SE legal framework give SE a freedom of choice. This means that all non-profit organisations and companies have the choice to adopt the SE legal form. Even if some volunteer-based organisations might not be ready for this change (and they can remain an association) this reform can incentivize many traditional non-profits entities to scale up contributing to improve local welfare systems.
- The SE Italian reform organises the support of the public authorities to overcome competitions between SE and to engage in legal and administrative techniques with whom evaluate properly the type and form of contribution and support to each reality.
- Another very important aspect to keep into consideration is the introduction of a social impact assessment by the Italian SE reform. Through this, it will be possible to measure the actual benefits and outcomes that SE activities produce for local communities. Such a measuring system is also expected to overcome the strict and often disproportionate public procurement procedures. The social impact assessment system may help contracting authorities in evaluating effectiveness, sustainability and efficiency, which usually cannot be assessed through the ordinary legal provisions (included public tenders).

The legal form depends on a variety of factors and in order to learn from and follow these developments, our CE-Responsible network could benefit from the adoption and the empowerment of a monitoring system of the particularities of national approaches and understanding of SE as

a basis for future national and European research and recommendation. From the mutual learning perspective, diversity can in fact be an opportunity: there is plenty of experience and knowledge at the Member State level to benefit from. The challenge is to match the learning needs and the relevant cases from which one could learn.

There is general consensus from stakeholders and available evidences demonstrating that the concept of SE will gain in strength in Europe and that current SE related activities will expand, including the continued likelihood of the emergence of ever more new legal forms of SE and more precise definitions and specific legislations. Further, the Regulatory sandboxes started in Germany could be a very inspirational and innovative approach to test and to push forward new legislations and new legal frameworks for the development of SEs in central Europe countries. The research on SEs has a strong focus on current developments while neglecting their historic predecessors and possible path dependencies. The trajectories of social entrepreneur development over time should be researched profoundly to deepen the understanding of these actors and their role in the emergence of basic legal stipulations of non-profit and for-profit organizations, the welfare state and its future development possibilities.

Only a historic analysis can capture the low level of trust in NPOs when performing economic activities in the countries subjected to the Communist rule after the WWII (Fekete et al. 2021), or – on the opposite – the scepticism towards the market of the welfare state countries, where social pressure is still relatively low. Albeit having gone through various phases of budget consolidation, many countries still maintain a relatively high level of social welfare and a low level of unemployment, which might decrease the perceived need for new actors and solutions or respectively, explain the small size of SEs, focusing on relatively small target groups “left behind”. The welfare State is a priority, so that the “problem-solving tool” represented by social entrepreneurship, aimed to find more economic and less cost intensive ways of handling social services (Loidl-Keil 2002), is not perceived as a need, nor fully accepted.

A common feature is the overlapped perception of the SE concept with the task of work integration of the hard-to-place unemployed. The strong

orientation towards people distant from the job market is also one of the reasons why SEs are often conflated with local initiatives that aim to create job opportunities in general. It is usual for a municipality or an NGO to create a number of job positions, fully subsidised through public employment services, and calling such an initiative a SE. However, these initiatives, in most cases, do not exhibit one of the primary characteristics of social entrepreneurship: the fact of supplying goods or services on the market or engaging in commercial activity; the jobs created within such initiatives are fully dependent on external financial subsidies.

Albeit there is a general expansion of the social system, groups are still “left behind” even further: people with no entitlements (women with insufficient skills, out of work for suspended periods), unskilled, older, migrants. Furthermore, the existing rigid system might benefit from new, innovative solutions to social issues, especially in areas where needs are quickly changing, or new social problems might be triggered by demographic evolution.

In this sense, another challenge comes from acknowledging and finding support for the whole spectrum of activities and potential of SEs. Both traditional (i.e. work integration) and nascent fields of engagement of SEs (for instance local food production and distribution, environmental issues, refugees’ integration), cultivate promising approaches.

A significant progress in development of social entrepreneurship have been observed during the last two decades, for many countries due to the EU accession. Nonetheless, the complexity of regulations matched with a heavy bureaucracy, for instance in EU funding, are still a relevant obstacle to the establishment of new SEs and the development of existing ones, implying time and energy consuming and being detrimental to innovative ideas. The risk is to divert many social activists from experimenting/piloting own ideas to grant-hunting instead, reducing the innovative force of the system and its market orientation.

