

PRACTICAL ANALYSIS



SOCIAL ENTREPRENEURSHIP DEVELOPMENT

CONTENT

Social Entrepreneurship in the World and in Ukraine: Formats, Advantages, Challenges	4
Advantages of setting up a social enterprise	9
Drivers of social entrepreneurship development	12
Preventing Trafficking in Human Beings in Ukraine through Supporting Social Enterprises: How it Works	14
What is trafficking in human beings	14
About the project	15
Planned activities	16
Expected results	17
Accomplishments to date	18
How to Develop Social Entrepreneurship Successfully?	
Three Cases of Ukrainian NGOs	21
«Barvysta» Social Enterprise	21
«Goodstock» Civic Alliance	29
«Rukomysly» Social Enterprise	36
Experience-based Recommendations on Establishing Social Business	45



SOCIAL ENTREPRENEURSHIP IN THE WORLD AND IN UKRAINE: FORMATS, ADVANTAGES, CHALLENGES

Over the last decades, a lot of developed economies have been using social entrepreneurship as an efficient long-term tool for addressing topical societal issues. In Ukraine, ideas of social business came to the fore in the 2000s, and the culture of social entrepreneurship has been developing and acquiring new quality ever since¹.

The practice of social entrepreneurship shifts the classical business paradigm by setting the goal of generating a measurable social value, with due regard to financial bottom-line².

Social business is intended to meet the community needs and address the issues that the public sector is not capable of, and the private sector is not interested in addressing. Working in any sphere – from producing goods to providing services – social entrepreneurs contribute to reducing unemployment, improving social security,

protecting natural environment, promoting human rights, developing culture and education, supporting municipal improvement initiatives, etc³. That is why social entrepreneurship is often referred to as the «evolution of business» or even the «revolution in non-for-profit activities».

At the same time, social entrepreneurship is not about charity. On the contrary, it should abide by business laws in order to develop effectively. This duality is an important factor in keeping the necessary balance and multiplying success. Social business is often confused with corporate social responsibility – a business tool companies use to voluntarily channel some of their financial or other material resources to support charity projects.

In many a country, social entrepreneurship initiatives respond to challenges of the day faster than the national governments, cre-

¹ [Social entrepreneurship to tackle unmet social challenges](#), December 2017.

² [The rise of the social enterprise](#) Deloitte, 2018.

³ [Social entrepreneurship to tackle unmet social challenges](#), December 2017.

Social entrepreneurship is about generating profit from commercial activities to distribute it according to social goals – resolving a social problem or supporting a certain social group.

The European Commission experts apply five criteria to identify a social enterprise⁴:

- 1** long-term business operation of producing and/or trading in goods and/or services;
 - 2** pursuing a clear original social goal of addressing societal issues and achieving a social impact;
 - 3** restrictions in profits/assets distribution – according to social goals;
 - 4** independence and organisational autonomy from governmental and commercial institutions;
 - 5** inclusive management based on participatory processes and/or democratic decision-making.
-

ating millions of jobs, generating substantial capital and investing in state and local budgets through the taxes they pay. This proves social enterprises' competitiveness compared to alternative models of social and economic development.

There are two main social entrepreneurship models: American and European ones. In the USA, social enterprises sprung up as a response to the government's inadequate social policies. Non-commercial enterprises strived to earn money in order

⁴ [A map of social enterprises and their eco-systems in Europe](#), by Directorate-General for Employment, Social Affairs and Inclusion, 2015.

to finance their initiatives. Therefore their main focus has been on self-financing and innovation. In the European countries, on the other hand, social entrepreneurship evolved under the influence of an advanced social welfare system, challenges of growing unemployment and increased burden on the state budgets. So the European social entrepreneurs have been initiating their projects, first and foremost, to address specific social issues, while seeing profit-generation as a by-product⁵.

At present, there are about 2 million social enterprises in Europe⁶ with 11 million employees, which accounts for almost 10% of all businesses. Thus in 2017, more than 470 thousand social enterprises of different size operated in the UK⁷ alone, providing jobs for over 2 million people and producing goods and services worth 60 billion pounds, or 3% of GDP, which is three times as big a contribution as that of the agricultural sector. In Germany there are about 100 thousand social enterprises employing 2.5 million people, i.e. three times as many as the car manufacturing industry with 750 thousand workers⁸.

According to the Thomson Reuters Foundation research⁹, the countries offering most favourable, enabling environment for social entrepreneurship are the USA, Canada, the UK, Singapore, Israel, Chile, South Korea, Malaysia, France, Switzerland, Germany, Italy and Hong Kong.

In Ukraine, social business started to emerge quite recently.

In 2006, the «Ukraine Citizen Action Network» Programme (UCAN) funded by the US Agency for International Development (USAID) launched a series of social entrepreneurship trainings and offered several grants for non-governmental organisations (NGOs) to develop social business initiatives.

Later, in 2010, a Social Entrepreneurship Support Centre was formed on the basis of the Association of Think-tanks «Socio-economic Strategies and Partnerships». In parallel, social entrepreneurship trainers were trained in various regions of Ukraine within the Consortium «Support to Social Entrepreneurship in Ukraine» co-sponsored

⁵ «International Experience Of Development Social Enterprises: Lessons For Ukraine», February 2014.

⁶ Social economy in the EU on <https://ec.europa.eu/>

⁷ The Hidden Revolution and Social Enterprise: Market Trends 2017

⁸ V.Nazaruk. The main resource of a social entrepreneur: <https://nv.ua/ukr/opinion/nazaruk.html>

⁹ The best countries to be a SOCIAL ENTREPRENEUR 2016 and SOCIAL ENTREPRENEURSHIP DEVELOPMENT FACTORS IN EUROPE, 2017.

2006

series of social entrepreneurship trainings, grants for non-governmental organisations

2010

forming of Social Entrepreneurship Support Centre

2013-2016

scores of trainings, I and II All-Ukrainian Forums of Social Entrepreneurs, two editions of the Directory of Social Enterprises in Ukraine

2014

«boom» in social entrepreneurship in Ukraine

by the British Council in Ukraine, International Renaissance Foundation (IRF), East Europe Foundation (EEF), PwC Ukraine and Erste Bank. The Consortium initiated and supported the setting up of social business resource centres in 3 regions. The resource centres contributed to promoting the social entrepreneurship ideas through organising various awareness-raising and educational events for their target audiences, publishing and distributing manuals and other relevant materials.






In 2013-2016, international organisations and foundations held scores of trainings dedicated to social entrepreneurship, published two editions of the Directory of Social Enterprises in Ukraine (2013 and 2016), co-hosted the I and II All-Ukrainian Forums of Social Entrepreneurs (March 2013 and November 2016). In 2016, the Lviv Business School of Ukrainian Catholic University was the first educational institu-

tion to offer its students a course in social entrepreneurship; later the School of Social Work in the National University «Kyiv-Mohyla Academy» followed suit having introduced it as an elective course in its bachelor degree programme.

The year 2014 witnessed a boom in social entrepreneurship in Ukraine brought about by the economic, political and social situation of the day. With the eruption of an armed conflict in the East of the country the number and the size of vulnerable groups increased: over a million people became internally displaced¹⁰, hundreds of thousands returned from the frontline as ex-combatants, many of them badly wounded or otherwise traumatised. The social business proved more alert and quick than the governmental structures in responding to a critical need for these people's rehabilitation, social adaptation and job placement.

¹⁰ Hereinafter - IDPs.



Thus, social entrepreneurship at the national and local levels:

-  facilitates economic and social development, offering opportunities for job creation, new forms of business activities and employment;
-  helps to overcome social isolation (by promoting employment of persons with disabilities, members of risk groups or the long-time unemployed);
-  supports the development of a wide range of social services that the society needs but traditional businesses do not provide (those associated with low profitability and prestige or requiring special professional skills);
-  reduces burden on local budgets by undertaking to address some of the local social problems;
-  encourages citizens' participation in public life and promotes community cohesion.


