

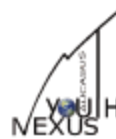
TBILISI, GEORGIA



ONE STEP AHEAD

Policy Recommendations

For Social Entrepreneurship Educators and
Youth Workers



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602727-EPP-1-2018-1-GE-EPPKA2-CBY-EP-PE

Social Entrepreneurship in Georgia

1. Identify the issue

First and most important issue that delays the development of social entrepreneurship in Georgia is the absence of legal regulations regarding the topic.

Due to this fact, SEs doesn't have any benefits from the government and they have to pay taxes as usual. This is the second issue.

Final issue that we're going to discuss is the lack of access to loans for SEs.

2. Analysis

Due to the fact that we don't have a specific law that regulates social entrepreneurship, we don't have a legal framework to establish a social enterprise. This is the biggest issue, because until the social enterprise doesn't exist as a legal entity, we can't discuss the benefits it can have from the government.

Having no legal framework for social entrepreneurship in Georgia creates quite a lot of problems to existing social enterprises. Moreover, there is no act that defines social enterprises and they're not mentioned in "Law on Entrepreneurs", "Tax Code, or "Law on Public Procurement". Subsequently, the problem is caused by tax barriers and lack of supportive regulations that delays the development of the sector. In addition, there are no government agencies in Georgia that are responsible for the support and development of social entrepreneurship.

Central and local government programs aimed at SE development are very rare. Moreover, there are no specific budget programs aimed at developing this sector.

Sources of financing for social enterprises are not diverse. The majority of Social Enterprises do not have more than 1 source of income. Some of them depend on grants received from international/local NGOs, and another part depends on entrepreneurial activity. Social enterprises do not have access to flexible loans; there are very few cases of issuing state grants to social enterprises. In state procurements there are no incentives to encourage SEs to participate.

SEs are obligated to pay income tax for the grants they receive. Also, if more than 10% of their profit is used for charity they are also paying taxes. Because Social Enterprises are

mostly established within the framework of NGOs and they are not exempt from taxation. If they register as micro-business, which allows them to have benefits regarding taxes, the regular business consumer will have to pay taxes for them according to the law on procurement. This fact drives the regular businesses to purchase from another regular business. Therefore social enterprises remain registered as NGOs in order not to lose clients.

Usually SEs have a lot of expenditures, due to the fact that they hire people from marginalized groups, who may need more time to learn and have a good performance, therefore it's a challenge for social enterprises to earn as much money as a regular business would, and the loans offered to regular businesses is too expensive for them.

To tackle all these problems and challenges NGOs, SEs and the government need to cooperate.

Source: Social Economy in Eastern Neighborhood and in the Western Balkans, Country report – GEORGIA, February 2018.

3. Recommendation.

Legal Framework of Social Enterprise

First of all, it is really important is to define in legislation the following terms “social enterprise” and “social entrepreneurship”. There are different ways to do that. We can define the terms mentioned above in civil and tax code. We can also create a separate law. If we take into consideration international experience and local environment it's better to adopt a separate law. Separate law will regulate other specifics as well and it will support the development of this sector in the country.

After the SE is regulated legally, the students will also have this topic in the curriculum and it will support the popularization of social entrepreneurship in the country.

Tax regulations

After introducing special law for Social Entrepreneurship important thing is to have proper taxation system. SEs has many obstacles with taxation. It should be changed if we want to support the development of the sector:

Whenever social enterprise gets grants, it's important that the money should not be seen as an income and need to be freed up from profit tax. They shouldn't be limited to the amount of money that they are spending for charity. It is important to allow SEs to receive grants for entrepreneurial purposes. Therefore, changes should be made to the Law of Georgia on "Grants" and in the Tax Code.

Access to loans

In order to increase access to finance, it is very important for SEs to have access to loans. This change should be made with cooperation between the government, business, microfinance and banking sector.

Social enterprises should have some benefits when receiving loans. They shouldn't be as expensive as for the regular businesses. It would be even better if the SEs would be provided with trainings, mentoring or consulting from professionals about managing business and etc. where NGOs can also be involved. This will increase efficiency of the financial resources they use, in this case the effectiveness of the loans.

There is an urgent need of creation a platform for social enterprises monitored by the state service. There companies will have an opportunity to register as social enterprises where people with disabilities are working. The Ministry of Finances and Revenue Services will be accountable for monitoring the platform mentioned above.

Due to the fact that the people with disabilities are already registered in the Social Service Agency and have documentation proving their specific needs they will have an ability to have a refund of the revenue service of 20 % income tax back to the companies they are working in. This will act as a motivator of creating new social enterprises employing disadvantaged people.

The topic itself is becoming popular among respective home community members of Georgia. Some of the social enterprises are not following the basic principles of the social

entrepreneurship. As a result if there is a grant opportunity or financial support coming from different stakeholders they will find it hard to identify which of the social enterprises should have those financial support.