The future development of SEs depends on the interpretation of their definition and role in the society. For instance, some stakeholders consider them primarily as enterprises while others aim to strengthen the role of non-profit associations and private institutes. This would imply a potentially divided future. Namely, the sector may develop a private market orientation, or it may lean more heavily on state “obligation” to support

its development, compensating for the production of public goods and services what the declining welfare state could no longer provide.

The main reported weaknesses in the ETS sector are the short-run strategy, imposed by uncertainty in future financing, the related issue of accessing to capital, the lack of entrepreneurial skills, and the lack of knowledge and understanding of the social economy and of other related concepts in society (Bradač Hojnik 2020), even due to the remarked confused legal and policy environment (Etchart et al. 2014). Consequently, SEs rely on public financing, mostly granted on occasional basis (calls and tenders for project), increasing the precariousness and the feeling of instability. In addition, public funding is not tailored for smaller organizations: EU funding, conceived explicitly for SEs, are restrictive in scope, and focused primarily on work integration. Nonetheless, it must be pointed out that financing through the market is not a full opportunity in many countries, because of the low purchasing power of consumers in the majority of regions.

Regarding the establishment of an eco-system for the SEs development, the institutionalization of a broad, inclusive and unanimous definition is essential as well. Against the background of such a definition and the determination of social entrepreneur's envisioned role in the welfare state and society, the eco-system support in the different fields can be systematically developed, creating a community of practice for social entrepreneurship or, better said, what the complexity theory calls "scaffolding structures", i.e. formal and informal institutions active in supporting agents in magmatic and uncertain settings due to innovation and change. Scaffolds strengthen network connections, increase the likelihood they could happen and help the systems evolving towards the new skills requested (Lane and Maxfield 2004).

Currently, there is no system of policies that favours subjects that have or want to develop "connective action capacity" and to deploy their networking skills. This means that it is no longer just a matter of consultation, but rather a project-based relationship between social and civic realities. The request is for a greater orientation of the style of policy towards the development of logics inspired by community action, by a collective and horizontal collaboration of actors, based on the sharing of knowledge, on mutual exchange and on synergies between the various actors and between them and the administrations.

There is the further problem of the lack of real involvement in planning on the part of the SEs themselves, which to date have either developed a charitable-patronage approach or a good level of internal welfare, but are not involved in co-design. Finally, there is an impasse regarding the financing policies: although social finance and traditional finance for SE have been available for a number of years, many SEs are either unaware of the tools that are available or do not find them suitable for their needs. Social innovations are often described as defining characteristic of social entrepreneurs and important contribution for societal improvements. The concept and its role for social innovations remains, however, utterly vague. Therefore, the innovative capacity of SEs, but also ETSs in general, should be surveyed systematically to go beyond the vague speculations of the role of these actors have as change makers and assumed main carriers of social innovations.

The absence of any kind of structural support to social entrepreneurs and social innovators is another main deficiency of the system. A recourse can be establishing stable cooperation among strong market companies and SEs, even in a subcontracting relationship. This triggers the need for higher new business experience in social entrepreneurship on one hand, and the potential role of altruistic entrepreneurs, on the other.

The role of altruistic entrepreneurs can take different gradients, and it is particularly desirable for nurturing social start-ups. The analysis highlighted five categories of potential support, ranging from the straight funding to the succeeding phases of scaling (i.e. supporting the growth of SEs with some kind of business relationship), mentoring, networking, and opening to them the access to wider national and international markets.

Even in the most developed and articulated systems, with a well-established social economy tradition (such as Italy or Germany), there is still a need to boost the social ecosystem, through a combination of key factors such as business networks, legal instruments and new organizational models, that means a modification of some policies.

As a general indication, the theme of social entrepreneurship should be incorporated into a higher number of strategic and program documents at national level, and in regional and local policies as well.