According to expert estimates, there are more than 1,000 social businesses in Ukraine today. Almost 50% of them reinvest

proceeds of their commercial activities to keep business going, less than 50% are funded by grantors, about 20% use loans, and almost 25% rely on their founders' money as the only source of funding¹¹.

Social purpose is an important criterion for classifying social enterprises, according to which three main types of such enterprises can be singled out in Ukraine:

-  «Profit generators» that invest a part of their profits to support NGO activities, social or environmental initiatives – for instance, the «Pan-Chocolatier» confectionery, «Shafa Dobra» (Wardrobe full of Good) store, «Urban Space 100» and «Urban Space 500» restaurants, «Murakhy» (Ants) online platform, «WoodLuck» social repair shop, «Dobroslon» charity store.
-  Social businesses that employ socially vulnerable population groups – for example, «Gorikhovy Dim» (Walnut House) social bakery, «Good Bread from Good People» bakery, «Oselia» self-support community, «Pizza Veterano», 21.3 bakery, «Zeleny Ptakh» (Green Bird), «Zelenew» recycling laboratory, «Kulbabka» (Dandelion) nail bar.

¹¹ From the [report](#) by Natalia Husak – PhD in Sociology, head of the School of Social Work of NaUKMA.

 Social enterprises that address and promote significant social issues, predominantly environmental, – for example, «ZeroWaste» online store, «OZERO» with zero-waste goods, community of university students and teachers «Enactus Ukraine», «Dogs Like Ducks» vegan cafe.

Most social enterprises are located in northern (43%, of which 20% – in the capi-

tal city of Kyiv) and western (27%) regions of the country; **48% of Ukrainian social businesses have been in operation for less than three years, and 56% of them officially have not more than 5 employees¹²**, which means that social entrepreneurship in Ukraine is quite nascent.

ADVANTAGES OF SETTING UP A SOCIAL ENTERPRISE

Having introduced a new business paradigm, social entrepreneurship has invigorated the civil society and social initiatives as it is an effective tool for the NGOs¹³ seeking to lessen their dependence on donors or back off from this type of funding altogether. Key opportunities that motivate Ukrainians to set up social businesses are as follows:

1 Freedom in choosing an organisational and legal form that suits them best. The absence of a special law regulating social entrepreneurship is seen as both an issue and an opportunity. Since social

entrepreneurship is not specifically regulated by a separate law, social businesses can choose from the wide spectrum of organisational and legal forms the one most advantageous to them in terms of its business model and taxation regimes: LLC, individual entrepreneur, NGO, private company, NGO-related enterprise, social cooperative, etc.

2 Availability of resources that are not used by traditional businesses, but are valuable in view of their innovativeness and attractiveness for investors and grantors:

¹² [The Social Entrepreneurship Ecosystem in Ukraine: Challenges and Opportunities Report](#), August 2018, by PACT Ukraine.

¹³ Non-Government Organization.

- human resources: persons with disabilities, internally displaced persons (IDPs), national minorities, retired people, young people, persons with addictions, former inmates, mothers with many children, people living with HIV and representatives of other vulnerable groups;
- buildings owned by communities – for example, old or abandoned facilities that can be revitalized with the view to employing members of vulnerable population groups and distributing profits towards addressing certain social problems.

3 Growing consumer loyalty to social businesses' products and services. Where two products of similar quality are on sale, loyal consumers will rather opt for the goods produced by social enterprises.

To consumers, the quality of goods and services is always of main consideration but an additional social value matters to more than 50% of them who see it as a competitive edge.

The consumer culture and client behaviour have been changing of late. Today, while selecting goods and services they pay

more attention to social and environmental dimensions thereof, alongside the price. The sense of belonging, of contributing to a common cause is a valid argument in favour of social entrepreneurship, especially when coupled with the idea of supporting the national manufacturers. An entrepreneur who not only generates profits but also makes the community's life better is a good example to follow.

This is consistent with the Sprout Social Report data published in early 2018: 66% of consumers stated that brands should take more heed of social matters – it can help them to attract clients¹⁴. According to the Nielsen Company's study, almost 50% of consumers worldwide are prepared to pay more for goods and services of socially responsible enterprises. Findings of the latest analysis carried out by MNI Targeted Media¹⁵ also testify to the growing consumer loyalty to social businesses' products and services: 56% of consumers born in 1995-2005 consider themselves to be socially aware, and more than 50% of them give preference to socially responsible brands when they do shopping.

Such public sentiment, however, means that social entrepreneurs shoulder additional responsibility: if a business positions

¹⁴ Championing Change in the Age of Social Media on <https://sproutsocial.com/>

¹⁵ *Generation Z: Unique and Powerful* on <http://www.globenewswire.com>.

itself as socially beneficial hoping to boost demand, it should try hard to live up to the clients' expectations, in terms of both high quality and transparency exceeding those of traditional businesses. Therefore it is very important to communicate to the clients a message about their own impact on social business effectiveness and efficiency.

4 Support of social entrepreneurship by international foundations and organisations.

Among the key investors that support social entrepreneurs with various tools are: WNISEF, programmes of the U.S. Embassy in Ukraine, EBRD, UNDP Ukraine, OSCE Project Co-ordinator in Ukraine (OSCE PCU), IOM, Canadian PLEDDG Project, European Commission (EC), EEF, IRF. In Ukraine, there are also various investment funds, venture philanthropists, private foundations and regional state funds that foster social entrepreneurship development; as well as numerous accelerators and incubators that specialise in preparing and launching social enterprises¹⁶.

5 Large businesses' willingness to delegate.

In implementing their own programmes of corporate social responsibility, large companies look for ways to scale-up their investment into socially significant projects – so they get engaged in resolving a social issue through outsourcing certain services or production processes and optimising their social investment. Today the large business owners tend to sub-contract some services out to social enterprises, which enables the latter to increase their production, to earn more income, to expand marketing channels for their goods and services and, thus, to become more competitive.

6 Governmental support.

The government's strategic plans to support social entrepreneurship are commendable. In particular, the mechanisms of such assistance are envisioned in the National Strategy of Supporting Civil Society's Development in Ukraine for 2016–2020.

In the context of administrative-territorial reform currently underway in Ukraine, the communities' role is bound to transform. Entrepreneurial activities with a social focus can become a powerful means of meeting economic challenges and ensuring comprehensive development of local communities.

¹⁶ Reviews on the portals <http://www.smedevelopment.info/>, <https://studway.com.ua/>, <http://startupline.com.ua/>. «The Social Entrepreneurship Ecosystem in Ukraine: Challenges and Opportunities Report», August 2018, by PACT Ukraine.


Indeed, social entrepreneurship helps the government to create jobs, expand people's professional experience and skills for subsequent employability in the labour market, engage socially vulnerable population

groups into public life, enhance civil activism and build people's capacity to resolve their problems successfully, restore small settlements and improve their infrastructure, etc.


DRIVERS OF SOCIAL ENTREPRENEURSHIP DEVELOPMENT

Social entrepreneurship is about innovation, non-standard approaches, responsibility for the community and its members. Yet for an individual to be ready to shoulder this responsibility and become an agent of societal change, the necessary conditions and spaces should be created.

Experts seem to concur that the social entrepreneurship development in the EU member-states and in Ukraine can be accelerated, with the following factors in place¹⁷:

 proper education and skills. Social business has a special methodology and characteristics. A lot of relevant literature is readily available today, as well as various training modalities that can help potential social entrepreneurs to understand basics of this business and develop the necessary skills, such as profit

generation, income multiplication, effective HR management, sales channels development, proactive client search, building of brand awareness and brand confidence, designing of performance and social impact measurement systems;

 uniform approach to legislative regulation and granting of non-commercial status to enterprises that claim to be socially responsible. Within the frameworks of current legislation, businesses can only be de-facto social, whereas de-jure they still cannot be registered as such. Local offices of the State Tax Service can decide, at their own discretion, whether to grant the non-commercial status to an enterprise or not. Sometimes enterprises of a similar organisational and legal form in the same region are treated differently by tax authorities;

¹⁷ [SOCIAL ENTREPRENEURSHIP DEVELOPMENT FACTORS IN EUROPE](#), 2017.

