

# Social Economy & Entrepreneurship in CEE + Turkey post COVID-19

*CZECH REPUBLIC, HUNGARY,  
ROMANIA, UKRAINE AND  
TURKEY*

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## About Impact Hub

Impact Hub: Impact Hub is a global network focused on building communities for impact at scale. With 100+ communities of 16,500 change-driven entrepreneurs in more than 55 countries across five continents, Impact Hub is one of the world's largest communities and accelerators for positive change. We contribute to the development of social enterprise ecosystems to drive collaboration and innovation around the Sustainable Development Goals through locally rooted Impact Hubs, as well as with partners and allied networks.



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## Introduction

The COVID-19 pandemic has significantly changed our lives, social interactions and economic conditions. It has had a major impact on social enterprises and small and growing businesses all over the world. In April-May 2021 we carried out a research project in order to gauge what exactly that impact was and how enterprises, government and other stakeholders reacted. The research covered five countries: Czech Republic, Hungary, Romania, Ukraine and Turkey. This report summarises the findings and offers policy recommendations for mitigating the consequences of the crisis caused by the pandemic and for supporting impact economy enterprises in recovery and rebuilding efforts. It contains a summary for the Central Eastern Europe (CEE) region and five country reports with specific recommendations.

## Methodology

The research relied on primary and secondary sources. Desk research included the review of available studies, reports, articles, policy documents, websites and presentations with particular focus on the COVID-19 crisis and its effect on the enterprise sector, the impact economy and civil society. We collected quantitative information (survey data and reports) where available, as well as qualitative information from case studies, online events and presentations that took place in April-May 2021.

Primary research took the form of semi-structured interviews with at least three selected stakeholders from each country; social entrepreneurs, experts, social investors and representatives of the public sector. A total of 17 online interviews were conducted, plus five detailed conversations with representatives of Impact Hubs in each of the five countries.<sup>1</sup>

### The central questions guiding the interviews were the following:

- What are the most important ways in which the COVID pandemic impacted social enterprises and their ecosystem in your country?
- What were the responses of different stakeholders? How effective have those responses been?
- What are the unmet needs, future challenges and opportunities?
- What policy measures could be helpful to meet those needs and to include social enterprises in future plans for recovery and rebuilding?

In addition to the research, we gathered input from select international experts and practitioners during a policy workshop at the end of June 2021.



<sup>1</sup>the list of interviewees can be found at the end of each country chapter

## Regional summary

### Key findings

All five countries covered by this research have a nascent social enterprise ecosystem with a growing number of players, but relatively little visibility and voice in the public arena. There are a number of ongoing social enterprise programmes and initiatives, yet many are small scale or in the pilot phase and do not represent a priority for governments. As a consequence, the official emergency and recovery measures that responded to the COVID-19 pandemic did not specifically target the social enterprise sector. Despite their contribution to solving many health and social issues during the crisis and creating innovative models for the future, social enterprises are hardly included in post-COVID recovery and rebuilding plans.

The crisis did not wipe out the social enterprise sector in any of the five countries, although it had a significant negative effect on both their business and social impact. Similarly to most micro and small enterprises, most social enterprises experienced a dramatic drop in customer demand and subsequently sales revenue. Many had to suspend their activities due to pandemic related restrictions. Despite this major setback, social enterprises showed resilience and resourcefulness. The majority quickly adapted and accelerated their digital transition. Where that was not possible, they pivoted to new business models. They doubled their efforts to maintain and in some cases to increase their social impact. Thanks to the pandemic, the importance of impact (social and environmental) came to the fore for organisations, companies and individuals alike, and started to shape their thinking about recovery and rebuilding.

Social enterprise positioning is starting to lean towards the enterprise sector in two of the five countries (Turkey, Hungary), while in others it remains more closely related to the nonprofit sector (e.g. Romania). This is reflected in legislation, support policies and the availability of finance. Positioning and the corresponding legal categories determined how much and what type of government support social enterprises were eligible for during the COVID-19 pandemic.

Social enterprises may have been able to benefit from emergency measures offered to small and medium size enterprises (SME). Typical responses included salary compensation schemes, wage or rent subsidies, loan repayment moratoria and loans with favourable conditions and government guarantee later on. The use and mix of the emergency measures, as well as expectations of the enterprise sector varied a great deal from country to country. In Romania or the Czech Republic, for example, the social enterprise sector expects a lot more from government than in Turkey, due to a higher number of other players and their level of experience, commitment and resources.

The crisis highlighted a number of challenges, needs and gaps in the social enterprise ecosystems. However, many of the challenges for social enterprise development post-COVID are not the result of the pandemic; they existed before. Social enterprises today still need formal recognition, better visibility, access to public sector markets and appropriate finance. This indicates that if pre-pandemic support strategies were continued to be implemented, social enterprises could be in a better place tomorrow. The pandemic also presented new opportunities for social enterprise business models as well as for the ecosystem. New partnerships and frameworks were born based on shared values and a stronger commitment towards sustainable future solutions.

## Key policy recommendations:

Social enterprises can be important allies for central and local governments in tackling new and old challenges that societies face, and there are many ways to unlock their potential. Government policies should focus on scaling up proven and workable models, but also allow for experimentation and innovation to address newly emerging problems.

While each national ecosystem has its own history and development and requires specific strategies, a number of recommendations can be generally applicable based on the similarities of the social enterprise sector in the five countries included in this research. When making recommendations, it is useful to take the ecosystem approach and consider policy measures in the seven areas indicated by the *European Union/OECD Better Entrepreneurship Tool*<sup>2</sup>: social entrepreneurship culture, legal and regulatory environment, institutional framework, access to finance, access to markets, social impact management and skills, and business development support. Based on the research findings three areas are highlighted below, noting that all seven areas are closely related and measures to improve one area will impact conditions in the others. The time for immediate emergency response is over, therefore recommendations target medium to long term recovery and rebuilding.

### Legal and regulatory environment, institutional framework

- **Improve understanding and recognition of social enterprises by public authorities.** Official recognition can be achieved through legislation (e.g. Romania, Czech Republic) or by introducing a certification system or an award that offers benefits to social enterprises that meet the specified criteria. More dialogue and partnerships between government and social enterprises would raise awareness, increase trust and lead to more effective solutions. A good example of how to build such partnerships is the Collaborative Innovators<sup>3</sup> initiative, which enables startups and the public sector to jointly innovate, and can be an alternative to procurement procedures (see also under Access to markets).
- **Focus on ecosystem development rather than new legislation.** There is increasing evidence in European countries that creating special legal forms is not the solution to an enabling legal environment for social enterprise development. Quite often legal systems are not flexible enough to allow change, especially if they have to comply with European Union (EU) regulations. It is more effective to work on the ecosystem as a whole and create practical opportunities for social enterprises, relying on existing legal and policy frameworks. This could include preferential treatment based on social impact or incentives offered to social investors. Hybrid models such as B-corps can be adopted and be used to direct attention to impact and outcomes, rather than legal form. This should help mainstream impact orientation in the enterprise sector overall.
- **Create ownership of social enterprise within government.** A social enterprise coordination unit could be set up in the most relevant department (ideally related to economy or enterprise development) to champion the social enterprise cause. The Romanian legislation of 2015 envisaged the establishment of a National Commission for Social Economy, which has yet to be established. The SE unit would be responsible for drawing up and implementing a social enterprise strategy, and lead the collaboration and communication between various departments and ministries. The Social Enterprise Strategy 2016-2026 of the Scottish Government, for example, has three priorities: stimulating social enterprise, developing stronger organisations and realising market opportunity. The coordination unit would also ensure that the social enterprise strategy is linked to national development plans. The SE strategy should address all parts of the ecosystem and involve stakeholders, who in turn could provide evidence-based input on impact and business performance.

- **Local and regional governments could step in to fill the gap** created by missing regulation and national level institutions. They could foster communication and collaboration among stakeholders at local level, provide legitimacy to social enterprises through partnerships, and lead networks created for procurement purposes or other joint projects. Such a bottom-up stakeholder led approach can be more important in countries with weak institutions.

## Access to markets

- **Improve access to public sector markets through public procurement.** The three EU member states in this research have enabling legislation in place for socially responsible public procurement (SRPP) based on EU directives, so they should actively implement them. An inspiring example for social procurement could also be the Public Services (Social Value) Act of 2012 in the UK, which requires public sector commissioners to consider social value in all stages of the procurement process.
- As a result of the pandemic, there are **newly emerging opportunities for public sector contracting** and socially responsible procurement in social care, healthcare and education, or in the context of future development of the green and circular economy. City and local level procurement may be more feasible for social enterprises and for public authorities alike due to proximity and smaller contract size. Procurement pilots could be used for learning and testing, and scaled if successful.  
The capacity and knowledge gap could be bridged by using competent intermediaries, building procurement supply and demand databases, and making guidelines and best practice available in user-friendly online formats. Sharing SRPP experience among government departments could encourage more public authorities to try this approach. Partnership for Public Procurement (P4P)<sup>4</sup>, for example, is an initiative funded by the Scottish Government to support both the demand and supply side for more socially responsible procurement.
- **Use collaborative innovation to provide solutions for the public sector.** Public procurement is a formal and regulated process that few social enterprises are able to participate in. There are, however, more flexible ways for public authorities and social enterprises to collaborate. They can build partnerships around specific social issues and co-create solutions building on innovation offered by social enterprises or startups. This could be key to building trust and understanding of each other's priorities, and to increase the legitimacy of social enterprises.
- **Create better access to private markets.** Public sector could lead and encourage "Buy Social" campaigns and create a strong drive to incorporate social enterprises in the value chain of corporations, going beyond corporate social responsibility. Government can incentivise or oblige private sector players through legislation or public procurement procedures. Buy Social Canada<sup>5</sup>, for example, is a consultancy service and online platform that facilitates buying and selling for impact.

## Access to finance

- **Continue offering grant finance.** The majority of social enterprises in all five countries still need small grants to launch their business or cover emergencies like the pandemic. Government should continue offering that in publicly funded social enterprise development programmes.

- **Create offer along the financing continuum.** The finance offer should better match the needs of social enterprises in purpose, size, flexibility and conditions. Funding options need to become more innovative, consider growth and scaling enterprises too, not only startups. Given that the social investment markets in the five countries are in the nascent or young phase, they require a lot of educational effort and support provision to early stage enterprises, while also showcasing the few existing successful cases of investment.
- **Governments need to incentivise existing players or co-invest with them** rather than step in to provide finance to social enterprises directly. Guarantee facilities or public sector match funding could be good ways to do that. The EU's EaSI guarantee<sup>6</sup> facility managed by the European Investment Fund (EIF) now has extended uptake and has proved its effectiveness in Central Europe through regional banks and funds. Social finance and impact investment also present opportunities; their role and feasibility should be considered. Government could support or co-invest in sustainable impact funds in order to leverage private capital. Crowdfunding and community investment are interesting options in this region and gained traction during the pandemic; they often fill the void left by other private sources.
- **Social enterprises should be eligible to SME finance and support facilities.** Eligibility criteria should allow for social enterprise legal forms, and having received social impact related subsidies should not exclude them from receiving favourable commercial finance. Social enterprises should be considered as part of the enterprise sector, but at the same time, targeted measures are necessary to recognise their social costs.
- **Impact orientation should be strengthened** in government procurement and finance. Outcomes based contracting should be embraced and extended to all bidders. Social enterprises could lead the way and become suppliers or contracting partners to other bidders. Outcomes potential and business viability should be equally important in social enterprise funding programmes. The Municipality of Valladolid, Spain, is a good case in point. It created a socially responsible procurement strategy in 2018 to ensure social and sustainable public procurement and committed to reserve 8-10% of its total annual procurement to sheltered workshops and work integration social enterprises (WISE)<sup>7</sup>.
- **Act to reduce the knowledge gap.** Government can do a lot to support skill building and educational programmes about investment and impact management for social enterprises. This can be achieved via direct capacity building programmes or by supporting accelerators that work with both the demand and supply side of the social finance markets.

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COUNTRY  
REPORTS

# Czech Republic





## 1. Brief definition and description of the impact economy

The Czech Republic has a nascent social enterprise sector with the majority of the enterprises focussing on the employment of people with disabilities, long term unemployed or other marginalised groups. Its size is a subject of discussion; estimates range between a couple of hundred to as many as around 4,000<sup>8</sup> depending on the definition used. TESSEA, the Thematic Network of Social Economy<sup>9</sup> has drawn up a list of principles building on the EU's definition of social business and created two types of social enterprise initially: "general social enterprise" and work integration social enterprise (WISE). More recently TESSEA created a set up of principles for a new type, the "environmental social enterprise" (Figure 1).

The WISE principles have been used over the years by the Ministry of Labour and Social Affairs (MoLSA), in charge of social enterprises on the government's side, for the purposes of its grant making and support programmes. MoLSA has a narrow understanding of social enterprise and sees them only as a tool for employment creation, therefore it only supports WISEs. It created an official registry that contained 222 social enterprises in early 2018. Also using the TESSEA characteristics, other stakeholders estimated the social enterprise universe to be 400-600, mostly limited liability companies and public benefit companies<sup>10</sup>.

Social enterprises are set up in a diversity of legal forms ranging from associations to limited liability companies. They are engaged in a wide range of impact areas and business sectors. The Czech Republic currently does not have specific legislation for social enterprise. A Social Enterprise Act was drafted and launched in 2017, but never passed. A new draft was drawn up in 2020 and submitted for approval through the legislative process in 2021.

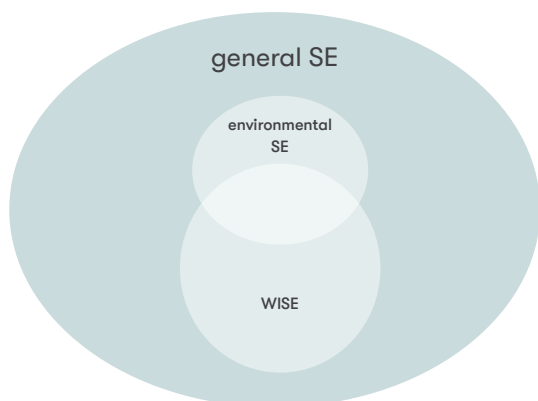


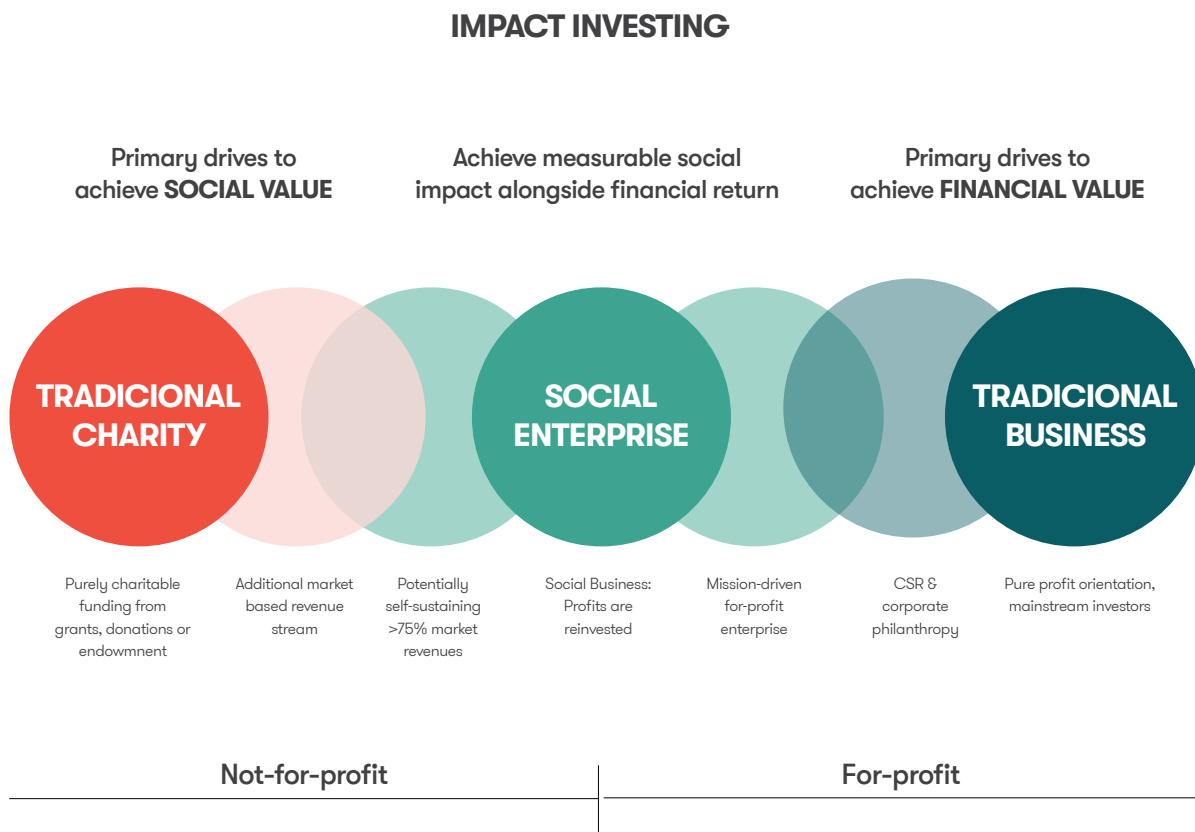
Figure 1  
Types of social enterprise according to the TESSEA definition

### Source:

Francova P, Frankova E (2019) Evaluation of a questionnaire survey of social enterprises in the Czech Republic 2019, for the Ministry of Labour and Social Affairs.

