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Social Enterprise in Central Europe

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Ten years ago, the term 'social enterprise' was unknown in Central Europe. Today in the countries where NESsT operates (Croatia, Czech Republic, Hungary, Romania and Slovakia), interest in the concept and awareness of its potential is growing within both public and private sectors, a result of the financial crisis, growing unemployment and increased recognition of its potential to bring economic opportunity to marginalised communities.

However, terminology remains confusing. 'Social enterprise' is translated and used differently in nearly every country in Central Europe. Currently there are no comprehensive data on the size and scope of the social enterprise 'sector' either regionally, or in specific countries.

Public policy and government support

Every country in the region has legislation to foster (and/or subsidise) 'sheltered workshops', providing employment creation for people with disabilities, people who are HIV positive, etc and these are the chief model of social enterprise. However, most national governments, facing increasing budget constraints, are cutting such incentives. Employers in Romania and the Czech Republic with more than 50 employees must employ at least 4 per cent from this group or buy products from social enterprises that do, on penalty of a fine (some Czech firms, however, pay the fine as it's cheaper than compliance).

In Slovakia, the environment for social enterprise has bordered on hostile. In 2008, a draft law forbidding associations from undertaking any form of enterprise activity (which would have been a major blow to the country's fledgling social enterprise sector) was only averted by an outcry from social enterprise and legal experts.

Local governments in Central Europe have also recognised the potential of social enterprise for delivering critical social services and creating economic opportunity. It is common in Romania and Slovakia, for example, for local governments to subsidise either the salaries of workshop staff, their utility costs or rents.

European Union (EU) funding has also played a significant (and increasing) role. In Romania, the European Social Fund has a special line for supporting the social economy. In Hungary, a significant amount of EU funding has been channeled through and used by the state-run National Employment Public Foundation (OFA) to support sheltered workshops.

Legal, tax and regulatory environment

As elsewhere, social enterprises in Central Europe take a variety of legal forms, while the tax regime for them is likewise mixed. In most countries of the region, if a charitable organisation operates a social enterprise (other than a protected workshop) unrelated to its core social mission, it has to pay a profit tax just like a private company.

In Hungary, a new legal form, the 'social coop', was introduced in 2006 (much like similar entities in France and Italy), followed in 2007 by the 'non-profit company', though there are many limitations on the scope of business activities under this form. In 2008, a new 'social enterprise' legal form was created in Slovakia which has added to confusion surrounding the idea of social enterprise, since it is the name given to government-run employment schemes funded by the EU.

There is growing interest in social enterprise amongst universities and students in Central Europe. Charles University in Prague, Zagreb Business School, and the Corvinus and Central European University (CEU) business schools in Budapest have all developed cases, courses or clubs on social enterprise.

The private sector

Finally, private sector interest in social enterprise is also growing. Local businesses like leading Czech brewery Plzensky Prazdroj have co-hosted social enterprise competitions with NESsT, while Philip Morris CR has supported the Academy of Social Entrepreneurship at the VIA Foundation in Prague to train local NGOs to develop revenue-generating enterprises. Citi has supported NESsT national social enterprise competitions in Czech Republic, Hungary and Slovakia for the past four years. In addition, Citibank Hungary has partnered with NESsT to support for-profit social enterprises in Hungary. More recently, Erste Bank Group and ERSTE Foundation have launched the good.bee initiative to support microfinance and social enterprise through its banking network in Central Europe. The Central European private equity industry has emerged as one of the most active sources of private sector support for NESsT's portfolio of social enterprises through the CEE Private Equity Shares campaign.

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