➤ soft bank lending. Although the market seems saturated with the donor funds allocated for the social entrepreneurship development, assistance to individual enterprises varies from 500 to 10,000 Euros, which is insufficient for creating a sustainable business. The donors often limit their assistance with the start-up phase, withdrawing it at a later stage of business development. So the only bonus that social enterprises in Ukraine can get today is participation in the Oshchadbank lending programme, co-funded by WNISEF: loans are extended for 36 months at 5%-10% annual interest rate, subject to a number of eligibility criteria¹⁸;

➤ awareness raising campaigns that will help the business community, authorities and consumers to appreciate the social business advantages and usefulness for them. A lot here depends on the mass media and their coverage of best

practices and success stories of social entrepreneurship;

➤ the authorities' preparedness to create a market for social services where the government will procure such services from social enterprises. Very few countries offer tax benefits to social businesses – in most cases, such companies pay taxes as stipulated by the law for their respective form of incorporation. Ukrainian entrepreneurs do not advocate any tax benefits either; they understand that such benefits could be abused by some unfair competitors disguising as social businesses to pay lower taxes;

➤ free-of-charge administrative or consultative support for social entrepreneurs that could be provided by both representatives of commercial, for-profit companies and more successful social entrepreneurs.

¹⁸ <http://wnisef.org/uk/impact-investing/>



PREVENTING TRAFFICKING IN HUMAN BEINGS IN UKRAINE THROUGH SUPPORTING SOCIAL ENTERPRISES: HOW IT WORKS

WHAT IS HUMAN TRAFFICKING

Trafficking in human beings is a criminal activity of a global scale geared towards sexual or commercial exploitation of people. According to expert estimates, over 20 million people have fallen prey to human traffickers in all parts of the world.

The International Labour Organization (ILO) reports that the annual proceeds of this crime amount to almost 150 billion US dollars: about 99 billion dollars come from commercial sex exploitation, and more than 51 billion dollars – from labour exploitation¹⁹.

Trafficking in human beings is a criminal act targeted against a person. Trafficking is committed for the purposes of exploitation and can involve recruitment, transportation, transfer, harbouring or receipt of persons. In most cases, traffickers resort to threat, fraud, deception, blackmail, violence, abuse of power or of a position, financial or other dependence and vulnerability of another person²⁰.

Ukraine is one of the destination countries in Europe of origin, transit and destination of victims of human trafficking²¹. Since 1991, **more than 230,000 Ukrainians have been trafficked** for labour (53%) and other

types of exploitation (47%), including sexual exploitation, forced begging, removal of organs, engagement in criminal activities and surrogate motherhood. The countries where Ukrainians have been exploited are

¹⁹ Profits and Poverty: [The Economics of Forced Labour](http://www.ilo.org/) (2014) on <http://www.ilo.org/>

²⁰ Law of Ukraine «On combating human trafficking»: <http://zakon.rada.gov.ua/laws/show/3739-17>

²¹ [TRAFFICKING IN PERSONS REPORT, 2015](#)


Ukraine, the Russian Federation, Poland, Turkey, United Arab Emirates and some others²².

That notwithstanding, every fifth Ukrainian will agree to cross the border illegally, work on isolated premises and let their employer take their passport away. 54% of Ukrainians believe they will never be trafficked.


The protracted conflict in the East of Ukraine, political, economic and social instability contribute to increased vulnerability of Ukrainian population to the trafficking risks. The poverty rate rose²³ from 15% in 2014 to 25% in 2018. According to the Accounting Chamber of Ukraine²⁴, the non-monetarily measured poverty rate in the country was as high as 27% in 2017.

ABOUT THE PROJECT

It was against this backdrop that in 2014 the OSCE Project Co-ordinator in Ukraine (OSCE PCU), in cooperation with the Ministry of Social Policy of Ukraine, launched a project «Prevention of Human Trafficking in Ukraine through the Economic Empowerment of Vulnerable Persons». The initiative has been funded by the governments of Canada, the United States of America, Norway and Germany. The 5-year project aims to:

 improve economic opportunities for persons at risk of trafficking and for the victims of human trafficking (as availability of legitimate permanent income minimises the risk of accepting dubious

job offers, averts the threat of labour and sexual exploitation);

 provide support to local NGOs working to counteract THB through setting up social businesses (as it liberates them from lasting financial dependence on international organisations and foreign donors, thus improving their effectiveness and efficiency).

The initiative actively cooperates with a partner-project of the IOM Mission in Ukraine intended to raise the vulnerable population's awareness of the trafficking threats, main rules of safe migration and employment.

²² Data by IOM on <http://iom.org.ua/ua/protidiya-torgivli-lyudmi>

²³ [Satu Kahonen](#) - Director of the World Bank on Ukraine, Belarus and Moldova.

²⁴ <http://www.ac-rada.gov.ua> report on September 12, 2018.

PLANNED ACTIVITIES

The social entrepreneurship evolution in Ukraine is hindered by regulatory restrictions, bureaucratic obstacles and, above all, lack of the necessary expertise and skills of doing business among NGO leaders. Therefore the OSCE PCU project

has been designed to support innovative social enterprises in various regions of Ukraine and to overcome identified obstacles based on a comprehensive approach to the issue at hand. The project activities include:

- 1 Supporting the establishment and operations of a social business in three NGOs from different regions of Ukraine.
- 2 Offering training opportunities.
- 3 Providing expert consultative support on business development, income generation, improvement of marketing practices.
- 4 Promoting legislative amendments in the area of social entrepreneurship and development of the necessary regulatory framework.
- 5 Conducting awareness raising campaigns, forums, roundtable discussions and other public events.



Despite the growing popularity and expansion of social entrepreneurship in Ukraine, it still faces a number of challenges and obstacles.

- 1 Little understanding of the nature and importance of social entrepreneurship by the general public, authorities, investors and potential clients. Social entrepreneurship is usually associated with charities' work or integration of persons with disabilities, rather than with business activities. These stereotypes have an adverse

impact on the social enterprises' growth and financial capacity development, obstructing their interaction with partners, private investors and potential clients.

- 2 Absence or fragmentariness of specialised development services (not only in Ukraine). At different stages of their lifecycle, social enterprises need the same services and support as traditional business companies. At the same time, they have a number of specific characteristics, issues and needs that require different, sometimes unique, solutions.
- 3 Limited access to investment resources because of investors and creditors' poor understanding of the essence of social enterprises and their hybrid business models. Potential investors and creditors should keep in mind that social enterprises lack seed capital, and are likely to face financial challenges at their inception and maturing stages.
- 4 This being said, social enterprises cannot compete effectively in the public procurement market with its large contracts, pre-qualification requirements, payment delays, etc.

Valeriy
KOKOT


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EXPECTED RESULTS


The proposed comprehensive approach to the social entrepreneurship development in Ukraine will be considered effective if three key conditions are satisfied:

- at least 10% of persons at risk of trafficking and formerly trafficked persons (who applied to partner NGOs working in the anti-trafficking sphere)

benefit from economic opportunities offered by the established social business;

 3 selected NGOs use profits of the established social business to fund

at least 20% of their current anti-trafficking activities;

 enabling legislative and regulatory environment for social business is created.

ACCOMPLISHMENTS TO DATE

In November 2014, a 3-day workshop «How to Start a Social Business» was held for representatives of preselected NGOs to help them transform their ideas into concrete business plans. In December 2014, a study-tour to Vienna was organised for the project participants to learn about best practices of Austrian social enterprises. In April 2015, three organisations were selected to be implementing partners within the project: NGO «Women's Perspective Centre» in Lviv, NGO «Progressive Women» in Vinnytsia and NGO «Women's Information and Consultation Centre» in Zhytomyr.