Impact economy is not a concept and term widely used, even though the number and success of impact oriented businesses is growing as indicated by social investors, business support organisations and impact entrepreneurs themselves<sup>11</sup>. Defining the sector along the impact first-finance first spectrum (Figure 2) rather than legal form or type could result in a broader understanding and a larger universe of impact driven businesses and offer better clues to design measures to support them.

Figure 2: Social enterprises: hybrid spectrum



Source adapted from J. Kingston Venturesome, CAF Venturesome, and European Venture Philanthropy Association (2015).

Social enterprises benefited from targeted grant programmes funded by European Union (EU) Operating Programmes, the European Social Fund (ESF) and the European Regional Development Fund (ERDF) in 2014-2020. A number of social sector support schemes, which can benefit all enterprises that qualify, may also benefit social enterprises, as long as they contribute to “active employment policies” or the employment of people with disabilities. There are innovation focussed SME support schemes as well, which operate via the network of regional innovation centres.

Public sector markets are still mostly closed for social enterprises; socially responsible public procurement (SRPP) implementation is slow, despite the availability of several “how-to” manuals and pilot tenders. Private sector funding and social investment is limited to three main actors, an impact fund and two banks. A growing community of umbrella organisations, networks, incubators and intermediaries offers support and capacity building to social enterprises and impact oriented businesses.

**There are a number of opportunities identified for the social enterprise sector<sup>12</sup>:**

- The creation of a national social enterprise strategy,
- The potential of appropriate financing instruments, notably smaller and more flexible grants, as well as modular finance (hybrid),

<sup>12</sup>European Commission (2019)



- New forms of social enterprise, such as social farms, environmental social enterprise, local sustainable food initiatives, food sovereignty movements or local community enterprises.

The main challenges facing the sector can be summarised as follows<sup>13</sup>:

- Lack of (legal) recognition of social enterprises
- Social enterprise is not assigned to any government body, and public support is insufficient
- Social investment markets are rudimentary and offer very limited supply of finance
- Heavy reliance on EU funding, especially in the start-up stage
- Insufficient capacity building support, not available in all stages of the social enterprise lifecycle

## 2. The impact of the COVID-19 pandemic on the impact economy

There is little data and surveys available about the impact of the COVID-19 pandemic on social enterprises<sup>14</sup> in the Czech Republic. MoLSA commissioned a survey among its registered social enterprises in cooperation with TESSEA in May 2020, a few months into the crisis. This section of the report references data and findings of the survey, as well as an interview with a social enterprise expert, who also quoted survey findings. Survey responses reflect the impact of the pandemic on WISEs, which may be considered only one, albeit significant and officially recognised segment of the Czech social enterprise universe. Where possible, insights from that survey are complemented by data from Impact Hub's own Annual Global Member Survey, conducted with the Social Entrepreneurship Center at the Vienna University of Economics and Business<sup>15</sup>. The sample includes data from 14 social enterprises.

### 2.1. Impact on business performance and financials

The pandemic and the resulting restrictions had a negative impact on the majority of social enterprises, similarly to other micro and small businesses. They experienced a dramatic reduction in customer demand and a consequent large drop in sales revenue (51% of enterprises surveyed by MoLSA and 28% of impact enterprises surveyed by Impact Hub experienced a drop of over 50%). Many were unable to obtain new contracts as customers implemented budget cuts and postponed or cancelled purchases.

According to an impact first fund interviewed for this report, three out of four of its portfolio companies were severely hit by the pandemic and the corresponding restrictions, especially in business development and sales. They were in the expansion/scaling phase, targeting new customer groups and markets. Those who managed to move their own activities online and whose customers also succeeded in doing so, were able to continue running their business. Activities related to cross-border sales or expansion suffered due to travel restrictions and the difficulty to cope

with varying crisis measures in different countries. Testing or implementation of innovative products, services or technologies was also interrupted as customers were forced to dedicate their capacity to more basic and urgent matters, such as hygiene or reorganisation of regular business operations. At the same time, customer relationships needed more attention than ever, and they had to be maintained with future recovery in mind.

Given the usually low levels of reserves and decreasing sales revenue, a significant portion of social enterprises found itself in a cash crunch very quickly. 45% of the respondents of the quoted survey indicated that they were facing serious financial difficulties already, while another 33% would only be able to maintain a balanced cashflow for another three months. Social enterprise founders were also personally affected, with 43% of surveyed Impact Hub members having to forgo paying themselves for parts of 2020.

The impact of the pandemic varied a great deal according to where the enterprise was in its lifecycle. The situation turned out to be quite different for startups and more mature enterprises. As the case study of Encubate<sup>16</sup> shows, startups in the business model design phase were still able to pivot and change the key assumptions of their business model quite easily. In their case there were no customers to cultivate yet or sales to worry about. These startups took the biggest hit in the fundraising area, which became much harder due to loss of personal contacts and networking opportunities, and increased caution of investors. Results from Impact Hub are similar with most surveyed impact enterprises being at startup or pre-start up stage and pivoting their business model or thriving during the pandemic (both 36%). Most common responses of member entrepreneurs to the pandemic were the development of new products or services (71%), accessing new sales channels and clients (43%), hiring new staff (36%), but also the postponement of investment (36%). Impact enterprises in the expansion and scaling phase with enough liquidity, on the other hand, were not affected dramatically in the first year of the pandemic. Similarly to mainstream companies, they are expecting more severe financial consequences now, if markets do not recover within the next six months. There is still plenty of uncertainty, so scenario planning is well underway.

Certain industries were more affected by the COVID crisis than others. Technical services, gardening, and cleaning services did not suffer; telemarketing call centres and consultancy services were also able to carry on. IT and graphic design continued to do well. The increased importance and share of online ordering and home delivery accelerated enterprises involved in the packing and logistics sectors. For example, one big social enterprise in North Moravia needed to hire additional people to cope with increased demand in packing medical equipment and gardening tools for delivery.

At the same time, all sectors and industries that depended on physical interaction with customers suffered a great deal due to closures and lock down. This includes social enterprises in the catering and hospitality industry (nearly 50% of the total), those running second hand shops, charity shops or businesses whose main sales channel was the outdoors markets.

The food retail sector, for example, has changed dramatically, given that people stopped going shopping altogether. Companies had to adjust; a Czech impact enterprise servicing supermarkets had to adjust their product development strategy and focus on the hygiene of bulk packaging during the pandemic. In the long run this will become an advantage for them, but it meant extra spending in the short run. Business development for an impact business selling cheap prescription glasses globally also became a challenge, as staff cannot travel to India in the foreseeable future due to the travel ban. The company was forced to rethink their unique business model that was based on cooperation with local actors and required strong and close contacts; they had to create a way to delegate responsibility locally.

## 2.2. Impact on social mission and beneficiaries

WISEs are dedicated to the employment of disadvantaged people, who were seriously threatened by coronavirus due to their health and social conditions. The impact of COVID-19 was therefore potentially devastating on those beneficiaries and the enterprises that employed them. After the initial shock, most WISEs continued offering help to their beneficiaries with well-being in the focus. Conscious of the impact of lockdown on the development, mental health and financial situation of their employees, social enterprises tried to keep their beneficiaries employed, and mostly succeeded. Some businesses, if they were in the right industry, even recruited new staff. Keeping staff onboard, however, meant exhausting the already minimal financial reserves they had. Yet, very few social enterprises had to close or totally halt their activities in the first few months of the pandemic. Most of them (82%) expected to be able to survive somehow and be able to return to business as before, once the pandemic is over. The current situation is very different, however, and many businesses will struggle or eventually have to close, even when lockdown is lifted.

## 2.3. Measures implemented by social enterprises

The immediate response had to first of all consider the health and safety of staff. This meant the implementation of anti-COVID measures and testing, where possible. Measures aimed at protecting the business included reorganisation of teams and processes, introducing remote work and home office, delaying the payments of bills, cutting costs and moving communication online. Cutting operating costs due to the effects of the pandemic was seen as necessary by 30% of surveyed social enterprises, but only about 20% considered reducing salaries or laying off staff. This is understandable, given that most social enterprises participating in the survey were WISEs, whose social mission is the employment and integration of disadvantaged people. The commitment to maintain their employment is a key difference between social enterprises and other micro and small businesses. Results were similar among social entrepreneurs from Impact Hub: the most negatively affected areas were costs (50%), the ability of staff to perform work (43%) and accessibility of clients and beneficiaries (36%). Still, only few ventures had to reduce staff working hours (9%) or lay off staff (7%).

Once it became clear that the pandemic would last longer than a few months, social enterprises were forced to think about medium to long term measures and strategic adjustments in order to meet the challenges presented by uncertainty and the new situation. The majority of enterprises (social and mainstream) tried to move their business operations online, including sales and distribution as well. Many launched webshops to sell their products and started offering services (training, consultancy) online. For some enterprises this meant a significant unforeseen shift in their business model, others saw their e-commerce plans accelerated by the crisis. Those businesses that had a varied offer were better positioned to pivot or launch new services. Unfortunately, not everyone had the means to make adjustments: a significant proportion (35%) of social enterprises thought that they would have to adjust their growth and investments plans downwards in 2020. Social enterprises rooted in local communities tried to activate and engage community members to become supporters or customers of their business and thus find a new client base.

## 2.4. Availability and relevance of government support measures

There was no targeted support for social enterprises during the pandemic. The government created emergency support programmes<sup>17</sup> for SMEs, which included a salary compensation scheme (called Antivirus) for businesses whose activity had been put at risk by COVID and a rent subsidy programme (COVID-rent) targeting those businesses and entrepreneurs that were most affected by the government emergency measures banning or significantly restricting retail activity. Unfortunately, only few WISEs used these two programmes (16% and 10% respectively) or were,

in fact, eligible. One of the main reasons for this was that WISEs already receive subsidies from the government's labour offices for employing people with disabilities, so additional wage subsidies to mitigate the effects of the pandemic were not considered. In addition, as pointed out by an open letter written by representatives of the sector to the Minister of Labour, many social enterprises were not in a position to provide the co-financing required by the Antivirus or COVID-rent. Similarly, 57% of IH respondents did not use any external support measures and in fact 79% were unsatisfied with governmental or public support provided. Among those that used public support, the most common measures were emergency public finance (21%), reduction of financing costs for SMEs (14%), and in some cases reduction or deferral of taxes (7%). Guaranteed loan programmes launched to help small businesses cover their operating expenses did not have a wide uptake by the sector either, despite the favourable conditions; only about 15% of the enterprises opted for deferred loan repayments. In the opinion of the impact investor, government assistance did not reach the scale that would have been needed. Measures aimed to mitigate the immediate effect of the pandemic on people and were not growth oriented or strategic in nature.

### 2.5. Other support measures

Other players of the social enterprise ecosystem stepped in and offered emergency support. Nadace Via opened a grant programme, while CSOB Bank has a new small grants scheme under preparation. Ceska Sportelna started offering training and consultancy to all in need, not only to their social enterprise clients. These programmes benefited social enterprises that were proactive, willing to change and adapt.

Tilia Impact Ventures<sup>18</sup> being a hands-on investor, offered its portfolio companies general support and advice and was in touch with them on bimonthly basis. Based on developments in other countries, it advised two of its companies to redesign the business model and financial plan; the typical role of strategic advisor and supporter. Other ways to help mitigate the crisis were to connect portfolio enterprises with relevant networks and experts. No additional financing was offered or in fact needed, as all four companies were on a stable footing before the pandemic and for them the crisis was that of sales, not liquidity.

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## 3. Future needs, opportunities and challenges

When asked about the current and future needs of social enterprises, quick and easily accessible small grants rank first. Better access to public procurement and contracts would also be desirable, preceded by the official recognition of social enterprises. Many players agree that such recognition is very important, be it in the form of label or legislation, but it seems to still be a long way away despite lobbying by sector representatives.

Government policy documents such as the Recovery and Resilience<sup>19</sup> Plan submitted by the Czech Republic to the EU do not mention social enterprise, which shows that the central government does not see a role for this type of business in building a greener and more resilient economy in the future. There may be more opportunity at local government level, where there is more openness towards social enterprises.

<sup>18</sup> <https://tiliaimpactventures.cz/en>

<sup>19</sup> the Recovery and Resilience Facility is the multibillion euro loan and grant programme of the EU to support the reform and investment plans of member states that mitigate the impacts of the coronavirus pandemic and aim to rebuild a greener and more digital economy. [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en)

At the same time, impact investors expect that long term policy initiatives of the EU, such as the Green Deal and the consequent environmental standards in public procurement will present opportunities for impact enterprises in the environmental sector. The “Czech Republic is on the verge of a revolution as to what is the purpose of business: to benefit all stakeholders<sup>20</sup>, not only shareholders”. Social enterprise will increasingly converge with mainstream enterprise. Greenwashing and impact washing discussions are now starting and will remain on the agenda.

The current reality predicts slow progress with little official public sector support. The Czech Republic is far behind the rest of Europe in this respect, which makes the work of social enterprise network organisations and policy advocates even more important. They need more support, funding and visibility in order to showcase social enterprise role models and represent their interest.

A promising trend is that more and more people and entrepreneurs want to do business in a different way and are looking to social and environmental enterprise models. They are not work integration enterprises, rather a new breed of business, which may operate in a diverse range of impact areas working for the common good. This new trend could help bring social enterprise into the mainstream and offer it the recognition it needs in order to grow. Among Impact Hub’s member social enterprises, the most important support needs mentioned were marketing and branding (71%), partnerships and network development (64%), and product development and value proposition (57%).

There will be space for donors as many social enterprises will continue to need grant support, because their services cannot be provided in a financially viable manner. It will be important to showcase the different business models, including those that can be interesting for sustainable investing<sup>21</sup>.

Another opportunity mentioned in the interviews is the role of women in society and the economy. Female-led businesses are more socially oriented, therefore legislation allowing men to stay at home for childcare or for women to be offered more flexible conditions can accelerate women’s engagement in work and enterprise.

Impact investors see an important gap in the access to finance area and therefore a role for the public sector. New forms of funding should be considered, for example blended finance or public private partnership. There is no need for the government to set up its own funds, rather collaborate with existing ones and co-invest with impact investors in order to derisk their investments. There are a lot of new initiatives in the corporate and financial sectors, which however, are not joined by government. Social impact bonds could be piloted with social enterprises who meet criteria. Collaboration with actors already present in the impact finance sector would be helpful also in order to avoid unnecessary disruptions to the market. Zero percent loans were tried, but without non-financial support they proved to be rather disruptive.

## 4. Conclusions

Most social enterprises in the Czech Republic were negatively impacted by the COVID-19 crisis. The extent of the damage depends on their impact area and business sector, their level of maturity and how stable their financial situation had been at the beginning of the crisis.

<sup>20</sup> source: interview with impact investment fund

<sup>21</sup> based on the interview with the impact investment fund this can be understood as investment in sustainable solutions to social and environmental problems

The crisis presented an opportunity for impact enterprises in the right industry and with the flexibility to pivot and/or move their operations online. At the same time, many small companies were not as flexible as larger ones due to limited financial reserves and human resources. Some startups may have failed without ever having the opportunity to launch, as the COVID crisis hampered their fundraising efforts and they were unable to raise the right type of capital.

Social enterprises were very committed to continue delivering their social impact and maintaining social services and the employment of beneficiaries during the restrictions and lockdown. They showed resilience and resorted to their own reserves, volunteers and communities in order to secure their social mission. The immediate and medium term measures implemented by Czech social enterprises reflected their determination to survive, but also exposed their vulnerabilities: minimal financial reserves and no access to emergency finance.

The COVID crisis has not changed the approach of the government towards social enterprises despite their successful response to many challenges that the public sector was unable to handle. A good case in point is the continued employment of and care for disabled people during the crisis. Emergency subsidy and loan programmes were often unavailable to social enterprises, so they were left to their own devices or had to rely on other stakeholders in the ecosystem. In the next few years, government will have the resources as well as the policy framework from the EU (new 7-year EU budgeting period starting in 2021 and the Green Deal and Next Generation EU in the focus) to involve social enterprises, and use their resilient and innovative models to address the most important environmental and social problems.

## 5. Policy recommendations

The COVID-19 pandemic was a huge shock to the Czech social enterprises, similarly to mainstream micro, small and medium enterprises. Yet many of the challenges and recommended solutions are not connected to this crisis. They had been considered and discussed before and the pandemic highlighted their necessity.

In order to list the key policy recommendations, it is useful to take the ecosystem view and consider responses in the seven ecosystem areas indicated by the EU/OECD Better Entrepreneurship Tool.<sup>22</sup>

### 1. Impact orientation:

Post-COVID recovery should be centered around building a more sustainable and resilient economy that respects and benefits people, planet and profit. By creating opportunities for impact enterprises government could bring sustainable models into the mainstream and use them as role models for other players in the economy. Impact orientation could be strengthened through the other six areas described in continuation, be it outcome focused contracting, socially responsible public procurement, impact oriented investing or impact measurement capacity building and research.

### 2. Legal and regulatory environment:

Czech social enterprises want formal recognition in order to increase their chances for public and government support. This could be given in specific social enterprise legislation, a certification mechanism or an annual award scheme. Such recognition could be more inclusive and go beyond WISEs. It could establish eligibility for development programmes, funds and preferential treatment, and aid the socially responsible public procurement process.