With respect to financing, a relevant point is the need for a shared method to measure social impact, to give value to SEs and helping to better orient public and private funding as well. There is no program promoting cooperation between profit and non-profit companies, but there are links between profit and non-profit companies that raise spontaneously without any promotion from the public sector. Social value is considered as a priority in the definition of public tools, but criteria are hard to identify and are currently still under definition. A related issue regards impact-oriented financing, that means to adopt instruments more tailored to specific indicators that highlight the peculiar characteristics of SEs, and therefore have a more personalized approach to credit access.

Promoting the creation of business networks through legal instruments and new organizational models, to increase the competitiveness of businesses, their innovative capacity, and overcome territorial logic. Creating new organization models would support and encourage the adoption of hybrid models, as encouraged by the Reform of the Third Sector, which for example introduced the guarantee of a minimum return for those who invest in SEs, including those incorporated as joint-stock companies. It would also be advisable to facilitate the contamination between new innovative companies and established companies. A demand for innovation clearly emerges within mature SEs: innovation in terms of products, processes and, consequently, the skills of internal staff.

Finally, some key skills need to be sustained and spread in SEs, in particular: digital, managerial and in the field of innovation (social and process oriented) and entrepreneurship as a whole should also be promoted as an asset that can produce value independently of its target function. Without further legitimisation, adequate support to scale up and consolidate, proper capacity building and access to financial resources tailored to their peculiar needs, SEs will remain vulnerable.

The vulnerability of SEs is to a certain extent connected to the fragmented debate and conceptual confusion that revolves around their role in contemporary societies. Moreover, vulnerability results from the strong dependency of SEs upon national and local policies, given their strong integration into EU Member States' welfare systems, continuous policy changes and cuts in public spending.

Nonetheless, in last years the role of SEs has been highlighted and emphasized even with respect to UN Agenda 2030 and the circulation of the Sustainable Development Goals (SDGs). As a matter of facts, the whole 17 SDGs see the direct participation of SEs for their achievement, but the organization form represented by SEs and the kind of activity they typically run are very suited for many of them: 1. No poverty, due to the commitment of many SEs throughout Europe for the poor; 2. Zero hunger, as witnessed by the international activities against starvation and the involvement of many SEs in distributing meals to people in difficulties in European cities; 3. Health and well-being, with the participation of SEs in the provision of healthcare services; 5. Gender equality, with the strong commitment of SEs on the removal of any kind of barriers to equality; 8. Decent work and economic growth, with the emphasis of SEs on ensuring job opportunities to the weakest segments of the work market; 10. Reduced inequalities, as before stated with respect to SDG 5., social economy is strictly aimed to such an objective; 11. Sustainable cities and communities, with the effort of SEs in making life in the cities more easy to live; 12. Responsible consumption and production, with the work of many SEs and cooperative to put into practice the notion of circular economy; 13. Climate action, with the direct participation of SEs to actions and campaigns taking care of the environmental and climate crisis; 16. Peace, justice and strong institutions, due to the attitude of SEs in collaborating with all institutions for the achievement of social justice. And SEs' modality of action is definitely aimed to cooperation, as SDG 17. states.

Finally, in this historical period we cannot escape to mention the pandemic crisis triggered by Covid-19.

Many NGOs and SEs have been involved in counteracting the effects of COVID-19 and supporting people and local communities during the crisis, with activities such as delivering of medicines and meals to elderly people, distribution of equipment and materials (for instance digital devices for remote schooling), and psychological support.

In this tragic situation, we have directly perceived the relevance of SEs for our economic and social system.

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## **Acronyms and abbreviations**

CSO – Civil Society Organization

ETS – Third Sector Entities

EU – European Union

NGO – Non-Government Organization

NPO – Non-Profit Organization

SE – Social Enterprise

SME – Small and Medium Enterprise





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The *CE Responsible* project's aim is to connect *altruistic entrepreneurs* (i.e. for-profit businesses that also follow social/ecological goals in some ways) and the world of Social Enterprise and promote meaningful collaboration forms between them.

This analysis provides an insight and a deeper overview of the institutional, legal and business frameworks for social entrepreneurship in countries across the Central Europe Interreg Program area covering Austria, Croatia, Czech Republic, Germany, Hungary, Italy, Poland, Slovakia, and Slovenia.