A series of trainings on business plan development, financial planning, accounting, marketing and social media-assisted promotion was then offered to the selected NGOs. Their representatives also visited Poltava to learn from the experience of a local Charity «Svitlo Nadiyi» (Light of Hope) that runs a sewing and a carpentry shops. Furthermore, several external experts were invited to consult the partner NGOs on ways to optimise their business operations

and processes, improve customer relations.

In late 2017, an All-Ukrainian Forum «Social Role of Business» was co-organised with the Ministry of Social Policy of Ukraine. It brought together about 300 participants from all over the country – national and local officials, representatives of the civil society and social services, private business, social enterprises and other stakeholders. The Forum discussions focused on how to ensure the social businesses' positive and more substantial role in addressing the problems faced by vulnerable population groups, including the trafficking victims, IDPs and ex-combatants. International speakers invited to the Forum shared their experience, lessons learnt, efficient development methodologies, suggestions and concerns. The Forum participants prepared recommendations on improving interagency cooperation in addressing the outstanding issues of social entrepreneurship to be submitted to the Ministry of Social Policy.



The best support that the donor community can provide is resources: financial, informational, intellectual, material and technological, plus constant monitoring and evaluation of their effective use.

Meddling in the processes of social enterprises' integration (forming associations, coalitions or other super-structures) and legislative initiatives is unwelcome and unnecessary. Social enterprises should grow to feel a need for integration and changes in Ukrainian legislation.

I commend OSCE PCU for its efforts to transfer from permanent grant assistance to one-time support provided for setting up a viable, self-reliant business. This model should become very popular with NGOs working in the OSCE priority areas.

Vasyl
NAZARUK

Impact Investing Program Manager,
Western NIS Enterprise Fund (WNISEF)

OSCE PCU initiated and assisted with advocacy of legislative reforms conducive to better support of social business in Ukraine: invited experts reviewed the existing legislative framework and drafted

a concept of social entrepreneurship law that would provide a favourable legal environment for its development. A working group was formed to draft a package of necessary legislative initiatives.

As of March 2019, all three social enterprises launched within the project were building up their capacity, working to achieve economic sustainability in order to be able to invest in addressing local communities' social issues.

More than 20 jobs were created at the social enterprises established within the project, which makes the employed people and their family members better-off financially and less susceptible to the trafficking risks. Over 130 persons, including 20 IDPs from Eastern Ukraine, 6 trafficking

survivors and 1 ATO veteran, completed vocational training programmes. In today's Ukrainian context, social enterprises offer, inter alia, opportunities for art-therapy and community reintegration of trafficking survivors and persons at risk that they employ.



HOW TO DEVELOP SOCIAL ENTREPRENEURSHIP SUCCESSFULLY? THREE CASES OF UKRAINIAN NGOs

«BARVYSTA» SOCIAL ENTERPRISE

Where? Zhytomyr

What NGO initiated it? NGO «Women's Information and Consultation Centre»²⁵

What does it do? Garment manufacture, sewing and tailoring repairs




Due to the OSCE PCU support:

- the manufacturing premises were renovated and a new shop furnished, new equipment was tested and commissioned;
- the sewing shop operates 5 days a week on a regular basis;
- 12 jobs have been created;
- the enterprise increases its output quarterly getting more orders, and improves its competitiveness in the regional and national market;
- 9 brands are now among the enterprise's regular customers;
- cooperation has been established with one of Zhytomyr-based vocational schools, whose students have their apprenticeship at the social enterprise.

²⁵ Find out more on www.wicc.zt.sch.in.ua.



«Barvysta» has occupied its niche in the local textile market: it manufactures women's wear and home textiles, fulfils corporate orders, and renders tailoring repair services²⁶. According to the statute of the NGO «Women's Information and Consultation Centre» (hereinafter referred to as the «WICC» NGO), the «Barvysta» social enterprise focuses on social protection and legal aid, as well as adaptation through creating new jobs for Ukrainian citizens in difficult straits, including victims of abuse and trafficking. The enterprise's social products include:

-  developed practical skills and job placement of girls that have completed their vocational schooling as dress-cutters, dressmakers or seamstresses;
-  free-of-charge psychological and legal counselling provided to distressed women;
-  charity-based educational and social programmes offered to the public.

How did it all start?

The social enterprise was established to enable women to earn their living in Ukraine, without having to seek employment abroad and leave their families behind. «Barvysta» has exceeded all expecta-

tions – it has provided the NGO with the necessary economic basis and autonomy. Its team has got a «financial cushion» of sorts, which makes them less dependent on institutional grants or private philanthropists' support and allows to focus on effective introduction of socially significant changes in the local community.

The idea to set up a social enterprise was first vented long ago. The NGO tried to implement it several times, but their desire to respond to social problems never came to fruition for want of funding. The above study-tout to Austria initiated by OSCE PCU encouraged the team to make yet another attempt. And when the money for establishing a social enterprise became available in 2015, the team did not hesitate and put a good deal of effort into realising their plans. The NGO members had a very clear aim – to provide financial footing for the implementation of anti-trafficking projects.

What is the enterprise's form of incorporation?

The «Barvysta» social enterprise is a unitary (wholly owned) commercial company established pursuant to the decision of the «WICC» NGO board dated 24 September 2015. The purpose of its establishment is

²⁶ Find out more on <http://wicc.com.ua/produktsiya/>.

to generate profit from production, re-search-and-development, service provision, commercial and other activities.

Both the founding NGO and the social enterprise have the legal status of independent entities. So since the day of its registration, «Barvysta» has got all rights and responsibilities of a legal entity with its autonomous balance-sheet, current, foreign-exchange and other bank accounts, its own corporate seal, other stamps and letterheads, its logo and properly registered mark for goods and services, as well as additional means of individualization. The enterprise is fully entitled to carry out

transactions and conduct its business and operations.

«We decided to get «Barvysta» registered as a limited liability company (LLC). On the one hand, the enterprises of this organisational and legal form are better regulated, thus their operations are more predictable. On the other, one should be prepared to certain challenges. For instance, in 2015 LLCs were obligated to form their authorised capital, but when a new Law «On Limited and Additional Liability Companies» took effect in 2018 we had to reregister the company, which entailed additional financial costs.



I do not think any additional legislation is needed to regulate this type of business – it will only complicate matters making the legislative framework more cumbersome. Instead, it is critical that the Civil and Economic Codes be amended insofar as the definition of legal entities' statuses and organisational forms is concerned: the status of social enterprise should be clearly defined.

I would also recommend that social entrepreneurship experts step up a related discussion and propose solutions regarding simplified taxation or tax benefits for social enterprises, identifying the needs for amending the Tax Code accordingly. They should weigh all pros and cons and advocate the optimal solution.

Alina **SIRA**

| the enterprise attorney

And though there were no formal impediments at the registration stage, the registration and tax authorities did not seem to understand how this organisational and legal form could combine with the non-for-profit status of the enterprise,» – says Iryna Babenko, leader of the «WICC» NGO.

Due to specifics of Ukrainian national legislation, the enterprise has got a for-profit status, even though the primary purpose of its activity is to achieve certain social goals (in particular, provide social services, support socially vulnerable groups, create jobs), and its income (profit) is distributed exclusively to cover its costs and sustain its business activity (in addition, the part of its profit intended for social purposes is transferred to the NGO, which promotes the achievement of a social impact of commercial activity).

What is its business model based on?

In 2015, OSCE PCU provided «Barvysta» with the necessary equipment and financial support to replenish its working capital. In 2017, OSCE PCU assisted the enterprise with procuring an additional set of equipment, thus strengthening its manufacturing capacity. Since 2018, the «WICC» NGO has been able to pay salaries regularly to the enterprise workers due to a steady, albeit moderate, stream of orders.

«Efficient business, – say the «Barvysta» team members, – is mostly about flexibility and adaptability. At first, our approach to social entrepreneurship envisioned the development, manufacturing and marketing of our own products, all by ourselves. Later, the focus shifted and we opted for an arrangement whereby we fulfil orders as subcontractors. Among our current large clients are, for example, METRO Cash-and-carry, KPMG, GIZ, NGO «Krym SOS», Export Promotion Office at the Cabinet of Ministers of Ukraine, the «Simpl-If-I» and «L'eskizzo» brands, www.veracraft.com, UTEK-MOD, W8LESS.COM.UA. Making shirts and home textiles also proved a promising sideline: the market demand is not high but there is almost no competition in this market.»