<sup>22</sup> <https://betterentrepreneurship.eu/en/node/odd/social-quiz>



**a.** Social enterprises need to be recognised as special niche, but also seen as part of the enterprise sector, and as such become eligible for development programmes aimed to boost SMEs, including the post-COVID recovery phase.

**b.** Self-employed people and sole traders should be included in the sector if they meet the criteria for impact enterprise

**c.** If registration is required to obtain a social enterprise label or status, that status should carry benefits that make registration worthwhile. Such benefits could be tax breaks, bonus points in public procurement or special subsidies. While these benefits would be welcome by most social enterprises and could compensate for a lot of the social costs they incur, there is ongoing discussion about such preferential treatment. Some experts fear the distortionary affect on the market or the crowding out of regular and other impact oriented businesses.

### 3. Access to markets:

Public sector contracting and social procurement should be opened up to social enterprises. The formal recognition could help a great deal to establish the eligibility of social enterprises to bid for public sector contracts.

**a.** Socially responsible public procurement should be mainstreamed across all government departments. This could be one of the backbones of the national social enterprise strategy and led by the social enterprise unit (suggested above).

**b.** Skills building and awareness raising of public authorities and purchasers is very important for SRPP to take hold and government should invest in training and information platforms to facilitate this. Digital online tender and bidder databases as well as competent intermediary and consulting organisations could be supported with government funding in order to build the necessary infrastructure. Such databases could offer best practice examples and online tools and guides for public authorities and social enterprises as well. There is no need to reinvent the wheel; using tried and tested models could save money for the public purse.

**c.** Central government should encourage SRPP at local level, provide resources and support small scale pilots of procurement from impact enterprises. This would be a possible area to benefit from innovation partnerships and have public authority and social enterprise suppliers to work together on solutions to a procurement challenge.

### 4. Access to finance:

available financing should be more appropriate and take into account the needs of social enterprises at different stages of maturity.

**a.** Small grants are essential for most Czech social enterprises, most of whom fall in the micro and small category

**b.** New and innovative financial instruments are needed for growing and scaling businesses, to better match their needs: patient capital and blended finance

**c.** Government can use existing programmes and vehicles to co-invest in support of social enterprise, rather than create its own funds

**d.** Government should offer guarantees and incentivise market players to invest; it should encourage and reward good behaviour by offering tax breaks, or sanction undesirable behaviour with fines or denied opportunities (e.g. include sustainability criteria in public procurement tenders)

### 5. Institutional framework:

Government needs to create ownership of the impact economy somewhere in the public sector hierarchy and assign policy making and coordination to a certain unit or department.

**a.** This unit could be the partner in the dialogue and collaboration with representatives of the social enterprise sector and would liaise with other government departments and ministries, including the managing authorities of EU funds, e.g. the European Social Fund (ESF).

**b.** A social enterprise coordination unit would be responsible for creating and implementing a national social enterprise strategy based on an ecosystem perspective. The strategy should envisage support for all stakeholders in the ecosystem, collaborate with existing actors and incentivise their active engagement.

## 6. Skills and business development support:

The COVID-19 crisis highlighted the need for networks, support organisations, incubators and other intermediaries to support social enterprises in their efforts to adjust their business models and operations to the new reality and to pivot, if necessary. At the same time, the pandemic also exposed the weaknesses and support needs of the intermediaries themselves, who often do not have a sustainable model. In the Czech Republic industry associations such as chambers of commerce are recognised and supported by government, yet no such recognition is offered to the umbrella organisations and incubators of social enterprises.

**a.** intermediaries should receive long term funding to create their own sustainable business model

**b.** those who offer financing to impact enterprises could receive co-investment from government or enjoy financial guarantees for their social investment

**c.** government could purchase services from support organisations, for example in the public procurement area, in social enterprise assessment and rating or in preparing social enterprises to be more successful in public sector contracting.

## 7. Culture:

Social enterprise is a relatively new phenomenon in the Czech Republic. The country, however, has an entrepreneurial culture, which is turning towards more sustainable and impactful solutions and models. Government should use this opportunity to introduce supportive legislation and fiscal incentives to encourage this trend.

**a.** Social enterprise should be understood more broadly and include all businesses that wish to use entrepreneurial models to achieve environmental or social change. Awareness raising efforts, such as campaigns, awards and support for community-lead initiatives should contribute to more visibility and recognition of social enterprise models and their impact.

**b.** Czech universities offer and increasing amount of research and success stories about the sector. They should be encouraged to include social entrepreneurship in their curricula.

**c.** Government should make efforts to implement a data collection and processing system, ideally in separate satellite accounts, in order to have regular information and statistics about the impact economy sector. This could feed into policy making and provide the evidence base for assessing the effectiveness of government measures.



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## Appendix 1.

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#### Interviews

**Magdalena Radova** Tilia Impact Ventures

**Petra Francova** P3 - People, Planet, Profit ops.

**Zdenek Fred Fous** Encubate

**Petr Vitek, Marek Kays** Impact Hub Prague

## Appendix 2.

### Case study of a startup impact enterprise: Encubate

<https://www.encubate.me/about>

#### based on an interview with Zdenek Fred Fous, founder

*Encubate is a startup enterprise whose purpose is to help customers develop their entrepreneurial skills and build their own business, while still working in their regular jobs. Encubate's offer consists of a modular business incubation course, guides and exercises, plus microlearning content distributed via an app.*

#### Impact of the COVID-19 pandemic on the business model of the enterprise

The Encubate team was already working on developing a couple of startup ideas in the fall of 2019. When COVID hit in early 2020, they had to choose the most relevant ones, taking into account what they observed as main trends: 1. people started looking inward, 2. everything moved online, replacing face-to-face meetings, and 3. the “geek economy” was accelerated by the COVID crisis. Based on these trends Encubate decided to come up with an online offer of new skills and upskilling using an online app. They did not feel they were negatively impacted when developing their business model, rather the opposite.

#### Impact of COVID-19 on financing

While opportunities opened up, Encubate's fundraising efforts were hampered by the lack of personal contact and face-to-face meetings with potential investors. Networking and building trust with new contacts became very difficult online, so in the end they had to approach people they had known from the past. Although the online fundraising arena became more of a level playing field and anybody from anywhere in the world could apply, this presented the challenge of increased competition and the need for vetting applicants. In the experience of Encubate's founder such vetting processes became superficial discussions, emotionally driven conversations and more subjective overall. This led to a less efficient allocation of resources, which was compounded by the fact that most of the financing was redirected to the health field.

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## Case study of a startup impact enterprise: Encubate

### Impact of COVID-19 on business operations

Encubate did not need to fire staff, quite the opposite. They were eager to hire new people, which became difficult, as there were less opportunities to get recommendations. The existing team, including the founder suffered from online isolation. “Small startups are different from large companies that can convert everyone and everything online. I was missing my small team sitting across the table”. Addressing people’s needs when working remotely is a concern for the future too. How would a young, first time entrepreneur handle this, if she/he does not have the go-to-network and the support schemes? Could this be an opportunity for support organisations and incubators?

### Encubate’s immediate/short term response

Encubate was still in the fundraising phase and was forced to approach different sources than originally planned. After unsuccessfully applying to impact investors abroad, they decided to pitch to Czech targets and obtained a mix of financing from business angels and other individuals. This all took six months longer than initially planned due to reasons mentioned above. Encubate concluded that foreign impact investors would be feasible options in the next phase of their business development.

### Use of available support measures

Encubate did not actively seek support from the government, as measures were not relevant for them at their stage of development, and the offer was limited anyway. It was more useful that the Impact Hub and Czech Invest<sup>23</sup> adjusted their acceleration programmes. The missing elements in the support package were/are the risk mitigation measures offered to early stage investors, for example in the form of government co-investment with business angels. This is not specifically related to the pandemic, but was accentuated by it, as investors’ willingness to take risk was significantly reduced.

### Future measures required

It would be very important to offer ways to reduce the risk that active players in the ecosystem take by injecting capital in the system. The government should do this by supporting and co-investing in existing intermediaries and funds rather than launching new initiatives of its own. When encouraging and supporting acceleration or mentoring programmes, the funding should be given to the enterprise, so that it can purchase the services it prefers, rather than transferring the money directly to providers, whose quality may be questionable.

There is space for more support organisations and incubation programmes in the ecosystem to allow entrepreneurs to fail and pilot new ventures. “It would be great to receive support for the ecosystem at the roots.”

### Future opportunities

The COVID-19 crisis presented Encubate with an opportunity; while many people lost their jobs, a lot of new companies have been and will be launched as well. The demand for upskilling, the need for remote work and the geek economy worked to the advantage of companies and ideas like Encubate. The pandemic highlighted the need for adaptability and resourcefulness for companies and individuals alike.

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<sup>23</sup> Business and Investment Development Agency, <https://www.czechinvest.org/en>

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COUNTRY  
REPORTS

# Hungary



## 1. Brief definition and description of the impact economy

Social enterprises have existed in Hungary since the early 1990s and their growth continues both in numbers and diversity. They respond to a wide variety of social and environmental issues and operate a number of intervention models, such as training and employment (work integration), community development or social service provision models, and are incorporated in many different legal forms, from association through nonprofit company to limited liability company. There is no reliable database or official register currently to determine the number of social enterprises; estimates range from around 200 to over 16,000 depending on data source and the definition used<sup>24</sup>. National accounts do not include a social enterprise category.

A number of private incubation and acceleration programmes have supported the development of social enterprises with funding and capacity building. More recently, pioneer funders and social finance providers invested in the sector recognising their potential in addressing major social problems such as poverty and segregation.

Government has considered social enterprise mostly as an employment generation tool, which limited the understanding and use of the model to job creation and work integration. At some point social enterprises, especially social cooperatives, were viewed as the exit strategy of the government funded public works programmes. While the employment focus remained, 2014-2020 saw several European Union (EU) funded multi-year programmes launched specifically targeting social enterprises. These included startups as well as mature businesses and under the economic development umbrella offered significant amounts of money for direct financing, capacity building and support infrastructure. Unfortunately, economic viability of the supported enterprises was never a consideration, so many of the businesses ceased to operate when funding ran out.

Hungary does not have social enterprise legislation or a comprehensive strategy for developing social enterprises and their ecosystem. More often than not players are busy implementing their own projects with limited collaboration with others, which leads to the fragmentation of resources. An increasing number of business support organisations and researchers are now eager to serve the sector. Despite these investments and efforts, the social enterprise sector in Hungary is still relatively small and weak, and does not appear on the radar screen of policy makers.

Due to the lack of official recognition of social enterprises, their definition, understanding, certification and support have always been defined by particular policy interests of specific public sector bodies. This lead to confusion, lack of interest and limited recognition of the impact and innovation potential of these businesses. Recent efforts have emphasized the entrepreneurial and business nature of social enterprises, advocating for their inclusion in the small and medium enterprise (SME) sector for the simple reason that they would not be forgotten by policy makers this way.

**The main opportunities for social enterprises in Hungary sector are as follows:**

- Launching of the Hungarian Social Enterprise Coalition<sup>25</sup> (2020), the first umbrella organisation set up for and by social entrepreneurs
- Creation of a national social enterprise strategy
- Public sector interest in social innovation, potential role for social enterprises

- Increasing availability of social investment
- Growing segment of social enterprises in the mainstream enterprise sector

There are a few challenges facing the sector, which can be summarised as follows:

- Lack of public awareness and recognition
- Social enterprises fall between the cracks, they are not part of civil society, but also not recognised as part of the enterprise sector, therefore they are often left out of policy measures, preferential treatment and support programmes of any kind
- Lack of access to public sector markets, missing implementation of socially responsible public procurement (SRPP)

## 2. The impact of the COVID-19 pandemic on the impact economy

In Hungary two major surveys were conducted in 2020 in order to gauge the impact of the COVID-19 pandemic on social enterprises and civil society. The survey of nonprofits and some social enterprises was carried out by IFUA Nonprofit Partner<sup>26</sup> and included responses from organisations as well as expert interviews (in 2021). The social enterprise survey was conducted by IFKA<sup>27</sup> and covered those employment generation social enterprises that are its grant recipients. Both surveys were repeated in 2021, which allows us to follow the development of the situation as well as the expectations. Where applicable, survey data will again be complemented by data from Impact Hub's Global Member Survey (11 respondents).

### 2.1. Impact on business performance and financials

Social enterprises were significantly impacted by the pandemic and the resulting restrictions; 57% were very severely or severely hit (over 50% drop in sales revenue), while 40% suffered moderate damage. This included reduced customer demand, increased operational risks (e.g. in their supply chain or in hygienic standards) and the (non)availability of workforce (due to health reasons and/or lockdown). Social enterprises saw their sales revenue drop dramatically as a result, leading to a level that would have allowed them to operate (with original staff numbers) for only about 3 to 4.7 months<sup>28</sup>. Industries most impacted were the usual suspects: hospitality, restaurant and catering, retail and to some extent education.

In terms of their financial situation, two thirds of the surveyed nonprofit organisations were worse off in 2021 than the year before, just as they had expected. Their enterprise revenues or self-generated income dropped, (23% said it was a dramatic drop) while staff costs remained high. Similarly, 45% of Impact Hub respondents reported that income from sales was negatively or very negatively affected by the pandemic. Fortunately, grant programmes continued to disburse funds and subsidies continued to flow. At the same time, some disbursements suffered major delays, which negatively affected organisation's cashflows. Corporate giving was halted except for grants or sponsorship based on long term partnerships<sup>29</sup>. Among Impact Hub member

<sup>26</sup> <https://nonprofitpartner.hu/en/home/> a private consultancy and training company offering capacity building. The 2020 survey included responses from 218 organisations, while 87 responses were received in 2021.

<sup>27</sup> <https://ifka.hu/> a public sector organisation responsible for innovation and development. It manages a number of grant and capacity building programmes for social enterprises focusing on employability and job creation.

<sup>28</sup> Data FROM 2021 IFKA survey

<sup>29</sup> Data from 2021 IFUA nonprofit survey

enterprises, 27% reported negative effects on income from grants and sponsorship and 36% reported general negative effects on access to finance.

**Ízlelő**<sup>30</sup> is a social enterprise that employs people with disabilities and reduced capacity. It was set up and is owned by Kék Madár Alapítvány, a Hungarian foundation. The enterprise runs two restaurants and has experienced the COVID-19 crisis in both locations, Szekszárd (launched in 2007) and Budapest (2019).

Both restaurants had to be closed when the first restrictions were introduced in March 2020. Management did not expect back then that closures would be repeated and would last for so long. After the initial severe drop in revenue, by early spring 2021 turnover was back at 75-80% of pre-pandemic levels. Prices of ingredients have increased dramatically in the meantime, but Ízlelő decided not to raise their prices in order to keep customers. There is very little profit on operations, about one-third of what they had expected. Overall losses amount to about HUF 18-20 million.

The business model did not need to be fundamentally changed, it only needed to include home delivery. A positive development during the restrictions was the ready availability of experienced professional labour, including chefs, who appreciated an official, stable and predictable employment position. Unfortunately, those professionals moved on to holiday resorts in search of higher paid work as soon as the summer hit, causing major fluctuations at the social enterprise. Online sales have provided a certain level of stability and creative marketing helped maintain customer interest, for example by broadcasting a brandy tasting session online.

There were some social enterprises that experienced mostly the positive effects of the pandemic: accelerated digital transformation, strengthened innovation capacity thanks to more time spent on redesigning their business model and products, additional training or innovation in service design. In some cases these positive developments translated in revenue growth as high as 20%<sup>31</sup>. Also among Impact Hub respondents 55% were able to digitize processes, 45% developed new products or services, and 36% accessed new sales channels. 55% of member enterprises said they were pivoting their business model.

## 2.2. Impact on social mission and beneficiaries

2020 was a difficult year for Hungarian nonprofit organisations; they were negatively affected by the COVID-19 pandemic, although not as badly as they had expected early in the year. Most of them survived, although they saw their social impact suffer; 61% gave that response in the survey (mostly in the sports and health fields). Also 45% of Impact Hub respondents reported negative effects of the pandemic on the accessibility of clients and beneficiaries. Many organisations had to temporarily halt their activities, but none of the surveyed organisations had to fold. Organisations working in impact areas such as social care, children or education had their best year, provided that they could rely on solid financials and a stable supporter base<sup>32</sup>.

Social enterprises whose business model relies on personal interaction, events (sports and cultural) or community spaces suffered most. Cafes and community centres closed several times during the past 12 months, and were only able to reopen when restrictions were lifted. Some enterprises were able to move their services online and maintained their offer to beneficiaries. AdniJoga<sup>33</sup> for example, offers yoga classes to disadvantaged groups of people as a way to maintain wellbeing and mental health. They held their classes

<sup>30</sup> <https://izleletterem.hu/szekszard/>

<sup>31</sup> Data from 2021 IFKA survey

<sup>32</sup> Data and information from 2021 IFUA nonprofit survey

<sup>33</sup> <https://www.adnijoga.hu/>



on Zoom and offered yoga videos. Mastiff Cargo Bike<sup>34</sup>, a social enterprise targeting environmentally sustainable transportation by producing and selling cargo bicycles, saw an increase in demand and sales, as demand for home delivery of all kinds of products skyrocketed.

Social enterprises with an employment focus saw their social impact majorly affected, as during the restrictions they were not able/allowed to have their beneficiaries and employees go to work. Social enterprises that took part in the IFKA survey had an average of 9.2 employees in 2020, which was reduced to 6.5 six months later. They expected this to go back to about 8 another six months later probably thanks to additional government grants as part of the ongoing support programme.