Social Entrepreneurship for Youth in Moldova

Issues:

- I. Inefficient national mechanisms for the implementation of social entrepreneurship policies in Moldova and monitoring of the implementation
- II. Low level of social entrepreneurial education among youth
- III. Ambiguous and non-applicable fiscal regime for social entrepreneurship

Background:

Issue I

Inefficient national mechanisms for the implementation of social entrepreneurship policies in Moldova

The current legislation does not create different conditions for the launch and development of social enterprises. Social entrepreneurship is conducted by Law on Entrepreneurship and Enterprise.

In order to be granted the status of social enterprise or social insertion enterprise, it will be necessary to file to the National Commission for Social Entrepreneurship the dossier containing documents confirming the carrying out of the social entrepreneurial activity. The statute is awarded for a period of 3 years, with the possibility of extension if it is proved that the conditions underlying the award of the status have been respected and is obtained from the moment of registration of the syntagma "Social enterprise" or "Social insertion enterprise" in the enterprise incorporation documents and in the State Registry in which the legal entity is registered.

Issue II

Low level of social entrepreneurial education among youth

At present, the educational system in the Republic of Moldova offers opportunities for the realization of entrepreneurial education through the optional and compulsory disciplines included in the curricula, as well as extracurricular activities carried out in the educational institutions.

According to the Framework Plan for primary, gymnasium and lyceum education

The Economic and Entrepreneurial Education course duration is 34 hours per year and includes different areas.

Pupils study the system of the market economy, discover business operations, study the current world economy and acquire knowledge and skills, develop the skills needed to act as competent citizens, as employees in the labor market and as consumers.

This course is recommended for optional courses and compulsory classes in in-depth classes of economic disciplines

In order to increase the attractiveness of the professions, entrepreneurship courses have been introduced in all vocational technical education institutions

Although entrepreneurship education in technical secondary schools will encompass all pupils, their efficiency and usefulness depends on how well teachers are trained to train entrepreneurial skills in pupils.

Regarding social entrepreneurship, although the Entrepreneurship course mentions this form, there is no educational institution that would include in the curriculum a course on Social Entrepreneurship.

Issue III

Ambiguous and non-applicable fiscal regime for social entrepreneurship

There is no express mentioned fiscal facilities in law. Fiscal code don't have real fiscal facilities.

Recommendations:

I.

1.a. Ensure the regular (quarter) functionality of the National Committee for Social Entrepreneurship.

1.b. Publish the activity report of the National Committee for Social Entrepreneurship on a yearly basis

1.c Analysis and mapping of the existing social enterprises from Moldova;

1.d Create an outreach program for capacity building of the existing social enterprises for becoming eligible for legal validation

II.

2.a Develop a national campaign on supporting social entrepreneurship

2.b Run a national training program service for young people - on social entrepreneurship

2.c Complete the curriculum on Personal Development, in the chapter on Entrepreneurial Education with a theme on Social Entrepreneurship

2.d Create consultancy services within the national network of incubators for development of social enterprises

III.

3.a. Apply a zero tax income for SE for the first 3 years activity.

3.b. Reduce with 50% VAT for SE on a permanent basis.

3.c. Set a 0% tax for import raw material for SE.

Policy recommendation - Poland

The issue:

Impossibility of the granting a subsidy for employment creation in a social enterprise for people at risk of social exclusion and marginalization who are under 18

Analysis:

According to the Polish Law of Labor, an employment of underage people is admissible from the age of 15 for all adolescents. Among them there is a group of students of vocational schools whose education is connected with the necessity of realizing internship and vocational practices. Their employment under an agreement for apprenticeships is regulated by article 206 of the Law of Labor.

The most common practice is realizing programme of apprenticeships in entities that lead regular business activity rather than in social enterprises, though theoretically there is a possibility to find vocational training placement in social economy entities. However, financial situation of those entities do not let them for employment of students without any dotation or subsidy for covering their salaries.

Meanwhile, *Guidelines for realization of initiatives on the field of social inclusion within European Social Fund* prepared and indicated for Poland, the catalogue of persons at risk of marginalization and social exclusion who are recommended for provision of professional and social support, does not take into account people under 18. **In consequence, a social enterprise cannot take a subsidy within funds and dotation offered by Centers of Support to Social Economy for employment creation and to employ person under 18 at the newly created workplace.** That impossibility is a meaningful obstacle both for underage persons at risk of social exclusion who would be able to gain holistic – both professional and social – help and go through self-development path in a social enterprise, as well as for social enterprises that cannot employ adolescents who are in special needs, because of insufficient financial sources.

The problem has been repeatedly pointed out and elaborated during forum of Lower Silesian Centers of Support to Social Economy however appropriate solutions have not been implemented yet.