Profit is a key indicator of the social enterprise's performance. The profit is formed from proceeds of commercial activities upon covering all financial and similar costs, paying salaries, taxes and effecting other mandatory payments as stipulated by the law. One part of the profit thus formed is reinvested into the enterprise development, and the other is used to achieve the social effect intended by the founding NGO.

At the very beginning of the enterprise operation it was difficult for the accountant to get insights into all calculations and

analytics pertaining to social business, as she was used to working for the NGO. «The training programme arranged by OSCE PCU helped us to understand subtleties of business plans, financial planning and management. Before that it was all a «terra incognita» to me. First, we plan our costs: labour, rent, utilities, depreciation of equipment, logistics. Knowing the total costs, we can forecast and plan what customers we need to seek for our goods and services, how soon we should do it, what cooperation procedures we should use,» – observes Natalia Khorova, «Barvysta» accountant.

The «WICC» NGO is a founder and owner of the «Barvysta» social enterprise. The latter is accountable to the NGO and guided by it. The «WICC» NGO board manages the enterprise and takes decisions on

the profit distribution for social projects. The «Barvysta» team, in turn, plans its commercial activities, identifies areas of further business development in view of the market demand for their goods and services, potential consumers' needs and preferences.

Within several months of operation, the enterprise managed to generate profits sufficient to cover the costs of purchasing additional equipment and making minor repairs, as well as to finance a social action in Zhytomyr dedicated to the World Day against Trafficking in Persons.

«During our study-tour within the OSCE PCU project, we saw examples of a great practice of special foundations' granting financial and legal support to start-ups in social entrepreneurship. First, the



Our previous experience allows me to say that social entrepreneurship is not at all an easy business. But for the OSCE PCU financial support in the first years of the enterprise's operation, we would have hardly been able to achieve the current level of financial independence and efficiency. And, mind you, financial support is not enough – we also received training and consultations on business processes, capital investments, etc.

Iryna **BABENKO**

leader of the «WICC» NGO

foundation invests into a social business, and when the latter starts making profit, it repays the money to the foundation – with no interest, but the whole sum. This is what we need in Ukraine today: not to acquire a business or invest a certain amount of money into it, but to support the business throughout its initial period, at least until it earns enough to form its payroll. Then the investor would be interested in the investment optimisation and the investee's rapid growth, while the social enterprise would have more comfortable conditions for development,» – the «Barvysta» team think aloud.

How did they form their team?

«Barvysta» treats its workers with utmost flexibility, reflected in their working hours and internal rules of interaction. It also allows for vocational school students' apprenticeship that helps them to improve their skills, earn some money and get practical experience. In this way the enterprise attracts young people, engages them in production processes, promotes Ukrainian labour market and improves its competitiveness.



When the enterprise began functioning in 2015, it looked for potential employees among the NGO beneficiaries, and only one out of 50 eligible women accepted the job offer (by now, she has completed studies at the vocational school and provides sew-

ing services as an individual entrepreneur). The enterprise also employed a formerly trafficked girl: being a person with disability in difficult circumstances of life, she managed to get along with the team and mastered some sewing techniques.

The practice shows that, for a number of reasons, the NGO beneficiaries, when invited to work at the enterprise, find it difficult to combine work with vocational training. They usually wish to find a permanent job at once. Therefore for 2 years «Barvysta» struggled to hire skilled workers, without whom it could not streamline its production processes and go into the black. The situation changed in 2018 when 6 experienced dressmakers joined the team.

The enterprise managers have learnt first-hand that a company can afford having 20–30% of unskilled workers from socially vulnerable population, yet these workers should be prepared to study, to develop new occupational skills.

The women that work at the social enterprise today sought to change their previous job in the private sector where they saw a number of limitations:

-  ageism (particularly towards persons of 45 plus);
-  unreliable employers (who failed to honour the labour contracts);

- ▶ unstable and low wages (at the subsistence level);
- ▶ disdainful attitude on the employers' part (for example, restricting the workers' right to talk with the family members during working hours).

«We do not have it in «Barvysta». The remuneration is transparent, there are no fancy accounting tricks. Instead, there is stability and job security; we have training and professional development opportunities, relations among the workers and with the management are good. I feel I belong here, gladly participate in social actions and understand how I can be useful.

In the past, most of us experienced difficult situations of life and needed help. And there was nobody we could get it from. That is why by working at such an enterprise we contribute to assisting those in need,» – maintains Maryna Pavlova, «Barvysta» employee.

This being so, the «Barvysta» workers complain, however, about technical conditions of their work and premises.

Do they cooperate with the local authorities?

«Our experience shows that the local authorities do not care a bean about social entrepreneurship as a model for addressing local social issues and promoting local

economic development. I cannot state they hinder establishment or operation of social businesses on purpose, but in no way do they support such businesses, say, through allocating a fraction of local budgets to this end.

There was misunderstanding around our wish to set up a social business: the local community, instead of being supportive, was bearing us a grudge for supposedly high profits that «Barvysta» could be making (or so they thought),» – says Iryna Babenko.

The «Barvysta» team members are convinced that it is vital to communicate with local communities and authorities, raising their awareness of what social enterprises are like, how they work, what their social impact is, what needs to be done to raise their efficiency and scale-up their operation. It is important to bring home to them that social enterprises offer a realistic and much-needed opportunity to provide vulnerable population groups in Ukraine with economic stability and socialisation tools.

What marketing tools do they use?

The main marketing tools that the enterprise uses today are participating in specialised public events, preparing bespoke commercial offers for potential clients, promoting its products through thematic digital platforms. Therewith, «Barvysta»

actively advertises its products and services on its website²⁷ and on Facebook²⁸. The social entrepreneurs from Zhytomyr claim that the best way of interacting meaningfully and cost-effectively with large target audiences is through available Internet resources.

«In all of our communications we underscore the social component of our work – it is our specific feature, often seen by consumers as our substantial competitive

advantage. We also utilise capacities of the «WICC» NGO, as well as our own, for awareness raising and education campaigns. For example, our website operates not only as a means to promote our products and secure orders, but also as a social platform where one can find information on labour migration and related risks, THB indications and forms, advice on legal issues, a list of relevant hot-lines, addresses of Ukraine’s embassies and consulates,» – say the «Barvysta» team members.

«GOODSTOCK» CIVIC ALLIANCE

Where?	Vinnystia
What NGO initiated it?	NGO «Progressive Women» ²⁹
What does it do?	Bakery and café
Due to the OSCE PCU support:	<ul style="list-style-type: none"> • the bakery has been fully commissioned and its product line diversified; • permit documents for the point of sale for the bakery products have been obtained; • the «Syniy Kaktus» (Blue Cactus) Café has been opened downtown Vinnysia;

²⁷ <http://wicc.com.ua>





²⁸ <https://www.facebook.com/barvusta>

²⁹ Find out more on www.women.vn.ua.

- 7 jobs have been created;
- contracts have been signed with 15 distributors of the bakery products.

The «Goodstock» Civic Alliance was founded by the NGO «Feminist Association «Progressive Women»» (hereinafter referred to as the «Progressive Women» NGO) on 17 August 2017 to protect human rights and fundamental freedoms, implement public, economic, social, cultural and educational initiatives. «Goodstock» operates as a social bakery and café.

Activities of the «Progressive Women» NGO are very well known to the citizens of Vinnytsia, and fairly visible. It promotes equal rights and opportunities of women and men, provides assistance to the victims of THB and domestic violence. The NGO's statutory goals are as follows:

-  unite women and help them to develop self-awareness and self-esteem, appreciation of their role and value for their families, community and society;
-  ensure moral and material support to women, especially those with children;
-  organise non-commercial training courses;
-  engage in charity activities, etc.

How did it all start?