In the case of **Ízlelő restaurant** the initial impact of the pandemic was drastic; the first restrictions took the enterprise by surprise, which did not have time to get ready. The first reaction was shock, disbelief and fear. The organisation was very concerned about their disabled beneficiaries, as initially they were advised not to leave their house in order to stay safe. Thus for the first six weeks only three people out of sixty went to work; the non-disabled employees. For those disabled beneficiaries that lived alone and were restricted to their house, the organisation had to arrange the regular delivery of food and medicines. New modes of communication via a very simple phone app had to be introduced in order to keep in regular contact with beneficiaries stuck at home. Initial efforts were directed at acquiring or manufacturing personal protective equipment, masks, disinfectants, which were all in short supply at the time.

After taking care of the primary needs of the beneficiaries management was able to focus on the restaurant. The situation was relatively simple in Szekszárd, where they quickly switched to home delivery. This is something the restaurant had already been doing, so the necessary equipment was available and the process was in place. 80% of the regular customers remained, so the main challenge was to ensure the constant supply of food delivery containers, which at that point had to be single use. Turnover in the Budapest restaurant, however, suffered a dramatic drop, as the relationship had not become so close with customers yet (only 8 months after opening). Switching to delivery was not an immediate option, as the organisation did not have a vehicle, and other delivery services were overwhelmed and expensive. Fortunately, an online ordering platform was quickly designed and installed by a supporter pro bono, and home delivery was introduced thereafter in about two weeks, helping to restart revenue flow.

This social enterprise did not lay off any staff. Based on a joint decision of the staff, salaries were reduced across the board, but everyone kept their jobs. Cashflow was monitored closely and staff members received variable salaries for several months. These decisions reflected the primacy of social impact rather than the interest of the business. When the condition of disabled beneficiaries started to deteriorate due to home isolation and boredom, the enterprise decided to let them restart work gradually 5-6 weeks later. By April 2020 two-thirds of the staff were back and by May, when restrictions were lifted, everyone was working again.

Over the past 12 months Ízlelő not only managed to maintain its workforce, but also increased the number of people employed by hiring 10-20 disabled beneficiaries, thanks to an ongoing grant programme. This decision was made in response to the increased need in the beneficiary group, rather than based on pure business considerations<sup>35</sup>.

Many other social enterprises owned by or housed within a civil society organisation suspended or abandoned their business and resorted back to their (grant funded) public benefit activities. This could have been motivated by short term view or old habits, or perhaps was inevitable if the enterprise activity was not closely related to the mission, or if it was in the startup phase. Nevertheless, this is a very different strategy from that of Ízlelő, whose solution was to keep loyal customers in every possible way and increase sales rather than turn to government for help.

### 2.3. Measures implemented by social enterprises

Some of the immediate measures were described above in the Ízlelő restaurant example. Many organisations had to halt their operations or close temporarily, while others switched to activities that were easier to carry out. Some social enterprises said that they had even managed to increase their social impact. Some enterprises expanded their target groups and started offering services to new customers or reallocated their resources to fighting the pandemic (e.g. sewing masks). While hibernating, many social enterprises used their time and capacity to start strategic planning or engage their teams in training and capacity building (online).

Many job creation social enterprises deployed at least two types of strategies in their response to the crisis: 1. Internal measures aimed at cutting costs, including reduced working hours and staff lay-offs (39% of IFKA survey respondents<sup>36</sup>). 2. Involve external financing mostly in the form of debt. In Hungary this was possible using government subsidised emergency loans, as well as social finance solutions that have been available for a few years.

Erste Bank, an active player in the Hungarian and Central European social enterprise ecosystem, confirmed this. They offered restructuring to their nonprofit and social enterprise borrowers very early on, and saw only two of them go bust. Larger and financially stable enterprises were more forward looking and decided to invest in the future with the Bank's help. They took advantage of lower (real estate) prices, for example, and invested during the crisis, preparing the post-COVID recovery and expansion.

The Bank assisted some organisations in diversifying their activities by developing new ideas. There are examples of community space-based ventures, which developed a courier service, when they saw demand surging. The Bank was flexible, accepted these proposals and maintained the outstanding loans. Most social enterprises took advantage of the credit repayment holiday (moratorium) announced by the government, which will expire on June 30th, 2021.

### 2.4. Availability and relevance of government support measures

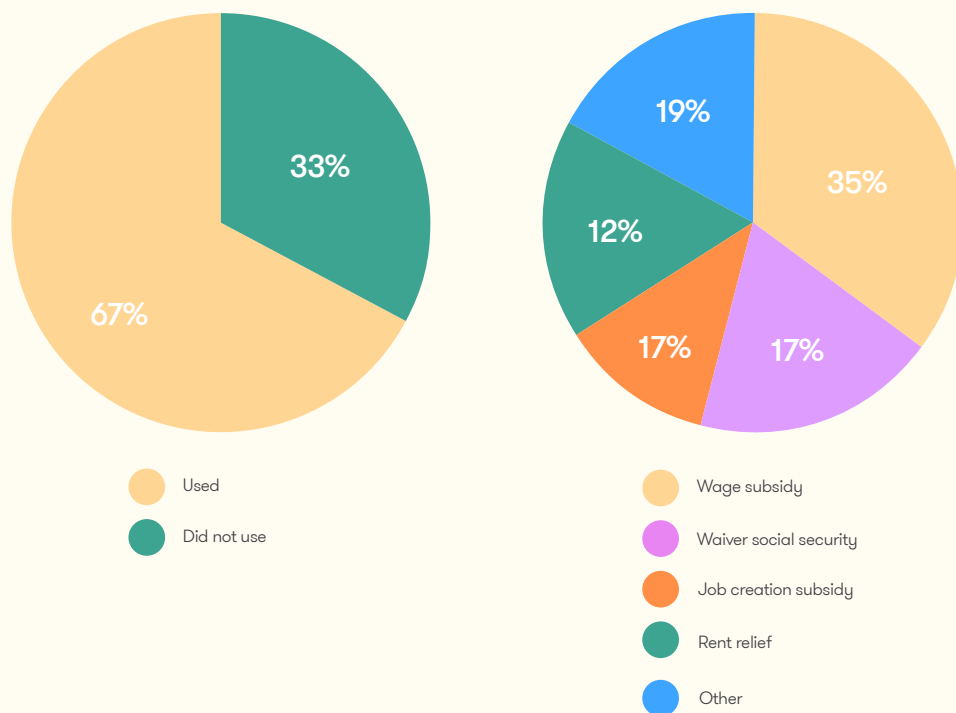
There were no specific government measures targeting social enterprises or, in fact, nonprof-

it organisations during the pandemic and the resulting crisis. Those registered in a corporate legal form (for profit or nonprofit) were eligible for subsidies and other support available to SMEs. Social cooperatives and other legal forms were left out.

According to IFKA's 2021 survey only 33% of the responding social enterprises used some sort of government or municipal support. Of those, 35% used (employment protection) wage subsidies (the equivalent of furlough), 17% applied for a waiver from social security contributions or job creation subsidy and 16% used rent relief. The main reasons for not using government relief measures were the following: it would not address the problem, the social enterprise was not aware of the measure, or it was administratively overwhelming.

Interestingly enough, nobody mentioned non-eligibility as a reason. Also Impact Hub members used public support measures only sparingly. However, in comparison to respondents from the Czech Republic, the dissatisfaction with public support measures was less pronounced (45% vs 79%).

Figure 1. Usage of government support measures



Source: IFKA 2021 survey

In terms of financing facilities, there were/are funds available to address the cash-flow and payment difficulties of enterprises in general, both repayable and non-repayable. None of these target social enterprises specifically. In April 2021 a loan facility was launched to offer financing for recovery and business relaunch. Unfortunately, this loan facility does not really meet the needs of social enterprises; conditions are not favourable<sup>37</sup>, and early stage or startup enterprises cannot access these loans, as the amounts received are calculated as a percentage of revenues of the previous tax year. More mature enterprises, including social enterprises, that already had outstanding loans, would have welcomed non-repayable support, but that was not available to them.

<sup>37</sup> The loan facility called "Hajra" (Go, go!) <https://www.mnb.hu/nhp/hajra> offers loans at 2.5% interest rate, which is less favourable than that of Erste Social Banking.

## 2.4. Other support measures

Business support organisations, incubator and accelerator programmes tried to step in with training and capacity building support typically in the form of webinars. 27% of Impact Hub respondents used non financial support to manage the effects of the pandemic and satisfaction with the assistance of business support organizations was high (between 27% and 73%). The support was welcome by organisations, especially early on, although one-on-one mentoring would have probably been more useful. A number of support organisations were struggling themselves during the crisis, as many faced similar problems as their social enterprise clients. Their business models rely on revenue from training, space rental and events, a lot of which had to be cancelled.

Non-governmental funders in the social enterprise ecosystem also offered support, mainly to their own portfolios. These were emergency measures addressing immediate needs.

**Erste Bank** worked with its borrowers (nonprofits with a revenue generating arm and social enterprises) to reschedule or restructure the outstanding debt on top of the 12-month grace period they already had. Erste Group is a beneficiary of the EU's EaSI guarantee, which made the whole process much easier and less risky for the Bank. Only two of their customers went bankrupt, one of them a chain of charity shops. Their loans were written off using the EaSI guarantee. In fact, Erste in Hungary was the first to offer debt rescheduling, before the government would make its announcement about the repayment moratorium. The early rescheduling was vital, according to a social enterprise client of the Bank; without that lifeline, their business would have probably gone under due to liquidity challenges. The result was a very reasonable new repayment schedule fully customized to their needs. Future repayment schedules rely on the revised cashflow forecast where possible, rather than changing the business model.

If the purpose of the debt had been investment in equipment, the Bank will wait and phase the repayments to make sure their timing matches the client's payment capacity. Erste Bank also funded organisational development training for its borrowers and other interested organisations, which was delivered by one of their business support organisation partners. In other Erste countries in Central Europe similar capacity building and mentoring was delivered by the Bank's employees.

Having the EaSI guarantee also meant that the Bank was open to disbursing new credit during the COVID crisis. Conditions were very favourable to begin with and Erste Foundation topped this up by offering to refund the first year's interest to the Bank, thus improving borrowers' liquidity.

The regional offer of Erste Group post-pandemic focuses on four main areas<sup>38</sup>:

- 1. Jobs&upskilling:** microfinance and startup finance, social sector finance, business training, mentoring and capacity building
- 2. Affordable housing:** Roma housing project, Social Housing Fund (Slovakia), rental microcredits (Austria), social renovation project (Hungary)
- 3. Social services:** COVID emergency loans for NGOs, interest refund by Erste Stiftung, social sector finance and quasi equity, capacity building, consulting, know-how sharing, NGO Academy
- 4. Health&care:** social sector finance & quasi equity, private ambulances, capacity building, consulting, know-how sharing.

Other players in the financial sector do not really lend to social enterprises, unless they are considered SMEs and fit the banks' risk profile. Eligible borrowers tend to be large organisations with history at a given bank. Small businesses find it challenging to obtain bank loans, as the default rate in the microenterprise segment is over 10% (Erste's experience). At the same time, government emergency facilities are readily available to micro and small businesses currently, but the question is how to turn emergency loans into real value propositions. Impact Hub respondents were rather dissatisfied with the support provided by government (45%) and investors and lenders (36%). However 18% were satisfied or very satisfied with the assistance of foundations and philanthropists.

### 3. Future needs, opportunities and challenges

According to the expectations of civil society experts the 2021 financial year could be more difficult than 2020, as funding sources dwindle and the launching of new support programmes is delayed or cancelled. Changes implemented in response to COVID-19 will become part of the normal operations and organisations will continue to adapt. Experts are more optimistic regarding social impact; they predict that organisations will be able to grow their impact in 2021 and beyond in response to increased beneficiary needs<sup>39</sup>. Social enterprises that responded to Impact Hub's survey see the need for an increased focus on building partnerships and networks (64%), marketing, branding, and positioning (55%), customer service and retention (45%), financial management (45%), and strengthening leadership and mental support (45%) in order to build organizational resilience.

In theory the EU's Green Deal and the drive for digital transition present unique opportunities for the participation of social enterprises in the recovery and rebuilding of the Hungarian economy based on a new set of ideals. The big question is whether social enterprise development will feature in the government's plans and budget. The narrative includes digitalisation, social innovation, circular economy and shorter supply chains, all potentially great business opportunities for social enterprises. Planning is still in the early phase, but the draft that the Hungarian government submitted to the EU's Recovery and Resilience Facility<sup>40</sup> in April 2021 includes social enterprise only briefly and mainly as a vehicle for job training and employment in the 300 most disadvantaged villages in the country. According to the document marketing and sales efforts would be centralised and carried out by networks of enterprises in order to facilitate access to markets.

Experts also forecast that policies and grant programmes will not favour social enterprises directly. On the other hand, they expect a range of SME development and innovation programmes. These, however, are not designed to fit social enterprises, as shown by the required revenue thresholds. The programmes reflect the priorities of the current administration: economic development and growth rather than social impact.

The goals of many social enterprises overlap with the goals of agricultural and rural development programmes, which want to allocate more resources to local communities and create livelihoods and a better quality of life for people living in disadvantaged rural regions. Local social enterprises are often the only option for people to find work locally, besides the municipality, so supporting them also means keeping jobs and people close to home. LEADER<sup>41</sup> continues to be a relevant programme to support rural social enterprises. Other rural initiatives could follow suit, if they could ease some of the very strict agriculture related criteria, e.g. the 50% revenue threshold<sup>42</sup>.

Government funded programmes often focus too much on the employment aspect and do not consider other impact areas. They also ignore the business sustainability of the supported enterprises, so often when funding runs out, the social enterprise

<sup>39</sup> Source: IFUA 2021 expert interviews

<sup>40</sup> The Recovery and Resilience Facility is the trillion euro loan and grant programme of the EU to support the reform and investment plans of member states that mitigate the impacts of the coronavirus pandemic and aim to rebuild a greener and more digital economy. [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en)

<sup>41</sup> Local and rural development programme funded by the EU and implemented in member states through local action groups (LAG). [https://enrd.ec.europa.eu/leader-clld\\_en](https://enrd.ec.europa.eu/leader-clld_en)

<sup>42</sup> Eligible enterprises should prove that at least 50% of their revenue is from agricultural activities

goes under. Sustainability should be at the core, including financial sustainability, not only environmental.

**Izlelo** restaurants are working with a number of future scenarios. Today they have a better sense of what could be expected and have mastered compliance with COVID regulations by now. They have also considered many new possibilities to further develop the business: opening outdoors terraces, using creative communication and show adaptability. They are planning to appeal to a new customer segment locally, as they expect customer preferences to shift towards national and local produce. The business still needs financing for working capital, but does not want to take out more loans. Ideally, Izlelo would prefer non-repayable funding, so they are closely monitoring new EU grant programmes. In addition, they would welcome further relief from social security payments to the government.

In order to “build back better”, the government should embrace and encourage people’s new commitments to environmentally and socially responsible consumption and behaviour. Targeted measures could support domestic tourism and a “Buy Social” campaign to incentivise individuals as well as corporations. The government could spearhead the “Buy Social” initiative by more actively implementing socially responsible public procurement. Such measures could all facilitate social enterprises’ access to new markets.

## 4. Conclusions

The COVID-19 pandemic and the resulting crisis negatively affected social enterprises in Hungary, but most of them managed to survive and maintain their capacities as well as their social impact. They did this despite the almost total lack of attention and public sector emergency support measures. They used their own resources, appealed to their donors or investors and where possible relied on community fundraising. Other players of the ecosystem suffered as well; incubators and support organisations suspended their activities, while funders tried to step in to save their portfolio of grantees or investees.

The recovery phase is coming to an end, the rebuilding phase is about to begin. Social enterprises need government to take a longer term view and include them in the green and digital transition to a new economy. They can contribute to a successful and more inclusive and resilient economy by sharing social enterprise models and learnings with others, and mainstreaming impact orientation.

## 5. Policy recommendations

The COVID-19 pandemic was a shock to Hungarian social enterprises, similarly to mainstream micro, small and medium enterprises. Yet many of the challenges and recommendations had already emerged independent of the COVID-19 crisis; the pandemic only highlighted their importance.

The key policy recommendations are grouped below according to the seven ecosystem areas indicated by the EU/OECD Better Entrepreneurship Tool.<sup>43</sup>

**1. Impact orientation:** post-COVID recovery should be centred around building a more sustainable and resilient economy that respects and benefits people, planet and profit.

**a.** Sustainable models of social enterprise should be mainstreamed and used as role models for other players in the economy. This would help SMEs to move towards a more impactful economy, i.e. quantifiable social and environmental impact in addition to business viability. Social enterprises can play the role of catalysts.

**b.** Incubator and accelerator programmes could offer tools and examples to enterprises in their programmes.

**c.** The government should encourage impact orientation with enabling legislation that reinforces good behaviour and punishes bad one. Impact orientation should be integrated in SME development programmes and new KPIs should be used to assess progress and certify sustainable companies.

**d.** Sustainable Development Goals (SDGs) should be used as a common framework to set goals, measure progress and improve policy making.

## 2. Legal and regulatory environment:

**a.** Hungarian social enterprises need formal recognition in order to increase their chances for public and government support. Most stakeholders are of the opinion that this could be given in the form of a certification mechanism, which will help distinguish social enterprises from others for specific (government) funding purposes. Such recognition could then establish eligibility for development programmes, funds and preferential treatment, and be used in socially responsible public procurement.