Recommendation: to The Ministry of Investment and Development through The Lower Silesian Agency of Employment

1. IDENTIFY THE ISSUE:

- Lack of possibilities in employing in social enterpreneurships with the help of funds for creating new workplaces for young people in youth centers of social adaptation (Młodzieżowe Ośrodki Wychowawcze), youth detention centers – JDC (zakład poprawczy ZP), prisons.
- Using funds for workplaces is possible only for people who are no longer under the care of these institutions.

2. ANALYSIS:

a. Background reasearch

- Guidelines for spending ESF funds; → (national level)
- Regulations of competitions for projects → (regional level)

b. Consultations:

- This issue has been consulted with several Social Economy Support Centers

c. Argumantations:

- Youth people that reside above-mentioned institutions are theoretically able to work, but because of the regulations they are excluded from the labor market

3. RECOMMENDATION:

- Institutions that are in charge of the funds managing, for example, state agencies employees; Marshall Offices and labor Offices should send an official letter to let the ministry who is the author of this regulation change them

The issue:

An insufficient level of public orders carried out by social enterprises as being chosen by national and self-governments in public contracts.

Analysis:

According to European Union Directives 2014/25/UE and 2014/24/UE there is a recommendation for local and national governments to apply a preferential approach toward social enterprises for public contracts to support social entrepreneurship and financial fluency of social economy entities.

However, at the European level there is no imposed or suggested volume that public entities should reach to provide an adequate amount of orders for services and products for social economy entities, measured e.g. in the percentage of public contracts concluded with social enterprises. Effectiveness of implementation of Directives' recommendations differs in each country depending on inner legislative solutions in the field of solidarity economy that function as well as on experience of centers responsible for supporting social economy in particular EU Member States. Although in Poland, The Act of Public Orders underlines the possibility of preferential approach toward social enterprises offering in response to a calls for public orders, it does not impose an obligation of performing procedure of public contracts with an use of the social clauses, so their use remains optional.

Feeling of security while operating with regular business entities as well as lack of confidence with preparation an appropriate form of social clause and prevailing amount of offers of high quality products and services incoming from commercial companies are causes why local and national governments do not try to increase the level of orders outsourced to perform by social enterprises.

Research shows that in 2015-2016 just 20 entities among all 250 governmental and self-governmental units in Poland used the social clauses what constitutes just 8%. Moreover, just 2.5% of performed procurements containing the social clauses. [D. Moroń, Klauzule społeczne w zamówieniach publicznych jako forma wsparcia podmiotów ekonomii społecznej 2019].

Recommendation:

The adoption of 10 percentage ratio of public orders outsourced to perform by social enterprises, obligatory to achieve by self-governmental and governmental units.

Policy recommendations - Sweden

Identify the issues:

- 1.) The national law doesn't provide support or any kind of the advantage to social enterprises over private companies when providing services for public sector, despite their mission and purpose to address different social problems in local communities
- 2.) Lack of the real definition or umbrella term officially recognised by the national Law

Problem analyses:

- 1.) There is little if any legal and administrative assistance needed for realising many of the social entrepreneurial ideas. Moreover, because the 'Swedish model', where all public services have been carried out by the public sector, lack the tradition to organise services together with social enterprises, it is often taken for granted that new actors establishing themselves in the sector will either be new public initiatives or private business initiatives. As a result, the questions becomes one of price over quality. if a social enterprise offers its services to the public sector, the law forces the public sector to choose option, only based on price, As a result there is no legal and administrative assistance for the realisation of many social entrepreneurial ideas. Also, social enterprises as small business usually don't have enough budget to provide legal expertise and assistance in order to interpret the law correctly in order to compete with already existing larger profit based companies.
- 2.) There is currently no legal definition in Sweden for "social enterprise". The legal form "Aktiebolag med Särskild Vinstutdelningsbegränsning" (henceforth SVB), translated as: "Limited company with a special dividend restriction" is not typically used. Social entrepreneurship is twofold in Swedish and consists of "Samhällsentreprenör" and "Social Entreprenör". The first, 'Societal Entrepreneur' describes someone who takes an innovative initiative to enhance society in any way. The second word focuses more purely on the term 'Social' and denotes innovations that aim to improving the society for people. By definition, the latter comprises a subset of the first. From this reason, most of the social enterprises are still registered as non-profit organisations, while the most recent one are considering the legal form SVB. This also makes hard to measure a real impact of the social enterprises in the country and to keep different statistics and trends that can be useful in both short-term and long-term period.

Recommendations:

- 1.) Providing support to social enterprises when competing with profit organisations and companies, for example if social enterprise and profit company are both offering a service to the public sector, offer of the private company must be at least 20% cheaper in order to be selected
- 2.) Creation of legally recognised single (unique) term that will enable and empower creation of different national strategies and help all existing and future social enterprises to be equally recognised and have same opportunities