Being officially registered in August 2017, the «Goodstock» social business did not start operating until the summer of 2018. The original plan was to open a social canteen, but upon careful calculations and market research, a decision was made to focus on a social bakery.

«Goodstock» is a means to secure independence and sustainable work for the founding NGO. A lot of NGOs have probably lived through periods of crisis or uncertainty when the current project is over, and the launch of a new one keeps being postponed. This disrupts financial and operational processes, causes misunderstanding within the team and, as a result, deteriorated work efficiency and retarded strategic development. The social enterprise was established to avoid it by combining the social component with steady financial support.

What is the enterprise's form of incorporation?

The «Goodstock» Civic Alliance has got a legal entity status and, according to the

national legislation, it can conduct business and operations autonomously or through establishing other legal entities (business companies, enterprises) if those operations are in line with the Alliance's aims and objectives and contribute to attaining them.

In attaining its programmatic and statutory aims and objectives, the «Goodstock» Civic Alliance can own funds, securities, proprietary and non-proprietary rights, tangible and intangible assets, equipment, vehicles, other means and properties, the acquisition of which is not prohibited by Ukrainian law. It has a corporate seal, stamps and letterheads.

«From my own experience I can tell you that we lack information on the social enterprise registration, and have to spend too much time getting a grasp on relevant requirements and procedures, drawing the documents and having them approved. It has a de-motivating effect and worsens the efficiency of production processes that have to be delayed. For instance, it took us too long to obtain the necessary permits, so we had to put off the beginning of renovation work. It is also important to the novices in this business to be able to consult with more experienced colleagues, get their advice and learn more about local practices,» – says Anna Schneider, director of the «Goodstock» Civic Alliance.



Ideally, the government should encourage organisations and individuals to set up social enterprises. Yet as matters stand, there is misunderstanding and disagreement between the social business initiators and local authorities, even at the stage of social enterprise registration.

The pertinent legislative and regulatory framework on social entrepreneurship should be developed, once the public is duly informed about this form of business, and demand for it is in place. It should be well explained that the goal is job creation and adaptation of vulnerable population groups, addressing social challenges and improving local communities' life.

An enterprise managed by an NGO is the most understandable, well-defined and regulated organisational and legal form for social



entrepreneurship. The registration of a social enterprise should start with the registration of its non-for-profit status. It should be noted that the registration of an NGO and obtaining a non-for-profit status are two different procedures, albeit often confused.

The social business initiators should be knowledgeable in procedures and documentation required for the social enterprise establishment. Oftentimes, local self-governments refuse to register social enterprises because they do not know or understand what this type of business is about.

The «Goodstock» Civic Alliance's case is indicative of the difficulties that one can come across: legal procedures can be fairly complex, bureaucratic delays can defer the launch of business operation, etc. However, these are routine, minor matters. Do not be afraid to ask others about their experience and potential pitfalls. Thus you will be able to avoid some mistakes they've made and benefit from their advice.

Zorina
KOVALCHUK

«Goodstock»
attorney

The Alliance is free to choose areas of its activities and adheres to the principles of voluntariness, self-regulation, free choice of territory to deploy its business, equality before the law, absence of the members' vested interests, transparency and openness. Its two main areas of statutory activity are production and sales of goods, and support to social entrepreneurship development in Ukraine. The Alliance generates income from its business operations

carried out to achieve the statutory aims and objectives. Not a single part of the «Goodstock» profit is distributed among its founders or employees (except for their salaries and mandatory social security contributions), members of the governing bodies or other related parties. The profit is used to cover the Alliances' overheads and to finance social activities geared towards the achievement of its statutory aims and objectives.

What is its business model based on?

«We are proud that we managed to become independent so quickly. A lot of start-ups like ours have to work for 1-3 years before they break even. We planned to become profitable in 3-4 months. To our own great surprise, we went into the black within the first month of our operation. Our new target is to start competing with commercial bakeries and increase the number of café guests at least tenfold,» – say the «Goodstock» team members.

The social bakery and café's profits are formed from proceeds of commercial activities upon covering all financial and similar costs, paying salaries, taxes and effecting other mandatory payments as stipulated by the law. The social enterprise has been registered with the fiscal authorities; it keeps accounting records and submits the required statistical, tax and financial reports.

«In late 2018, we reduced our dependence on external funding, whereas at the very beginning it was impossible to do business without such support. Confectionery is a very specific type of product, and it is difficult to estimate your sales, and profit, for that matter, accurately. That is why we study the market continuously, looking for new attractive points of sale. We hope we will soon be able to buy all the necessary

inputs and cover the costs of rent, utilities and labour from our income,» – says Anna Scheider.

How did they form their team?

The bakery employs five people, two more work at the café. To those who have concerns about their little experience, «Goodstock» offers vocational training with subsequent job placement options. The team members are also regularly trained on various topics related to social business growth and efficiency improvement, as well as to personal development.

According to the enterprise employees, the atmosphere is supportive and creative: there is room for initiative and responsibility, for experimenting and mutual support. For most of them, work here is also a therapy: they like being part of the team, and enjoy the work process. They say baking is a good stress-reliever. Their clients' appreciation and business expansion are the motivating factors for the team, the financial component being of secondary importance.

Still, they lack hands in the bakery, which affects all stages of production, particularly the sales. The enterprise needs to hire at least one more baker, buy additional equipment and some pieces of furniture to be able to expand business operations. They cannot afford a full-time accountant and marketing manager because of the

shortage of working capital. There is an unmet need for mentoring on the part of more experienced social entrepreneurs or traditional business managers.

«We do not have a clear-cut distribution of responsibilities or job descriptions, and it does not suit some employees. For example, two bakery workers do everything – from administration to production. This job is for those who care about our mission and social impact of the enterprise’s activities, who seek personal development and like challenges, who is 100% mobile,» – maintains Natalia Kozlova, Civic Alliance director.

What marketing tools do they use?

The social entrepreneurs are positive that the best way to promote any product or service is by creating a consumer-friendly value to be offered at a reasonable price. In order to do that, one should get high-quality market and niche research, pay special attention to one’s business architecture, ensure continuous flow of investment in staff development and be open to experimenting.

«Numerous clients acknowledge that we are the best suppliers as our pastry sells well. They recommend us to others, thus helping us to grow our clientele. This buzz-marketing technique works well. Equally effective is the word-of-mouth marketing

through our dedicated employees’ family members and friends,» – state the «Goodstock» team members.

The business founders monitor the local market for potential points of distribution for their bakery products, offer cooperation to their owners. The bakery and café are advertised online via Facebook and the founder’s website. To develop the product recognition, the enterprise presents its pastry at local fairs and festivals. Another marketing tool is arranging open interactive baking master-classes. They attract and positively engage not only consumers but their relatives and friends as well. The «Goodstock» team members are sure that enjoyment and other positive emotions boost the marketing effectiveness.

The social entrepreneurs from Vinnytsia do not think that the general public perceives the social component of their business as a competitive advantage: personnel at the points of sale and buyers are wary of this new business approach. Their doubts do not discourage the «Goodstock» team, but rather stimulate them to improve communications about their business idea, and to make their key messages smarter and clearer.

Do they cooperate with the local authorities?

«The local authorities helped us with consultations but otherwise were disengaged.

We wish we could have a more systematic cooperation, support at different development stages and assistance with resources. When we got the OSCE PCU support and obtained a grant for setting up a social business, the project partners organised a study-tour to Austria. We had a chance to talk to many representatives of their social businesses, learn from their experience, receive valuable practical tips. What impressed us most, and what we would like to have it introduced in Ukraine is their

partnering with employment centres that co-fund social enterprises³². We do need it in our country – cooperation between the government, international organisations, well-established businesses and acceleration programmes.

Our priority task today is to find new markets for our products and partners for the enterprise development and profit increase,» – Anna Schneider shares her plans.