**b.** While social enterprises need to be recognised as special niche, they should also be seen as part of the enterprise sector and as such become eligible for development programmes aimed to boost SMEs, including the post-COVID recovery phase.

**c.** Certified social enterprises could receive benefits such as tax breaks, bonus points in public procurement or special subsidies. While these benefits would be welcome by most social enterprises and could compensate for the social costs they incur, public officials are often worried about a possible distortionary effect on the market or the crowding out of regular and other impact oriented businesses.

**3. Access to markets:** social enterprises proved their capacity and commitment to provide services even in the most difficult times, so public sector contracting and social procurement should be opened up to them. The certificate could be the entrance criterion for social enterprises to bid for public sector contracts.

**a.** Socially responsible public procurement (SRPP) should be mainstreamed across all government departments. This could be one of the backbones of the national social enterprise strategy and led by a government social enterprise unit (suggested below).

**b.** Skill building and awareness raising of public authorities and purchasers is very important for SRPP to take hold and government should invest in training and information platforms to facilitate this. Digital online tender and bidder databases as well as competent intermediary and consulting organisations could be supported with government funding in order to build the necessary infrastructure. Such databases could offer best practice examples and online tools and guides for public authorities and social enterprises. There is no need to reinvent the wheel; using tried and tested models could save money for the public purse.

**c.** SRPP should be encouraged at local level in order to provide resources and support small scale pilots of procurement from impact enterprises.

**4. Access to finance:** available government financing should be more appropriate for the needs of social enterprises at different stages of maturity.

**a.** Grants and non-repayable finance should still be among the financing instruments. After the COVID-crisis many social enterprises that used to be investment ready no longer are, so repayable finance is of no help to them.

**b.** Government policy should aim to mobilise private sector sources that are waiting to be deployed. There should be a national guarantee fund similar to EaSI, which would, for example, help de-risk bank lending to social enterprises. Funds would flow to banks when needed, instead of offering grants to social enterprises directly. Similar schemes work well in financing solar panels or water projects, so why not test them in social enterprise finance? Erste's social banking portfolio is performing very well, so government and other players should have more confidence in the sector.

**c.** Repayable financing options should continue to be considered by the government, and conditions be more favourable. For example, a grace period on a loan should become best practice and recommended policy.

**d.** Impact orientation should be the guiding light of encouraging social finance and impact investment. The goal should be to increase social and environmental impact as defined by social enterprises rather than the government. Sustainable Development Goals (SDGs) could be used as an overarching framework for public sector grant programmes as well as impact finance.

**5. Institutional framework:** coordination and collaboration across government departments would be vital in order to increase the effectiveness and efficiency of policies. Ideally a social enterprise coordination unit should be set up in the ministry with most relevant resources.

**a.** This unit could be the partner in the dialogue and collaboration with representatives of the social enterprise sector.

**b.** A social enterprise coordination unit would be leading the effort to create and implement a national social enterprise strategy based on an ecosystem perspective. The strategy should envisage support for all stakeholders in the ecosystem, collaborate with existing actors and incentivise their active engagement.

**c.** The social enterprise umbrella body should be invited to the table and government should hear the voice of the businesses it represents

**6. Skills and business development support:** the COVID-19 crisis highlighted the need for networks, support organisations, incubators and other intermediaries to assist social enterprises in the efforts to adjust their business models and operations to the new reality. It is for this purpose that the Hungarian Social Enterprises Coalition was established in 2020.

**a.** intermediaries should receive long term funding to create their own sustainable business model

**b.** grant funding should support umbrella organisations that represent the interests of the sector and ensure the sharing of knowledge and best practices in a peer-to-peer scheme

**7. Culture:** social enterprise is a relatively unknown phenomenon in Hungary. Yet there is an increasing number of private companies and individuals who consider themselves to be a social enterprise. This offers hope, as these are genuine social enterprises, not so called "forced entrepreneurs", people who start their own business for lack of a better alternative. The entrepreneurial culture is evolving and is turning towards more sustainable and impactful solutions and models. Government should use this opportunity to introduce supportive legislation and fiscal incentives to encourage this trend.



**a.** Social enterprise should be understood more broadly and include all businesses that wish to use entrepreneurial models to achieve environmental or social change. The introduction and promotion of a certificate could raise support for community led initiatives and contribute to more visibility and recognition of social enterprise models and their impact.

**b.** Government should make efforts to implement a data collection and processing system, so that more accurate estimates could be published about the size, number and impact of social enterprises. This could feed into policy making and provide the evidence base for assessing the effectiveness of government measures.



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## Appendix 1.

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Impact Hub Global Member Survey (2020), Results independently analyzed and compiled by the Social Entrepreneurship Center / Vienna University of Economics and Business.

### Interviews

**Mészáros Andrea** Ízlelő restaurant, Kék Madár Alapítvány

**Szenttamási István Tamás** IFKA Közhasznú Nonprofit Kft

**Szalay Orsolya** Erste Bank Hungary

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COUNTRY  
REPORTS

# Romania



## 1. Brief definition and description of the impact economy

The concept and development of social enterprises in Romania took place within a larger framework of social economy<sup>44</sup> development introduced after 2005, but historically having roots in traditional cooperatives and mutual aid societies. The institutional basis for this new sector was created by a Law on Social Economy in 2015, which defines and regulates social enterprises and introduced the category of work integration social enterprise (WISE)<sup>45</sup>. Although relatively small in numbers, WISEs have been an important and vocal segment of social economy over the last decade.

The Law established a certification process for social economy organisations mostly in exchange for fiscal incentives. As of today only few organisation have certified, which leads to the existence of legally recognised (ex lege) social enterprises and de facto operating social enterprises. Such distinction and the lack of statistics and reliable databases make estimating the size of the social enterprise sector difficult. The 2015 law also prescribed the establishment of a National Commission for Social Economy as a coordination unit within the state bureaucracy, but the Commission has not been set up to this date<sup>46</sup>.

There are four types of de facto social enterprise: associations and foundations with economic activity, cooperatives, WISEs and mutual aid associations for retirees. They can operate in a number of legal forms ranging from nonprofit associations through to limited liability companies. Social enterprises engage in a wide variety of industries offering products and services.

In 2019 estimates put the number of social enterprises that meet the European Union's (EU) social enterprise definition at 6,000. At the same time, the National Social Enterprise registry contained only 103 registered social enterprises in 2018. According to some estimates a further 2,400 social enterprises would be created as a result of an EU-funded Human Capital Operational Programme in 2020-2021<sup>47</sup>. The Romanian social enterprise ecosystem includes a variety of governmental and non-governmental actors with varying understanding of the social enterprise model and potential: central and local government, social enterprise networks and coalitions, research institutes and observatories, support organisations, corporations and financial institutions.

As the legislative process is advancing, the positioning of social enterprises in the Romanian economy and society is still undecided. Some experts believe social enterprises should remain a separate sector and not "convert into businesses". At the same time, experts also think that social enterprises should not become a social service provider only, because that would make it very challenging to set up sustainable business models due to the lack of access to public sector contracts. Other experts are of the opinion that a broad understanding of the social enterprise model is not always useful, as it diverts attention away from social value. The sector is not strengthened by diversity unless there is clear value added by the new types and forms of social enterprises. Being considered as part of the enterprise sector is seen as a positive development despite some resistance from NGOs.

The bulk of funding for Romanian social enterprises comes from public sources, such as grants, subsidies and contracts, and a significant proportion is financed from EU funds. There is no commercial finance (bank credit) available currently, and no social investment fund has been set up in the country to date. Crowdfunding is becoming increasingly popular for new and innovative projects.

<sup>44</sup> Social economy organisations traditionally refer to the set of associations, cooperatives, mutual organisations, and foundations whose activity is driven by values of solidarity, the primacy of people over capital, and democratic and participative governance. <https://www.oecd.org/cfe/leed/social-economy/social-economy.htm>

<sup>45</sup> Called social insertion enterprise in Romanian

<sup>46</sup> This section is based on European Commission (2019) Social Enterprises and their Ecosystems in Europe, Romania country report.

<sup>47</sup> Achitai A. (2019?)

## The main opportunities for social enterprises in Romania include:

- Increasing visibility and clout of some social enterprise networks, strong leadership
- EU policies and funding programmes
- New policy measures envisaged in the framework of the National Strategy for Social Inclusion and Poverty Reduction for 2021-2027, including the establishment of a National Commission for Social Economy<sup>48</sup>

## There are also a few challenges still facing the sector:

- Limited official perspective of social enterprise, which focuses on work integration
- Lack of an approved strategic approach to the sector on the government side
- Lack of adequate financing, especially for more mature enterprises
- Dependence on EU-funded grant programmes

## 2. The impact of the COVID-19 pandemic on the impact economy

There was no comprehensive survey carried out about the impact of the COVID-19 pandemic on Romanian social enterprises. Some data is available from a Europe-wide survey conducted by the European Network of Social Integration Enterprises<sup>49</sup> (ENSIE) early on (in May 2020) to gauge the immediate effects of the crisis on WISEs. A second round was completed in September 2020. These surveys included the 11 members of the Romanian Network of Social Insertion Enterprises (RISE) and are referenced in this section in addition to expert interviews conducted for this research. In addition, as in the sections before, Impact Hub global member survey data from 12 respondents has been integrated where applicable.

### 2.1. Impact on business performance and financials

The first reaction of many Romanian organisations and social enterprises was anxiety and fear of the unknown. “People stopped thinking long term, focussed on day-to-day issues and survival from month-to-month”<sup>50</sup>.

Many social enterprises suffered a big economic and financial setback. They lost financial stability and were forced to abandon growth plans. Social enterprises with a business-to-business (B2B) business model were negatively affected, as business customers stopped buying. Work integration social enterprises, specifically, experienced a 75% drop in sales in the first two months of the crisis. The majority also reported a 50-90% reduction in activities and subsequently sales revenue in September 2020. Sectors most affected were tourism, hospitality, culture and retail including their entire value chains. Large EU funding programmes launched before the pandemic remained on track and kept the sector going, but their objective was the creation of startups rather than the support of existing social enterprises. It is for the future to tell, whether these new social enterprises will survive when funding runs out.

**Concordia Bakery**<sup>51</sup> is a social enterprise of Concordia independent nonprofit organisation dedicated to the support of children, young people and families in need. It has been training and employing young people with difficulties for over ten years, helping many of them find jobs in the labour market. The bakery had to close as a result of restrictions and also lost the majority of the business of its B2B customers, as well as other non-retail ones. Losses are estimated around EUR 100,000 and the bakery is able to cover only approximately 30% of its costs from sales revenue. The overall loss on all activities was covered by the Austrian mother organisation.

## 2.2. Impact on social mission and beneficiaries

As a result of the restrictions, it became a huge challenge for many NGOs and social enterprises to reach beneficiaries in remote areas. Beneficiaries were thus unable to attend services, so alternative delivery methods had to be introduced. Some services could be moved online, but not all clients in rural areas had access to Internet, so social workers still visited many people in person. Social enterprises that offer jobs to vulnerable persons had the extra challenge of the health issue, having to introduce serious personal protective measures for their disabled staff; in the physical, as well as the mental health area. This could be enormously challenging for large organisations with over 100 people on staff. Concordia, for example, had about a third of its 155 staff members contracting COVID, and the organisation spent EUR 4,000 on testing.

Organisations had to rely mostly on their own resources and project funding, as they were not eligible for government support if operating in nonprofit legal form. As a consequence, many had to lay off staff. Those that had EU project funding were lucky, because funds kept flowing, so they were able to keep their employees and even hire new ones.

Visibility of social enterprises and their impact have increased during the pandemic; the public became more aware of what these businesses were doing and what happens when they are unable to operate. Some social enterprises were saved by customers who chose to switch to local products from small producers or decided to support local artists and designers. Other social enterprises used alternative solutions, such as grouping orders or jointly managing online sales. Civil society engagement and volunteering increased overall, while it completely stopped in some impact areas. Impact Hub members reported income from sales (33%), accessibility of clients (33%), and access to finance (25%) being the most negatively impacted. However some respondents were also able to improve on the accessibility of clients (33%) during the first year of the pandemic, and reported positive effects on innovation and prototyping (25%).

## 2.3. Measures implemented by social enterprises

Many organisations, especially those working with vulnerable beneficiary groups shut down temporarily and moved management and office staff to remote working mode. Those registered as companies were eligible to apply for some government aid, most importantly “technical unemployment” benefit, offered for three months and capped at 75% of the salaries. WISEs were not eligible for such benefits because they provide transitional employment and do not use definite term labour contracts. Only one social entrepreneur from Impact Hub Bucharest had to reduce staff working hours and no respondents had to lay off staff.

<sup>51</sup> <https://www.concordia.org.ro/concordia.org>

<sup>52</sup> <https://www.vitorplus.ro/atelierul-de-panza/>

Social enterprises that had the equipment and capacity, for example some RISE members, converted to producing face masks. **Viitor Plus**<sup>52</sup> manufactured more than 26,000 reusable face masks and donated some of them to other NGOs that performed social services. **Ateliere fara Frontiere**<sup>53</sup> donated computers to disadvantaged schools in order to aid their efforts to move teaching online.

There are examples of mature social enterprises starting new lines of business based on newly identified market niches, diversifying or expanding. Many businesses launched their webshop for the first time, turning difficulties into opportunities. There was a lot of innovation, experimentation and pivoting to new models. Since customers could not eat out at restaurants, the restaurant went to them using foodtrucks. Crafts workshops were moved online, introduced virtual courses for children, and tried to remain present and relevant this way, even if the new activity was not worth it financially on the short run. Experimentation and innovation also thrived up among Impact Hub respondents, with entrepreneurs accessing new sales channels and clients (42%), developing new products or services (33%), and investing into training and capacity building (33%).

**Concordia's** social enterprise is registered as an SRL (company), so it was eligible for technical unemployment benefit for three months. Other government support facilities were not open to Concordia; hotels and restaurants were expecting to be helped out, but that did not materialise. There was too much bureaucracy involved in obtaining what little help was offered. The nonprofit sector more broadly did not receive any government aid.

Private sector support was also very limited, the only exception being Unicredit Bank, which gave Concordia a EUR 12,000 grant for the bakery to develop an online store and promotion plan.

The social enterprise is considering two main directions for survival: 1. focus on individual clients, using delivery apps; 2. get in to retail trade stores. Concordia has already signed two contracts with retailers and will be subcontracting with a supplier of Carrefour. These are emergency measures, which saved all the beneficiaries and the business, but could also lay the foundations for future expansion. If the new plan works, the business could see EUR 30,000 in annual profit. Concordia, however, has to fund the related development costs upfront without any external finance in sight.

#### 2.4. Availability and relevance of government support measures

There were no deliberate measures directed at social enterprises during the COVID-19 crisis. Funds previously allocated to support civil society and social enterprise were partially redirected to the financing of pandemic related measures. Benefits available to SMEs, for example for “technical unemployment”, were not extended to social enterprises operating in a nonprofit legal form. If they were registered as a company, they may have used this furlough type benefit, but it was the exception rather than the rule due to overly bureaucratic processes. Companies were also able to obtain funding to buy IT equipment that could facilitate moving jobs online. A credit repayment moratorium was also introduced, but it targeted mainly individuals. Some funding was offered to organisations providing social services, strictly to be used for direct response to COVID.

**Alaturi de Voi Foundation (ADV)**<sup>54</sup> runs three social enterprises for which they set up companies, thus they were eligible for support measures targeting SMEs. Util Deco is a WISE that offers archiving and document storage services, WISE.travel is a tourism business, while JobDirect is a coaching and placement agency for clients with disabilities. During the COVID-19 crisis ADV enterprises benefited from „technical unemployment” support for three months, at 75% of total salaries. They also obtained non-repayable support for Util Deco and WISE.Travel, EUR 4,000 and EUR 75,000 respectively, for buying equipment or covering operating costs; these grants were not allowed to be used to cover salaries. The grants worked on a „first come first served” basis and required the applicant to contribute 15% of the requested amount.

Public procurement could have offered an opportunity to social enterprises who lost markets and revenue, but public authorities do not implement social clauses in public procurement legislation in Romania. Contracting authorities are afraid of audits, so they prefer to use the lowest price criterion in procurement; corruption and other bad practices are frequent. Better relationships could be established between social economy providers and public authorities at local level, but more successful examples and best practices are needed for encouragement.

### 5. Other support measures

Some companies came forward in support of NGOs and social enterprises, but most shifted their resources to the health sector, mainly to hospitals. Corporate sponsorship budgets are likely to suffer in the future as well, as companies expect less profit in the coming years. Social investment and impact investment are still missing from the Romanian funding landscape.

There are a few intermediaries active in the Romanian social enterprise ecosystem, but they were not in a position to assist social enterprises during the crisis, because many of them do not have a sustainable business model themselves. In fact, a number of intermediaries had been set up in the past only to manage European Social Funds (ESF) programmes and do not really understand the needs of the sector.

Consequently the majority (58%) of Impact Hub respondents did not use any support measures. The main support used was emergency private finance (33%).

## 3. Future needs, opportunities and challenges

**The COVID-19 pandemic highlighted some of the long existing gaps and needs of nonprofit organisations and social enterprises in Romania.**

- Digitalisation; organisations need equipment as well as know-how, so they can better reach their beneficiaries.
- Lack of financial reserves is a challenge that most social enterprises have to face. It reduces their flexibility to adapt to unexpected situations.