«RUKOMYSLY» SOCIAL ENTERPRISE

Where?	Lviv
What NGO initiated it?	NGO «'Women's Perspective' Centre» ³¹
What does it do?	Felting, batik printing, manufacturing wooden furniture
Due to the OSCE PCU support:	<ul style="list-style-type: none"> • 6 persons have been placed in jobs; • the product line has been extended and sales increased; • profit has been generated from sales via social media, participation in fairs, fulfilling customer orders.

³⁰ Work Integration Social Enterprises which are receiving financial support from Ministry of Economy and Labour of Austria in the frames of European Social Fund i Employment Pacts.

³¹ Find out more on www.women.lviv.ua

The «Rukomysly» goal is to assist socially vulnerable population groups (the unemployed, THB survivors, ex-combatants, IDPs and others) with job placement and entrepreneurial activities, and to render high-quality and comprehensive social services to them.

The social enterprise team has set the following priorities to be pursued in their activities:

- social protection and labour rehabilitation of persons in difficult straits;
- investment into public benefit projects;
- holding events conducive to the achievement of the enterprise's goal.

«Rukomysly» has two business lines:

- manufacturing woollen goods by dry and wet felting;
- hand-printing on silk by the «batik» method.

How did it all start?

A decision to set up a «people-friendly business» came about as a natural outcome of many years of work carried out by the NGO «Women's Perspective' Centre» (hereinafter referred to as the «Women's Perspective» NGO). Created back in 1998, the NGO has since realised a lot of initiatives to support women's adaptation to current economic conditions, to protect their rights and to facilitate gender policy implementation. The NGO team was the first strategic partner of the Lviv Employment Centre.



It is difficult to open any new business, let alone a social one. Yet I believe the latter has good prospects for developing in Ukraine and shaping its future business landscape. In a lot of countries that are successful today economic development was spurred by desire to overcome high unemployment and economic hardships. They succeeded thanks to the social entrepreneurship evolvement.

Liubov
MAKSYMОВYCH

«Rukomysly» founder
and leader of the «Women's Perspective» NGO

The idea to win financial independence was reflected in the NGO's strategic development plan for 2011 but a favourable opportunity to start doing so presented itself only in 2016, when the «Rukomysly» social enterprise was established with the OSCE PCU support.

«Ukrainians are good at crafts, at various types of handiwork but we do not know how to market these products. Our «Rukomysly» has become a hub enabling women to both make beautiful things and sell them successfully. It empowers them economically, bolsters their self-esteem and raises their awareness of the market rules and demand. So social entrepreneurship is, indeed, a means to alleviate poverty in the country,» – maintain the social entrepreneurs from Lviv.

What is the enterprise's form of incorporation?

The «Rukomysly» social enterprise is a unitary commercial company founded pursuant to the decision of the board of the NGO «'Women's Perspective' Centre» dated 24 September 2015. The purpose of its establishment is to carry out business activities conducive to attaining statutory aims and objectives. The enterprise is accountable to and guided by the founding NGO, which manages it via the board – the governing body for «Rukomysly».

According to its statutory documents, the social enterprise is an autonomous business entity with a status of unitary company; it generates profit from production, research-and-development, service provision, commercial and other activities. Since the day of its registration, «Rukomysly» has got all rights and responsibilities of a legal entity with its autonomous balance-sheet, current, foreign-exchange and other bank accounts, its own corporate seal, other stamps and letterheads, its logo and properly registered mark for goods and services, as well as additional means of individualization.

«In Ukraine, commercial firms or private entrepreneurs usually position themselves as social businesses. We, in order to avoid unfounded declarations, decided to study the pertinent legislation carefully and choose an organisational and legal form for «Rukomysly» that would be most suitable and cause no problems in our further activities. We concluded that «an NGO-founded enterprise» would suit us best as an organisational and legal form, given that this form is the most clearly regulated one.

The registration procedures were not complicated but lengthy. Originally we planned to get «Rukomysly» registered as an enterprise–public association, and drew our statutory documents accordingly. Yet we made a mistake having mentioned, in the statutory documents, that the founding

NGO should have the priority right to the enterprise's assets in the case of its liquidation. So we paid an administrative fine and had to postpone the enterprise launch for a month. The statutory provision on the asset distribution was amended to replace the reference to the NGO «'Women's Perspective' Centre» with that to «other NGOs».

Obtaining a certificate of the enterprise's non-for-profit status was not an easy exercise either. We had to amend the statutory documents several times but the tax authorities kept arguing we were not eligible for this status being engaged in com-

mercial activities. They had no previous practice of dealing with social businesses, so did not know how to handle our application,» – recalls Natalia Miakushko, «Rukomysly» director.

Later, the enterprise's persistent advocacy of their ideas resulted in a change of attitude on the part of local authorities, in particular the Economy Department of Lviv City Council. Moreover, members of the regional council voted for leasing out to «Rukomysly» of the premises it needed to start operations. It was an important precedent for the city as there were many commercial companies vying for the premises.



Social entrepreneurship is gaining popularity year by year, but relevant legal procedures are not being simplified. That is why the regulatory framework on social entrepreneurship needs clarifying.

It concerns, first and foremost, the Economic Code provisions on typology of enterprises and their property. The Code is in conflict with the more recent Law «On Non-governmental Organisations». The provisions on management of social enterprises should be revised in both the Economic Code and the NGO Law.

In the process of registration and subsequent activities, social enterprises have to rely on legal norms applicable to traditional businesses and use them by analogy. Using legal norms by analogy is not a good idea, as it allows for discretionary interpretation.

Roksolana
PAZIURKO

«Rukomysly» attorney



What is its business model based on?

Although the «Rukomysly» founder come from the non-governmental sector, they admit it was not too difficult for them to launch a business project. «Such notions as business plan, financial planning, profit estimation and marketing strategy are not new to us: we have always supported entrepreneurship as part of our activities. Thus, in cooperation with IOM the «Women's Perspective» NGO organised programmes for women on launching their own business. Moreover, we attend business development trainings and courses regularly,» – says the enterprise director.

«Rukomysly» is autonomous in pricing its products, goods, works and services (except for cases explicitly stipulated by the law). The enterprise keeps accounting and operational records and submits statistical, tax and financial reports as required by the law. The enterprise director is authorized to develop financial plans and ensure its implementation.

Profit is a key indicator of the social enterprise's performance. The profit is formed from proceeds of commercial activities upon covering all financial and similar costs, paying salaries, taxes and effecting other mandatory payments as stipulated by the law, as well as interest on bank loans.

Hand-made goods are products of a special nature, with limited marketing opportunities. Therefore it is difficult for the «Rukomysly» team to make accurate estimations of revenues and cash flow: sometimes certain goods seem to sell poorly for a long time, but then the tide turns and the demand for them grows dramatically.

All of the «Rukomysly» incomes (profits) are used to sustain the enterprise, to cover its costs and to implement the NGOs' social initiatives in line with the statutory aims and objectives. As per the social enterprise's statutory documents, no part of its income (profit) can be distributed among its founders (members) or employees (except for their salaries and mandatory social security contributions), members of the governing bodies or other related parties.

«If asked whether we get million-worth profits, we would say «no», of course. But if asked whether it is worth doing social business and whether it is effective, we would not hesitate to give an affirmative answer. We do not make millions but we have been self-reliant and independent of grants for many years now.

Our immediate task is to find new outlets for our products and introduce new marketing tools, diversify sources of revenue and optimise available resources. We want to expand our production capacity

and employ more people. With a larger team we will be more competitive, which will facilitate our development and output growth,» – say the «Rukomysly» managers.

How did they form their team?

«Rukomysly» employs 5 fulltime workers. None of them had any prior experience of or background in felting or batik printing: they worked as hairdressers, salespersons, in an architectural bureau etc. The enterprise offers specialised vocational training to those who want it, together with further employment opportunities in social business. Today, all of its current employees are competitive in the labour market.

The enterprise managers note they had to make some people redundant some time ago, after the minimum wages were doubled nationwide pursuant to the governmental decision.