<sup>54</sup><https://alaturidevoi.ro/en/about-us/>



- Digitalisation; organisations need equipment as well as know-how, so they can better reach their beneficiaries.
- Lack of financial reserves is a challenge that most social enterprises have to face. It reduces their flexibility to adapt to unexpected situations.
- Lack of skills to work with a variety of financing options, most notably loans, as well as lack of strategic capacity.
- Capacity building to accompany funding and financing
- Further promotion and visibility of social enterprises and their impact is key for the general public and state bureaucracy.
- Social enterprises surveyed by Impact Hub see the need to invest in customer service and retention (67%), marketing, branding and positioning (50%), partnerships and networks (42%), and product development and value proposition (33%).

### At the same time, the COVID-19 crisis also highlighted opportunities for social enterprises:

- It was confirmed that social enterprise is a very good model for transitioning members of vulnerable groups from social assistance to the labour market or to create opportunities for people in rural communities. However, to engage these beneficiaries requires a package of services, which someone has to pay for.
- Market opportunities depend on the sector and business model. Everything that can be delivered online or can be done via home delivery has the potential to grow in the future. Local connections and focus on quality have increased in importance as consumers are eager to get back normal life. The cultural sector is getting ready for a big summer come-back. Other market opportunities are presented by creative industries and recycling services. This is the time for enterprises to strengthen operations, focus on quality and get ready to deliver when the time comes.
- There are new efforts to insert social enterprise development measures in recovery and rebuilding plans and related policies. The Romanian Plan submitted to the EU Recovery and Resilience Facility in March 2021 mentions the potential of social economy and the need for regulation to create an enabling environment. The Action Plan 2021-27 is more concrete; it includes 1. improving legislation on social enterprise, 2. establishing a National Commission for Social Economy, 3. scaling support for WISEs that have proven their business model, 4. new types of financial instruments (loans, guarantees, crowdfunding) and some money for startups, especially in the green, recycling and rural areas.

## 4. Conclusions

Social economy and social enterprise are not on the public agenda in Romania. Most people do not understand social enterprises and their impact, so further visibility and promotion efforts would be very important. Achievements and challenges of the sector during the pandemic helped shine the light on social enterprises' efforts to stay afloat and maintain their social impact. The COVID-19 crisis was a huge setback for most social enterprises, both in their business activities and their ability to deliver impact.

Despite the existence of the framework law for social economy, there is minimal recognition and support given to the sector by the government. The COVID-19 crisis has not changed that. EU funds dedicated to social enterprise development have only been used for startups lately, so resources for existing business, let alone growth or scaling, are very scarce. Nonprofit forms of social enterprise are cut off from enterprise development funds altogether. Alternative forms of finance, such as social investment or debt are currently not available. A glimmer of hope is offered by the official policy documents for post-pandemic recovery and rebuilding, which mention the potential of social economy and envisage building an enabling environment with adequate fiscal and non-fiscal incentives.

## 5. Policy recommendations

The COVID-19 pandemic was a shock to Romanian social enterprises and there was no targeted government help available to them. They were able to benefit from some relief measures available to small and medium enterprises. Many of the challenges and recommendations for social enterprise development have been on the agenda for years, independent of the COVID-19 crisis. The pandemic only highlighted their importance.

The key policy recommendations fit in the seven ecosystem areas indicated by the EU/OECD Better Entrepreneurship Tool.<sup>55</sup>

**1. Impact orientation:** post-COVID recovery should be centered around building a more sustainable and resilient economy that respects and benefits people, planet and profit.

**a.** Sustainable models of social enterprise should be supported and mainstreamed in the near future, so that they become visible as part of an impact enterprise sector. Social impact reporting should be required and included among the broad certification criteria.

**b.** Incubator and accelerator programmes should put more emphasis on impact management and offer tools and best practices.

**c.** The government should back this up with enabling legislation that encourages social enterprises in all impact areas not only job creation, and certainly in areas of priority such as poverty alleviation, green and circular economy, social and health care.

**d.** Sustainable Development Goals (SDGs) could be used as a common framework to set goals, measure progress and improve policy making.

**2. Legal and regulatory environment:** Romania has a law on social economy and defines what criteria need to be met for an enterprise to become eligible for the benefits offered. These benefits are very limited, so only few organisations register under this regulation.

**a.** There need to be more meaningful benefits attached to registration. The definition and criteria need to become more inclusive, so that they do not limit social enterprise to work insertion enterprises and also recognise existing social enterprises in other impact areas. Benefits could include tax breaks, bonus points in public procurement or special subsidies.

**b.** While social enterprises need to be recognised as a special niche, they should also be seen as part of the enterprise sector and as such become eligible for development

programmes aimed to boost SMEs, including in the post-COVID recovery phase.

**c.** The future National Commission for Social Economy would be better housed in the department of enterprise rather than labour and social affairs, in order to get wider recognition of the impact areas that social enterprises cover.

**3. Access to markets:** legislation is already in place for socially responsible public procurement (SRPP), so the emphasis should be put on implementation both at central and local government level. This could be one of the important elements of the future national social enterprise strategy and led by the future National Commission on Social Economy.

**a.** Reserved contracts should be more widely used and mainstreamed across all government departments. Public authorities could commit to dedicating a certain percentage of their total purchasing to social enterprises or specifically reserved contracts.

**b.** Skills building and awareness raising of public authorities and purchasers is very important for SRPP to take hold and government should invest in training and information platforms to facilitate this.

**c.** Better access to public sector markets should become one of the possible benefits for registered social enterprises.

**d.** SRPP should be encouraged at local level as well, in order to provide resources and to support small scale pilots of procurement from impact enterprises.

**e.** Romanian legislation contains a few specific pieces related to procurement that go beyond the minimum and would encourage private procurement from social enterprises. An example of this is the legislation on the so called “disability quota”, whereby companies with headcount of at least 50, should hire 4% of their staff from the disabled. If they do not comply, they must pay a disability quota to the state budget OR use that money to buy products and services from sheltered workshops or WISEs. This regulation could be extended to all social enterprises that meet pre-established criteria.

**4. Access to finance:** available government financing should be more appropriate for the needs of social enterprises at different stages of maturity.

**a.** Grants and non-repayable finance should still be among the funding options. After the COVID crisis many social enterprises will need financing with favourable conditions to get back on their feet and recover from the shock.

**b.** Established and mature social enterprises need to have financing options that meet their needs. Public money could be allocated for this purpose under a social investment fund umbrella, whereby the government could co-invest with other financiers.

**c.** Government policy should aim to mobilise private sector sources. The feasibility of a national guarantee fund should be assessed. This could be similar to the EaSI guarantee, which helps de-risk, for example, bank lending to social enterprise.

**d.** The administration of EU funds should become less bureaucratic and more flexible with regard to de minimis rules.

**5. Institutional framework:** the National Commission for Social Economy envisaged in the 2015 Law on Social Economy should be set up without delay and start coordination and collaboration across government departments in order to increase the effectiveness and efficiency of policies.

**a.** The Commission could be the negotiating and collaborating partner for other stakeholders in the ecosystem, most importantly for representatives of the social enterprise sector

**b.** The Commission could lead the effort to create and implement a national social enterprise strategy based on an ecosystem perspective.

**6. Skills and business development support:** the COVID-19 crisis highlighted the need for networks, support organisations, incubators and other intermediaries to support social enterprises in their efforts to adjust their business models and operations to the new reality. In Romania RISE has been the most active and vocal network to represent the interest of WISEs.

**a.** Such networks should continue to be welcome at the table when the National Commission or Social Economy is established

**b.** Grant funding should support networks and umbrella organisations that represent the interests of the sector and ensure the sharing of knowledge and best practices

**c.** Skills development and capacity building should accompany grant programmes in order to strengthen the impact of the financial support. This would include digital and online communication skills, business management and financial literacy as well as impact measurement and management.

**7. Culture:** Social enterprises in Romania need to get more visibility and recognition by the government as well as the public. Regular campaigns, awards or events could help enhance their awareness.

**a.** Social enterprise should be understood more broadly and include all businesses that wish to use entrepreneurial models to achieve environmental or social change.

**b.** Government should make efforts to implement a data collection and processing system, so that more accurate estimates could be published about the size, number and impact of social enterprises. In Romania the National Observatory for Social Economy could perform this function. The analysis could feed into policy making and provide the evidence base for assessing the effectiveness and impact of government measures.



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## Appendix 1.

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### Interviews

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COUNTRY  
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# Turkey



## 1. Brief definition and description of the impact economy

The impact economy includes a wide range of organisations and businesses that generate positive social and environmental impact using a business model. They may be social enterprises, startups, civil society or hybrid organisations. They may have a profit motif, but reinvest all or a large part of that profit into their mission. Impact enterprises are a new generation of socially responsible businesses whose ambitions go beyond corporate social responsibility. While impact enterprises are still in the small and medium size segment, they often define themselves as startups and SMEs in Turkey.

Social enterprise is not a legal category in Turkey. The sector is dominated by micro and small businesses, with an average number of employees around 10 and annual revenues not exceeding EUR 100,000, of which 75-100% originates from trading. This is similar to the structure of the enterprise sector, in which 94% is classified as micro enterprise.

In terms of legal form, the largest segment is cooperatives (28%), followed by limited liability companies and sole traders (both at 18%). Many nonprofit associations set up companies to house their social enterprise in order to benefit from both the nonprofit form and the company, the most relevant benefits being those that are offered to SMEs. These companies are taxed, however, so they do not enjoy preferential treatment despite their social impact. The most important impact area is education with an outstanding 21.7% of enterprises engaged in it.

Most frequently used sources of funding include personal finance, family&friends, grants&donations, in-kind support and sponsorship (only for older social enterprises); all of them depending on legal form and the maturity of the given social enterprise. Commercial loans are not widespread and crowdfunding was only used by a small number of social enterprises, despite its growing popularity.

Publicly funded social enterprise development programmes are usually run by regional development agencies, the most advanced being the Ankara regional agency. They offer small grants and use their influence and networks to build the social enterprise ecosystem in collaboration with other players.

### There are a number of opportunities that can accelerate the development of Turkish social enterprises:

- Increasing interest in sustainable products and services
- Growing number of social enterprises, especially those founded by young people
- Heightened interest in impact finance
- European Union (EU) legislation and best practices that influence and inspire Turkish players
- A social enterprise strategy to create a roadmap and a consistent approach on behalf of government
- New impact areas in need of innovative solutions, such as climate change, immigration, women's role in society or digital transition.

In 2019 the most important barriers to growth identified by social enterprises were the following:

- High taxes,
- Adverse economic conditions (volatile exchange rate, etc.),
- Regulation&bureaucracy,
- Lack of legal status for social enterprises,
- Limited understanding of the social enterprise model by public institutions and
- Lack of access to finance.<sup>56</sup>

## 2. The impact of the COVID-19 pandemic on the impact economy

### 2.1. Impact on business performance and financials

The COVID-19 pandemic had a strong impact on the impact economy overall, most enterprises experiencing huge drops in their sales and revenues. According to a survey carried out by Impact Hub Istanbul in the summer of 2020, nearly half of their forty respondents suffered revenue loss of 50% or more and had to significantly reduce their operations. Over 80% of Turkish social enterprises are young, less than two years old with non-existent financial reserves, so they were hit hard by the loss of business. Most organisations had to switch to crisis management mode, which included introducing the required health and safety measures, setting up the organisation for remote work and collecting relevant and valid information to base decisions on.

The crisis affected different segments of the impact economy in different ways, depending on business model, impact area, sector and their stage in the social enterprise lifecycle. Business models based on direct physical interaction, such as cafes or theatres companies had to shut down and suspend their services. Those working with digital technology, for example providing online education material, saw their sales soare. Those working on the ground, however, were badly affected due to lockdowns. Young social entrepreneurs were coping more successfully, as they are more digitally savvy and their businesses are often technology based, so they were able to adapt more easily.

Many early stage social enterprises were unable to launch their business, due to the restrictions and because their original assumptions were no longer valid. People who had been thinking about moving to the social enterprise sector from other businesses have put their plans on hold due to a number of uncertainties and challenges, such as fundraising difficulties. At the same time, new social enterprises were also founded during the pandemic, responding to newly emerging needs, rather than opportunity. The offer of pro bono support for nonprofit organisations and social enterprises increased significantly.

Where corporate support or grant funding was part of the income mix, organisations could find themselves in a very delicate situation. Collaboration with companies and funders stopped suddenly, leading to reduced incomes and organisations unable to pay their bills. Some are facing a very uncertain future and a very unstable financial

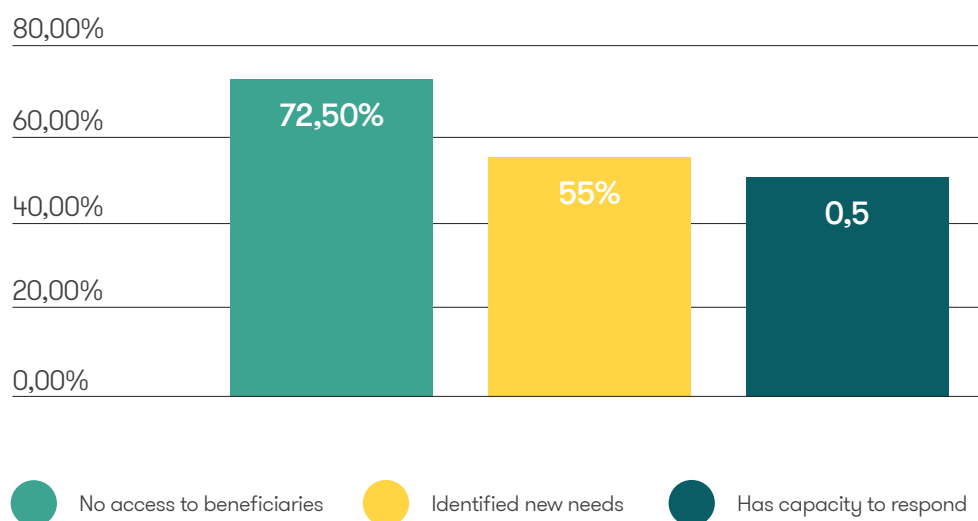


situation. Other enterprises became the victim of the pandemic, if they did not manage to find alternative ways of delivering their products or services or did not have the capacity to transition to a new modus operandi. One such example is a catering company serving ethnic food cooked by Syrian and Afghani women.

## 2.2. Impact on social mission and beneficiaries

Social enterprises are engaged in solutions for some of the most pressing social problems in Turkey, which include youth education and unemployment, the sustainability of food production and agriculture (rural society) and the situation of migrants. Most of these enterprises saw their impact potential affected by the pandemic. Due to the restrictions all enterprises and organisations working face-to-face with disadvantaged groups found themselves cut off from their beneficiaries. They were unable to provide services in their location or reach their beneficiaries in remote (rural) communities. Disadvantaged client groups, such as the elderly, women, children and disabled people became even more disadvantaged. A lot of women-lead social enterprises suffered, as women had to stay at home with their children when schools were closed. At the same time, social enterprises also identified new needs of their target groups, which have emerged as a result of the pandemic. Unfortunately a large proportion of them did not have capacity to respond to new needs. (Figure 1)

Figure 1. Impact of COVID pandemic on relationship with beneficiaries of social enterprises



Source: Impact Hub Istanbul survey 2020

There are 3 to 4 million Syrian refugees in Turkey currently, presenting a major challenge to Turkish society and the economy. Social enterprises have been working on their integration and upskilling (50% are below the age of 30). Over the past year, significant funds were redirected to fighting the pandemic, so migrant projects and businesses are facing a funding gap. According to the Ankara Regional Development Agency, funding for refugee integration has continued, but not many social enterprises work in this area.

While social impact delivery was negatively affected in a lot of cases, the pandemic overall created a better climate for nonprofits and social enterprises to explain their models and activities to the public as social issues became a lot more visible.

### 2.3. Impact on social mission and beneficiaries

Initially many social enterprises were quite desperate and started implementing immediate crisis management measures. Those were followed by more strategic revisions of their operations and business models. They considered pivoting in the business model, mostly opting for the digital way to sell their products or services, e.g. online trainings and workshops. 85% of the enterprises surveyed by the Impact Hub in Istanbul said that they were reconsidering their strategy. Early stage enterprises had the flexibility to change. Some of the larger ones that had the capacity and resources reacted by opening new chapters, launched new business units to remain more relevant and came up with a new offering. Teyit.org<sup>57</sup>, a fact checking enterprise, for example, added a COVID fact checking unit to increase its offer during the pandemic.

Many in the catering and restaurant sector turned to home delivery, while others, such as those in the creative industries started online broadcasting of their services. A capacity building social enterprise targeting producer communities, who lost its connection with the producers at the beginning, crafted a new engagement model, so it could carry on its work in a different way. There was support coming forth from communities in the form of customer loyalty as well as funding. Consumers became more conscious of their choices and online purchasing offers them a larger range. “Buy Social” type movements are gaining momentum among private and public buyers as well.

Creative industries, design oriented groups became very active, opening new movements particularly on COVID-related problems. Social enterprises have joined these groups with the purpose to collaborate, for example to develop a new health product or support communication. Later on, while in lockdown, many enterprises focused on internal matters and the improvement of their skills, procedures and plans in order to prepare for future scenarios.

**Imece**<sup>58</sup>, a social innovation platform switched to remote working mode and moved its programmes online. Three years ago they were engaging idea state entrepreneurs, a very human resource intensive undertaking. During the pandemic Imece launched an accelerator, focusing on growth stage enterprises and working with them online. They increased their scope to include impact management and reporting, since it had become a priority for social enterprises to access funds. Imece also succeeded to increase its geographic reach thanks to online methodologies.

### 2.4. Availability and relevance of government support measures

Government emergency measures focused first of all on important industries of the Turkish economy, such as tourism or hospitality and catering, which generate significant revenue and employ a large number of people. There was also a relief package offered to small and medium size enterprises (SME), but many social enterprises were not eligible. Informality is one of the problems. The Turkish economy has a large informal sector, a feature that is present in the social enterprise segment as well. Another obstacle is working with (unpaid) volunteers, most of whom were not eligible for unemployment benefits offered by the government.

There were no targeted measures for NGOs or social enterprises. Funding from regional development agencies, industry and research programmes were directed at SMEs to help them tackle COVID-related issues. e.g. manufacturing personal protective equipment (PPE) or digitalisation. Social enterprises are not a priority target group for many regional agencies, therefore they did not have specially designed intervention programmes for them. Some of the resources previously dedicated to social enterprise development were reallocated to COVID issues, so nearly all government funding for social enterprises stopped in 2020. Expectations are that this may change, as government programmes will open for young social entrepreneurs and associations that wish to convert into social enterprises. They will be eligible to apply to various grant schemes if they have the right legal form.

### 2.5. Other support measures

Specific COVID-related support measures were not offered to social enterprises by other stakeholders. International multi-year funding continued to be channeled to the refugee crisis, but no new funds were committed. Some incubators, such as Impact Hub Istanbul or Imece are planning to launch new support programmes in 2021.

## 3. Future needs, opportunities and challenges

There is a growing number of social enterprises in Turkey and their recognition and visibility continue to be important needs. Official recognition is crucial if they are to become eligible for support programmes offered by government agencies. If the recognition takes some form of registry, it will need consensus on criteria and the mechanism. Due to lacking government strategy towards social enterprises, there was no dedicated support package for them during the crisis or later for their recovery.

The COVID-19 pandemic highlighted the work and impact of social enterprises and increased media interest. This may present a good opportunity to raise the awareness of the public as well as policy makers. A good example is a recent national competition for social innovation for women's organisations sponsored by the United Nations Development Programme (UNDP) and Turkish NGOs.

Access to finance continues to be a major obstacle; research by Koc University Social Impact Forum (KUSIF)<sup>59</sup> shows that 70% of social enterprises struggle to find appropriate financing. The majority are small and medium sized, early stage and very few are scaling. There is a mismatch in size as well as type of finance offered. That being the case, the range of financing options is growing; there are examples of bank lending, angel investment and investment for impact, but more patient capital and blended finance solutions would be needed. Currently neither policies or the ecosystem offer solutions. There are only a few competent intermediaries and the sector lacks the necessary knowledge and experience in this field.

In the financing arena, opportunities may emerge from EU-funded refugee and livelihood schemes or dedicated social enterprise programmes managed by regional development agencies. The Ankara agency is a leader in this area and many other regional agencies look to them for best practices.

Impact investing is a new source of finance with a lot of potential, which, according to experts has to first be defined for Turkey. Discussions are underway to set up a National

Advisory Board (NAB) and to join the Global Steering Group for Impact Investing (GSG)<sup>60</sup>. Some experts warn, however, that impact investors would not be a real source of finance for many social enterprises, as they would focus on more mainstream businesses with impact and those that are scalable (e.g. in the energy sector or tech), rather than enterprises that address social issues.

Incubator and accelerator programmes are growing in numbers as well as output. Their role will be key to ensure that impact investors find investible propositions in a pool of social enterprises, where the majority are early stage, startups or validating their business models and relatively small scale. Incubators can also offer much needed non-financial support that should accompany investments.

The few social enterprises with proven impact and potential to scale are likely to be eligible for significant amounts of funding in the future. According to experts, however, currently there is no space to scale innovation. The opportunity and the money are there, but a framework and the necessary collaboration are missing. A genuine shift is required towards a more collaborative and partnership focused culture and mindset in the ecosystem, where stakeholders are constantly looking for meaningful opportunities of collaboration. The Turkish Social Entrepreneurship Network<sup>61</sup> coordinated by KUSIF involves central and local government representatives and can be instrumental in awareness raising as well as brokering partnerships with social enterprises.

Lack of access to markets is another main gap, but one that may present opportunities for social enterprises as well as procurement bodies, public and private. The Ankara regional development agency had launched some initiatives to raise awareness about socially responsible public procurement, but found that regulation provides little room for flexibility currently. The agency makes purchases from cooperatives, for example, and will continue focusing on the need to change procurement legislation. Public procurement is still very much considered as an administrative exercise, not looking for outcomes at all. Public sector should develop its capacity to understand and define social value, to measure impact and assess return on investment. Public procurement and partnerships with social enterprises could provide the much needed space for scaling social innovation that expert are talking about.

New market and funding opportunities can be presented by increased interest in climate change solutions at both local and national level. Consumer demand will reinforce this, so some experts wonder whether the bottleneck may occur on the supply side: how will social enterprises survive the COVID-19 crisis, and how can they respond to the unmet needs of the future?

Experts agree that impact businesses are going mainstream in Turkey and will likely shape the enterprise sector of the future. It will happen slowly and will take a lot of work, but it will happen. There is a role to play by mainstream business incubators and impact incubator programmes in changing the mindset, as well as in providing the tools and means. EU legislation and initiatives could also help push Turkey in the same direction, while examples and case studies can showcase best practices. Alignment with Sustainable Development Goals (SDGs) is on the public sector agenda, which is very good news for social enterprise and impact oriented work. „Once everyone starts speaking the SDG language, they will understand each other much better”<sup>62</sup>.

## 4. Conclusions

The impact economy and social enterprises were significantly impacted by the COVID-19 crisis in Turkey, but the majority showed resilience and survived. They managed to maintain or restart their operations during and after the restrictions and doubled their efforts to keep delivering social impact. Many of them only had their own resources and those of the immediate community at their disposal, but social enterprises are used to working in resource-poor environments, so they reorganised, involved volunteered and pro bono work and innovated.

There was no government support directed at social enterprises during the crisis, but they have a role to play in the recovery and rebuilding phases. Social enterprise achievements and impact were proved and highlighted once again under these difficult circumstances. Social enterprises can offer effective and scalable solutions to mounting problems in social care, healthcare, youth education and employment, and can include disadvantaged groups and remote rural communities in social and economic development. Turkey's young social enterprises and their growing ecosystem are in need of future support to share information and best practices, to mobilise and coordinate resources, to establish working partnerships and to test impactful models that can be scaled and that can take Turkey towards a more sustainable future.

## 5. Policy recommendations

The COVID-19 pandemic strongly affected the Turkish impact economy and within that the social enterprise sector. Yet many of the challenges and opportunities had already existed before the crisis and measures had been proposed to tackle them. The COVID pandemic only highlighted their importance. Policy recommendations should take the ecosystem view and address the seven areas indicated by the *EU/OECD Better Entrepreneurship Tool*.<sup>63</sup>

**1. Impact orientation:** post-COVID recovery should be centered around building a more sustainable and resilient economy that respects and benefits people, planet and profit.

**a.** Sustainable models of social enterprise should be mainstreamed and used as role models for other players in the economy. This would help SMEs move towards a more impactful approach, where they take into account quantifiable social and environmental impact in addition to business viability.

**b.** Mainstream business incubators and accelerators should be encouraged to embrace this approach and include impact considerations in their programmes. Impact incubators could offer their experience, tools and examples.

**c.** The government should encourage and incentivise good behaviour and sanction bad practices through legislation, procurement, certification or various awards. Impact orientation should be integrated in SME development programmes and new performance indicators (KPIs) should be used to assess progress of sustainable companies.

**d.** SDGs could be used as a common framework to set goals, measure progress and inform policy making.

**2. Legal and regulatory environment:** Social enterprises in Turkey need formal recognition in order to increase their visibility and their chances for public and government support. This could be done by creating a legal status or a certification mechanism. Such recognition could establish eligibility for development programmes, funding, preferential treatment and can also be used in socially responsible public procurement.

**a.** While social enterprises need to be recognised as special niche, they should continue to be considered as part of the enterprise sector and as such have access to SME development programmes, including in the post-COVID recovery phase.

**b.** Certified/registered social enterprises would receive benefits such as tax breaks, bonus points in public procurement or special subsidies. This may help reduce the informality of the sector and make it more visible.

**3. Access to markets:** social enterprises proved their capacity and commitment to provide services even in the most difficult times, so public sector contracting and social procurement should be opened up to them.

**a.** Diverse forms of collaboration between public bodies and social enterprises should be encouraged. Public procurement is one form of collaboration, but there are other, less complex ways, such as joint events, research or training, or direct purchasing deals for social services.

**b.** Socially responsible public procurement (SRPP) may be more feasible at local level due to size considerations and information flow. Thus social procurement should be piloted at local level to offer successful cases for replication elsewhere. Regional development agencies could lead the way to support local authorities in interpreting and implementing legislation and in building the capacity of their teams.

**c.** SRPP should be considered within a national social enterprise development strategy framework, whereby other measures, such as capacity building about procurement or financing for organisational sustainability could underpin the procurement measures.

**d.** EU directives (2014) on socially responsible procurement could inspire Turkish legislation to create the instruments that interested public officials could use, e.g. reserved contracts or division of contracts into smaller lots. SRPP guides and online platforms can help matchmaking and capacity building on both sides.

**e.** Skill building and awareness raising of public authorities and purchasers is very important for social procurement to take hold and government should invest in training and information platforms to facilitate this. There is no need to reinvent the wheel; using tried and tested models in other countries could save money for the public purse.

**f.** Private procurement is a promising opportunity in Turkey, as more and more corporations are interested in social impact. “Buy Social” campaigns could receive a lot of attention and get corporate customers on board. Becoming part of private procurement supply chains could be a way for social enterprises to access public sector contracts as well.

**4. Access to finance:** available government financing should be more appropriate for the needs of social enterprises at different stages of maturity.

**a.** Small grants should continue to be offered. Regional development agency programmes could make them arrive at the right recipients.

**b.** Government policy should aim to mobilise private sector sources that are waiting to be deployed. Impact investment seems to be a hot topic and current

enthusiasm could be harnessed, if a few successful investment pilots could be supported. Impact and impact investment, however, should be defined and positioned in the current ecosystem in order to avoid impact washing. Sustainable Development Goals (SDGs) could be used as an overarching framework for public sector grant programmes as well as impact finance.

**c.** Repayable financing options and blended finance for growth stage or scaling enterprises could be considered further by the government and conditions should be revised.

**d.** EU funding for social enterprise development and ecosystem building could be used for supporting intermediaries and further diversifying the range of financial instruments offered.

**5. Institutional framework:** coordination and collaboration across government departments and regional development programmes would be vital in order to increase the effectiveness and efficiency of social enterprise development policies. A social enterprise coordination unit could be set up in the department with the most relevant resources.

**a.** This unit or commission could include representatives from all stakeholder groups and provide a forum for dialogue and collaboration.

**b.** The social enterprise coordination unit could be leading the effort to create and implement a national social enterprise strategy based on an ecosystem perspective. The strategy should envisage support for all stakeholders in the ecosystem, collaborate with existing actors and incentivise their active engagement.

**c.** The Turkish Social Entrepreneurship Network and other umbrella bodies should be invited to the table to represent the voice of a diverse social enterprise community.

**6. Skills and business development support:** the COVID-19 crisis highlighted the need for networks, support organisations, incubators and other intermediaries to support social enterprises in their efforts to adjust their business models and operations to the new reality.

**a.** Incubator and accelerator programmes should enjoy government backing and funding, as they can provide the non-financial support that increases the effectiveness of funding and investments.

**b.** Intermediaries should receive long term support to create their own sustainable business models.

**c.** Universities should be further encouraged and funded to include social entrepreneurship and social innovation in their curriculum. Future initiatives could build on successful projects of KUSIF or TED, including a research and education component.

**d.** Grant funding should support umbrella organisations that represent the interests of the sector and ensure the sharing of knowledge and best practices in peer-to-peer schemes

**e.** Special attention should be paid to impact management and measurement know-how, tools and practices.

**7. Culture:** social enterprise is gaining visibility in Turkey, where entrepreneurial solutions enjoy a strong preference of young people. Government should use this opportunity to introduce supportive legislation and fiscal incentives to encourage this trend.

**a.** Social enterprise should be understood more broadly and include all businesses that wish to use entrepreneurial models to achieve environmental or

social change. The introduction and promotion of a certificate could strengthen the concept.

**b.** Startup and social enterprise support programmes should be open to enterprises of all forms and be flexible to handle the informality that is still prevalent in the Turkish enterprise sector. Award programmes and competitions could offer the opportunity to idea stage enterprises to register and become official. More favourable tax rates and regulations could encourage people to pay rather than avoid tax, and thus contribute to a more visible enterprise sector.

**c.** Government should make efforts to implement data collection and processing systems, so that accurate estimates could be published about the size, number and impact of social enterprises on a regular basis. This could feed into policy making and provide the evidence base for assessing the effectiveness of government measures.





## Appendix 1.

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COUNTRY  
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# Ukraine



## 1. Brief definition and description of the impact economy

Social entrepreneurship is in the early stage of development in Ukraine offering huge opportunities but also facing surmountable challenges. The number of initiatives and social enterprises have been growing since 2015 thanks to increased donor support to address the multitude of social issues associated with the conflict in Eastern Ukraine (Internally Displaced persons (IDPs), children and women affected, ATO<sup>64</sup> veterans) and economic stagnation.

In Ukraine there is no specific definition or legal recognition of social enterprise, but in practice the European Union (EU) concept has been used as a basis. The Directory of Social Enterprises<sup>65</sup> defined social enterprise as an organisation that solves social or environmental problems, regardless of its legal form. It had to meet three criteria:

1. employ vulnerable population groups, such as ATO veterans, IDPs, people with disabilities or rural residents
2. use profits from its activities to support the activities of NGOs or other charitable organisations and foundations
3. use profits to finance services for socially vulnerable population groups.

The Directory listed 150 social enterprises in 2017, which were mostly small businesses employing up to five people and mainly operated in agricultural production and sales, the food industry, public catering and garment manufacturing sectors. The majority pursued the goals of employing socially vulnerable population groups. This data was referenced by a number of mapping studies conducted in 2018<sup>66</sup>.

According to a more recent estimate<sup>67</sup>, however, the number of social enterprises could be around 1,000 in 2020. The impressive growth can be explained by the ever growing need for the integration and employment of vulnerable groups for which social enterprise is considered an appropriate vehicle. The latest figure includes not only public organisational forms, but natural persons, private enterprises and companies as well. (Figure 1.) According to some experts the most successful social enterprises in Ukraine are those incorporated as small and medium size enterprise (SMEs) rather than those that are run as civil society organisations.

This broader understanding of social enterprise is closer to the impact economy concept, although the term is not used in the Ukrainian context. All studies reviewed and people interviewed for this research agree that social enterprises are still associated with civil society and NGOs and not entrepreneurship, given their motivations and origin. The above criteria of the Directory fail to recognise that social enterprises are businesses at their core, which need to generate profit and present viable business models in order to attract financing for their growth. A new understanding of impact enterprise could open new opportunities for this sector both in the public and the private domain.

Ukrainian social enterprises can rely on a number of funding sources. In addition to founders' own money grants from international donor agencies (e.g. USAID or United Nations Development Programme (UNDP)) and a few Ukrainian philanthropic foundations are used for setting up a social enterprise, mostly in the Eastern part of the country. Financing ongoing operations and growing businesses can rely on sales revenue, sponsorship and to a lesser extent debt. Crowdfunding has become a very popular and successful fundraising method for a number of social enterprises and other charitable projects. Social investment and impact investing has played a very limited role so far, due to the missing legal framework and the lack of investable propositions. Although Ukraine does not have a social enterprise law or strategy yet, steps had

<sup>64</sup>Anti-Terrorist Operation veterans – term referring to veterans of the Ukrainian military who participated in combat in Donetsk and Luhansk regions during the conflict with Russia

<sup>65</sup>The source for the Directory in the was <https://socialbusiness.in.ua/>, but this site is no longer available

<sup>66</sup>The Pact (2018) or Rosandic A, Smal V. (2018)

<sup>67</sup>Kamenko (2020)

been taken in the past to develop those. In 2019 national and international experts collaborated to draw up the Green Book on Social Entrepreneurship in Ukraine<sup>68</sup>, which assessed the state of social enterprise and aimed to feed information into government policies. A working group was also set up to create a draft “Concept note on the development of social entrepreneurship in Ukraine” for adoption by the Cabinet of Ministers in Ukraine (CMU). Unfortunately, that has been postponed to Q4 2020<sup>69</sup>.

Figure 1. Organisational and legal forms of social enterprises (% of total)



Source: Kamenko I (2020), Social entrepreneurship in Ukraine: economic and legal analysis, EU4Youth

Uniquely in Ukraine the SME development strategy 2017-2020, included fostering the development of social entrepreneurship as an objective under the Strategic Direction 4 “Promoting entrepreneurship culture and develop entrepreneurial skills”. Considering social enterprises as part of the SME sector can be justified, since they are similar in size and exhibit a lot of other similar characteristics (e.g. financial situation, skill set, local impact). It would also help mainstream the concept of impact enterprise. SMEs are vital to the Ukrainian economy; they currently account for 64.6% of employment and 52.8% of value added<sup>70</sup>. According to some experts the SME context is the best chance social enterprises have for recognition<sup>71</sup>.

### There are a number of opportunities identified for the social enterprise sector<sup>72</sup>:

- The presence and increased role of intermediaries and support organisations, such as Impact Hub that can offer capacity building, networking and communication to impact enterprises
- The potential of crowdfunding, which has been a key source of funding for social enterprise initiatives
- The continued interest of international donors and some impact investors (e.g. Omydiar Network) in social businesses
- Government SME development strategies, which included a social enterprise development strand in the past
- The introduction of a social enterprise law, which could bring formal recognition to social enterprises, help promote the model, facilitate data collection and possibly make the design of appropriate support measures easier. There is an ongoing debate about the

need for a separate law and preferential treatment of social enterprises, as some experts fear abuse of these measures or the marginalisation of social enterprise as a small niche in the economy.

### The main barriers that slow down the sector's development can be summarised as follows<sup>73</sup>:

- Lack of legal recognition, which prevents or limits government support
- Insufficient communication between the actors in the ecosystem
  - Lack of access to finance, both startup and growth capital
  - Lack of skills and human capital development, also contributing to the lack of systemic communication
- Gaps in the skills and practice of measuring the impact of social enterprises

## 2. The impact of the COVID-19 pandemic on the impact economy

### 2.1. Impact on business performance and financials

The pandemic and the consequent lockdowns and restrictions had a negative impact on Ukrainian micro, small and medium size businesses. Similarly to other countries, they experienced a significant drop in sales and revenue and major disruptions in their supply chains and distribution, leading to declining outputs and risking liquidity crisis.<sup>74</sup>

One interviewed organisation confirmed this speaking about their own community, where businesses are important actors. The city of Ivano-Frankivsk is home to a lot of micro and small businesses in the services sector that was severely hit by COVID related restrictions. Some of the businesses have had to close down. Government support would have been vital to help them with rent or social support payments. They would have needed easy to obtain financial aid with clear eligibility criteria, available for different types of businesses.

There are no available surveys or studies about the impact of the COVID-19 pandemic and crisis on social enterprises, but many of the negative effects observed in the SME sector can be observed there too. Most social enterprises are counting their losses and many have had to halt their operations for several months. They were hit financially, their cashflow became unpredictable and their social mission suffered. Social enterprises in the hospitality industry (restaurants and cafés) that employ people with disabilities are a good case in point, where closure meant suspending beneficiaries' work schedule and employment. Social enterprises working in education are the only exception, given that all teaching and instruction moved online, so they saw an urgent need to ramp up their online capacities.

**Urban Space 100**<sup>75</sup> is a community owned restaurant, perhaps one of the best known social enterprises in Ukraine. Innovation platform Teple Misto<sup>76</sup> in Ivano-Frankivsk is the owner of the idea and took an active part in promoting the fundraising effort to launch the restaurant in 2014. One hundred private individuals financed equal shares of USD 1,000 as one-off charitable donations. They became the owners of the business and the funding collected this way became its founding capital.

The restaurant does not distribute all of its profit to the owners; 80% of the net gain is directed to fund public development projects in the city. This is done through quarterly calls for proposals and the decision about support is made jointly by the shareholders. One hundred and twenty projects have been funded so far.

Urban Space has been replicated already and Teple Misto continues to receive inquiries. Urban Space 500 funded by five hundred shareholders was opened in Kyiv in 2018. It is a social franchise, involving new partners for both business and social elements. The ambition is to create more Urban Space restaurants in other cities of Ukraine.

Urban Space 100 is an enterprise engaged in one of the most affected industries by COVID-19, hospitality. It had to close once restrictions were imposed and only reopened recently to operate at 50% capacity. Social events were initially migrated to the online space, but stopped later on. While closed, the restaurant switched to home delivery and takeaway to be able to keep some of the revenue flow. Staff was forced to go on unpaid leave during the first wave of the pandemic, which resulted in some turnover.

Revenue and profit have been dramatically affected, which had an impact on the profit sharing ability of the business. In the past 12 months three of the four quarterly calls for project proposals had to be cancelled due to lack of funds to distribute. Despite the difficulties, Teple Misto is optimistic. Once the restrictions are lifted, they hope to be able to return to earlier success, possibly employing a new management company.

## 2.2. Impact on social mission and beneficiaries

According to the founder of a major crowdfunding platform, philanthropic giving increased during the pandemic and organisations were keen to use community funding to an extent unseen in the past. People were not only more willing to donate to projects, but crowdfunding also mobilized them to start activities, for example by creating projects to remedy the health situation in certain communities. Consumers started to support small businesses by becoming their customers or by purchasing larger quantities and paying upfront. More sharing and solidarity was exhibited by the business sector as well, which was a novelty. Big businesses provided funds for medical equipment or to support nurses.

**Biggggidea<sup>77</sup>** is a social innovation platform that considers itself an enabler for local projects by introducing crowdfunding and promoting the culture of giving. Biggggidea also shares crowdfunding know-how with others, so they can implement their own crowdfunding initiatives in local communities. The current focus is small cities, after having created strategies for larger ones, like Kyiv.

Biggggidea did not suffer a setback during the COVID crisis. They continued to grow and doubled their income in 2020 thanks to the online model and a strong motivation of people to give in times of emergency. Biggggidea have always combined online and offline activities, as they felt that was more effective for communities. In 2020, however, the emphasis shifted to online communication and development.

<sup>77</sup><https://biggggidea.com/projects/>

### 2.3. Measures implemented by social enterprises

Interviews conducted for this research suggest that social enterprises deployed the same tactics as other businesses and organisations during the pandemic: move their communication and activities online, send staff to home office, launch a webshop to maintain sales, introduce cost cutting measures, diversify their customer or donor base and apply for government emergency measures, if eligible. The urgency caused by the COVID-19 crisis accelerated the pace of skill development in social enterprises, especially regarding digital and organisational skills. “Those who were not able to adapt digitally, suffered.”<sup>78</sup> Some development would have never taken place had it not been for the pandemic.

A number of social enterprises tried to change their business model to adapt to the new situation, which they now understand is going to last. Restaurants, for example, introduced take away options or delivery services, some invented new products such as “ready to eat” meals. Another example is a social enterprise that “employs” elderly people in childcare: it had to create new services online, so this led to grandfathers and grandmothers reading bedtime stories using Zoom.

According to an interviewed expert only few social enterprises have had to close. Although they do not have significant reserves, many were still able to finance themselves from grants they obtained from private donors. Many enterprises are busy creating contingency plans for a next crisis, be it a pandemic or of a different type.

**Teple Misto (TM)** decided to get involved in anti-crisis fund that aimed to help doctors with personal protective equipment (PPE) and other protection measures. Public sector help was of low level and not very organised. It was an atypical activity for TM to procure, pack and distribute medical equipment, so it joined up with four other organisations and initiatives to cooperate on daily basis. Since some of the regular TM activities were closed, the organisation had the capacity to carry out this new activity for 2-3 months on a volunteer basis. Participating in such a joint effort had a positive impact on TM’s external image in the eyes of their supporters. The most loyal business partners continued their donations under the corporate social responsibility (CSR) banner. This is very important, even though those donations make up only 10% of the total income, as they demonstrate the long term commitment of the partners. The strong collaborative effort in the anti-crisis fund was a positive outcome of the COVID-19 pandemic for Teple Misto.

TM was able to maintain some of its important initiatives for encouraging citizens to take a proactive role during the crisis, for examples the small grants programme directed at small organisations combined with online training and mentoring.

### 2.4. Availability and relevance of government support measures

Ukraine’s initial strategy to respond to COVID-19 was mostly that of containment (similarly to other Eastern Partnership countries), which resulted in restrictions and lockdowns that slowed down the economy. At later stages the government introduced measures to aid the survival and recovery of companies (small and large), offering favourable loans, easing of tax and rent payments, salary subsidies, etc.

There was no targeted support of any kind for social enterprise during the pandemic. Some NGOs were able to get discounts on rent they pay to the municipality, but that was always a local decision. Social enterprises registered as sole proprietors

were eligible for government subsidies targeting the SME sector. Interviewed social enterprises agreed that the central government did too little too late, not only for their sector but for enterprises in general. Volunteers and nonprofit organisations filled the gap (see above example of collaboration in the anti-crisis fund). According to one of the interviewed organisations, the government lacks impact orientation and a strategy for social enterprises, which could be the reason for not offering any assistance to them. Experts agree that social enterprises cannot expect much from the state and they should instead rely on peer-to-peer support. More interaction and collaboration between players of the ecosystem can lead to better results and more effective representation towards government.

### 3. Future needs, opportunities and challenges

Enterprise management skills and mentality need further development in Ukraine. One of the key gaps identified in a mapping study in 2018 was the lack of skills and human resource capacity of social enterprises to run a sustainable business<sup>79</sup>. The COVID-19 crisis confirmed how important those skills are in order to create resilient enterprises and organisations. Enterprise is a long term undertaking, it requires the commitment of the entrepreneur, the team and the funders. At the same time, it leads to more sustainable solutions and social impact. Formal education in Ukraine tends to still be fairly academic, so a practice oriented approach encouraging people to start things small and allow them to fail could boost their confidence<sup>80</sup>.

Social investment can present an opportunity for investing in social enterprises in the growth stage. The first Ukrainian social venture fund has already run a successful pilot making five investments at USD 5,000 each. Showcasing this successful experience could mobilise available capital and pave the way for others to co-invest and for larger projects to be launched. Legislation would need to follow these developments and create favourable conditions for investments.

In the meantime, smart grantmaking can help foster a more investment oriented mindset and result in more sustainable social enterprises. Recoverable grants are used by more and more donors (e.g. Canadian or US), who require business plans rather than project proposals, and give importance to the capacity building that accompanies financial support.

Working with the Ukrainian government on more social enterprise friendly strategies could also be an opportunity. According to some interviewees the government has a positive attitude to social enterprise, but their attention is limited to regulation. Unfortunately, central government is short-sighted and cannot see beyond the next general election, so long term impact is not a priority. Their focus is narrow even in new development areas such as the green transition; they mostly concentrate on the large scale energy sector, ignoring other innovations that aim to create a more sustainable and resilient economy.

Some social entrepreneurs believe that what is needed instead is a strategy that is rooted in the desire to solve burning social problems facing Ukrainian society. Government should stop seeing social enterprise as a mere phenomenon that needs to be registered and catalogued. They should consider them as agents of innovation and change that drives impact. Even if registration for a social enterprise status will be necessary in the future, the government could offer incentives (e.g. a voucher), to make it worthwhile for organisations to do it. A national social enterprise strategy



would need to be integrated with innovation in education and community development. Resourcefulness and the ability to adapt are key to survival in this crisis and the next, so it would be important to give people ownership and allow them to become leaders of their initiatives<sup>81</sup>.

Another opportunity mentioned in interviews is the generally positive attitude of society and the overwhelming feeling of solidarity and community. In current times it is citizens who have taken action, not the government. They can be more flexible and have a stronger interest. This has been demonstrated time and time again during the pandemic and in the outpour of support in recent crowdfunding campaigns. At the same time, „people are scared too, they do not want to mix with others”<sup>82</sup>. Civil society and the impact economy need to find new creative ways to dismantle this fear; new types of projects can help people socialise and collaborate safely. Collaboration and co-creation also present important opportunities according to interviewees.

The COVID-19 pandemic highlighted the effectiveness of joint action and communities, but people are not necessarily thinking impact yet. Project design should include the constituency voice and the beneficiaries, and come up with value based models, which could be financed by crowdfunding, tested, and if successful, replicated. Urban Space 100 is a perfect example and prototype. This way the community becomes the source of funding and initiatives become part of an impact economy – it would be a fundamental shift in how impactful solutions are created.<sup>83</sup>

The decentralisation process taking place in Ukraine also presents an opportunity, as it allocates resources to municipalities to use as they see fit. The reform brings money to local communities, so they can become more independent and more active implementing projects that matter to them. Social enterprises could be great partners of municipalities in addressing local social issues and cities are more flexible partners than central government. A good example is the city of Lviv and its cultural fund, which will co-finance crowdfunding projects and those initiated by businesses.

## 4. Conclusions

There is little systemic information or data about the impact of the COVID-19 crisis on social enterprises in Ukraine. Interviews conducted with three selected players in the ecosystem have highlighted a few specific issues affecting the development of the sector, but they mostly emphasized the same challenges, opportunities and recommendations that existed before the pandemic.

The crisis brought impact to the front; businesses as well as individuals and communities have become more aware of the social and environmental consequences of their actions and want to engage in more impactful activities. This may offer more opportunity for social enterprises in the future.

Government action has been insufficient or missing completely when it comes to supporting social enterprises during difficult times. In the rebuilding phase more initiative and timely measures are expected of government, recognising social enterprise impact and models. The social enterprise legislation and strategy are not on the priority list at the moment; their approval pending.

While advocating for formal recognition of social enterprises as a separate legal status, many players would like to see social enterprise as part of the mainstream enterprise sector. They believe that this could make social enterprises more business oriented and could include them in a broader category along with impact businesses. Being part of the enterprise sector would mean that social enterprises could benefit from government programmes targeting SMEs.

## 5. Policy recommendations

The COVID-19 pandemic was a significant setback for many social enterprises in Ukraine, similarly to mainstream micro, small and medium enterprises. Yet many of the challenges and recommendations for the recovery and rebuilding phase are not connected to this crisis. They had been considered and discussed before and the pandemic highlighted their necessity. The key policy recommendations are organised according to the seven ecosystem areas indicated by the EU/OECD Better Entrepreneurship Tool.<sup>84</sup>

**1. Impact orientation:** The pandemic brought impact to the fore for a lot of businesses and individuals, who are more aware of the consequences of their activities now. The narrative for post-COVID recovery is likely to be centered around sustainability and a resilient economy, highlighting successful examples of impact enterprises. More awareness raising is necessary to explain to companies what an impact business is and how it is different from CSR initiatives.

### 2. Legal and regulatory environment:

**a.** It would raise the profile of social enterprises if they were recognised as a special type of enterprise, and if a certificate or status could be awarded to those who meet the criteria. Some practitioners even suggested that the status should only be awarded for a limited period of time. The criteria, however, should be broader than those set in the current Directory of Social Enterprises. The status or certification should provide clear benefits to enterprises who go through the process (subsidies, tax breaks, grants), yet the government must be careful with preferential treatment in order to avoid abuse and fraud. There is ongoing discussion whether Ukraine should pass specific social enterprise legislation and the jury is still out.

**b.** While social enterprises are recognised for their social impact, they should also be regarded as businesses that need to be sustainable in order to meet their social goals. If they are considered as part of the enterprise sector, social enterprises should be eligible for development programmes aimed to boost SMEs, including in the post-COVID recovery phase. If impact orientation is fostered in the small and medium enterprise sector, there may not be a need for specific social enterprise legislation at all.

**3. Access to markets:** Public sector contracting with social enterprises and social procurement are not yet on the horizon in Ukraine. Nevertheless, skill building programmes could start to sow the seeds both in the public sector and among enterprises. Innovative municipalities and cities could be supported to conduct procurement pilots and share their experience. Access to private sector markets could be improved by supporting the marketing and sales capacities of social enterprises through incubators and accelerators.

**4. Access to finance:** Available financing should be more appropriate and take into account the needs of social enterprises at different stages of maturity.

**a.** Startup finance needs to be accessible for small startup companies.

**b.** New and innovative financial instruments could be piloted for growing and scaling business.

**c.** International donor resources should be coordinated in order to get the best results.

**d.** Social investment and impact investment should be encouraged by offering public funding to de-risk investments or by co-investing in promising investment targets.

**5. Institutional framework:** a cross sectoral body should be set up to facilitate communication and collaboration between actors of the ecosystem. Ideally, the government would delegate a high level representative to this body, who could become the champion of social enterprise within public administration. Such a cross sectoral group could lay the foundations of a national strategy for social entrepreneurship.

**6. Skills and business development support:** The COVID-19 crisis highlighted the

need for enterprise management and business skills for social enterprises. Government should include a skills and capacity building component in all of its financial support programmes and fund existing incubators and accelerators that can offer those skills. In addition to central government programmes, municipalities could collaborate with and support local social enterprises, including them in business networks or associations.

**7. Culture:** The 2017-2020 SME strategy for Ukraine already recognised that the entrepreneurial culture would need to be strengthened in order to boost the micro, small and medium enterprise sector, which is the backbone of the economy. Fostering social entrepreneurship is an important element of that future entrepreneurial culture. Social enterprises should be held up as role models for other businesses on how to create impact oriented businesses.

**a.** Such showcasing could happen through awareness raising campaigns, awards and the recognition of social enterprise models and their impact.

**b.** The Green Book on Social Entrepreneurship and new studies should be used to create a social enterprise development strategy. Alternatively, CMU should approve the updated Concept note on the development of social entrepreneurship in Ukraine.

**c.** Government should make efforts to implement a data collection and processing system, ideally separate satellite accounts, in order to have regular information and statistics about the impact economy sector in order to support policy making.



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## Appendix 1.

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### Interviews

**Alena Kalibaba** Chasopys Creative Family

**Iryna Solovey** Biggggidea

**Iryna Kovtun** Teple Misto

# Social Economy & Entrepreneurship in CEE + Turkey post COVID-19

*CZECH REPUBLIC, HUNGARY, ROMANIA, UKRAINE AND TURKEY*

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