For the enterprise team, work here is not only a means to provide for their families and secure their common financial stability, but also an opportunity of art-therapy, which is particularly important for the abuse victims. Positive team atmosphere, mutual assistance and support are also among appealing factors that help to retain talent at «Rukomysly». All this gives room for every employee's socialisation and self-accomplishment, inspiration to look

for new product designs and distribution channels and to extend the product line.

The workers say they do not associate social business with stability but hope for «Rukomysly» to become competitive with commercial companies and less dependent on external investment. In order to achieve it, they need additional training on financial management of the enterprise: their previous NGO-related experience is not enough as the requirements and procedures applicable to NGOs are different. Furthermore, their capacity in automating their processes is limited because the free-of-charge accounting software that they use performs a limited range of functions, insufficient for commercial operations.

«In the non-governmental sector it is easier: you help people insofar as your financial resources (usually grants) allow you. With establishing «Rukomysly», we have undertaken additional responsibility and risks of developing not only the social component, but the commercial one as well. It means continuous improvement, continuous challenges,» – admits Liubov Maksymovych.

Do they cooperate with the local authorities?

According to Halyna Zayats, Head of Business Industries Unit in the Economic Department of Lviv City Council, the local authorities have been the «Rukomysly» social

enterprise's partners from the outset. She says the local authorities appreciate the important role of social businesses that provide consultative services on opening a business, training in crafts, assistance in vulnerable groups' adjustment to the labour market and socialisation. This helps to make the region safer, more prosperous and self-sufficient.

«When the enterprise began operating, we visited its premises. It was a cold winter, and one could only get there by one type of public transport. The premises were too small for the number of employees they had then. So together we looked for ways to improve their working conditions. The city authorities offered several buildings owned by the municipality, and the city council voted for leasing out an office formerly occupied by a telecom company to «Rukomysly». It has good access to transportation and infrastructure,» – recollects Halyna.

The rent that the social enterprise pays is lower than that usually charged to commercial companies. Moreover, it regularly applies for municipal projects of social, economic and cultural development. When implementing such projects, the enterprise gets additional rent discounts.

The «Rukomysly» social enterprise has managed to win a grant from the Lviv Employment Centre (funded by the city

budget) for public works. It took the team a good deal of effort but was worth it: today they can use a part of this grant to pay salaries to some employees.

Halyna Zayats lists the following steps to be made to stimulate social entrepreneurship: improve legislative and regulatory frameworks, ensure governmental support – at least in the form of utilities or rent discounts – and raise public awareness. The latter concerns consumers of goods and services, local authorities, commercial partners and, to a lesser extent, vulnerable population groups that can become part of this business.

What marketing tools do they use?

The «Rukomysly» team members say that a great impediment to their business development is poor awareness and little trust on the part of local authorities, potential partners and the general public. The mere mentioning of «social» nature of their business scares off clients as something unfathomable and uninteresting.

The main channels of selling the «Rukomysly» products include participation in public events and attracting clients via the social media account, with almost 1,500 followers on Facebook. The Facebook page³² is regularly updated not only by moderators: satisfied consumers often

leave their positive comments there as well. The enterprise invited opinion leaders to promote their beautiful handiwork.

Furthermore, «Rukomysly» has got a website³³ where the consumers can find information on the whole range of offered goods and services and make online purchases in three categories: garden furniture (plastic chairs, tables, armchairs), woollen goods (adornments, bags and purses, clothes) and batik prints (scarves, shawls, beach wraps). The consumers can also order products of their own design.

The social enterprise promotes its products and services through specialised courses and master-classes. People of any age are welcome to take part in such classes led by a skilful artisan. The enterprise products are also presented in Lviv's popular ethno-galleries.

This being said, the «Rukomysly» management and workers concur they need a professional marketing manager savvy about promotion of off-the-shelf and made-to-order goods, building of a point-of-sale network, high-quality communications.

³² <https://www.facebook.com/rukomysly>

³³ <http://rukomysly.com.ua>



EXPERIENCE-BASED RECOMMENDATIONS ON ESTABLISHING SOCIAL BUSINESS

The social entrepreneurship development in Ukraine is both promising and complex: every year the number of success stories is growing, and so is the number of challenges. The practice of social entrepre-

neurship in Ukraine and related expertise testify that in order to set up and advance a successful social business, one should take the following steps.



Develop a concept of social enterprise

Social business starts with identifying a social need to be satisfied in the process of entrepreneurial activity. It is also important to know from the start what consumer groups the enterprise will target with its goods or services, what unique value it will offer to the consumers, what will be the enterprise's competitive edge, who

it will compete with, how it will attract clients and partners. One should foresee the model viability for a horizon of at least 2-3 years, with due regard to the market situation. It is equally important to verify the concept viability in consultations with partners, other social business owners, sectoral experts.



In Ukraine, about 90% of social businesses close down within a year of being launched. As few as 2-3% of them survive after 3 years of operation.

I think there are three key challenges facing NGOs in establishing and developing their social enterprises.

1

The first challenge is low capacity to switch from the non-governmental sector mentality to that of the business sector, i.e.

client-centred, results-oriented, focused on continuous bolstering of profits and process quality improvement, on building an efficient team and delegation of responsibilities.

2 Second, civic activists should cease being focused on the process, develop pragmatism, improve their marketing and promotion of their goods and services, tirelessly monitor the market situation for changes. Key values and ground rules, aims and objectives of the enterprise's activities should be negotiated with the team, but each employee (rather than a micromanager) should be responsible for their own performance. Teams like this have proven to be efficient and competitive.

3 Third, effective management should be based on the principles of flexibility and adaptability. It is critical to engage – be it in the capacity of team members or short-term external experts – people with experience of working for commercial companies or projects. Never should a young social business isolate itself, as modern business approaches and markets change so fast that one can only be successful if one is prepared to take a calculated risk, learn and improve one's processes continuously.

Roman **DROZD**

CEO of the «Svitlo Nadiyi» Charity



Pay proper attention to business planning and financial strategy development

It is necessary to plan the cost structure and value, methods and timeframes for raising funds, as well as to analyse the market opportunities, draw a financial plan for a year ahead, develop an optimistic and pessimistic forecasts. This is what a

business plan is about – a step-by-step instruction for a social business launch and an operational plan. This document supports communication within the team and with key stakeholders, and helps in the search of funding opportunities for the so-

cial enterprise at the initial and later stages of its growth.

If investor or donor money is to be attracted, one should calculate the payback period carefully³⁴: when investors or donors choose from several projects, they tend to opt for those with shorter payback periods. It is also important to estimate

the profitability index and internal rate of return. The project efficiency means the efficiency achieved at the expense of the founder's own capital, i.e. a project is efficient when the enterprise's closing balance is zero, so indicators of both operational and investment activities are to be taken into consideration.



Consider the optimal organisational and legal form when registering the social enterprise

One need not worry that Ukraine's national legislation does not provide for specific regulation of social enterprises' activities. In this case the following principle applies: «What is not expressly prohibited by law is allowed». One can use any of the available organisational and legal forms: LLC, individual entrepreneur, NGO, private enterprise, enterprise of a public association, social cooperative, etc. The founders should make sure to indicate in the statu-

tory document that the social enterprise is established for the purpose of providing social services and benefits, rather than for profit generation.

It is also advisable to take special care while choosing a taxation system proceeding from the type of costs and counterparts. In some cases, it could be more beneficial to opt for the VAT taxation scheme.



Ensure efficient managerial structure

Social entrepreneurship is about solidarity, about introducing a new approach to the enterprise management, which is no longer based on the owner's «personality

cult» but, instead, on the values of mutual assistance, collaboration and recognition of each employee's contribution. However, in order to create efficient added value in

³⁴ Please find out more: <http://monetary-flow.com/category/books/business-plan-100-asks-and-answers/>

the macroeconomic dimension, one should meticulously design and implement a clear framework for distribution of responsibilities and interaction among all employees without fail. It requires the management's

ability to define clear aims and objectives, motivate the personnel and assess their performance, as well as to delegate, inform and discipline.



Formulate a marketing communications strategy

Any business should evolve around a personality. In the case of social entrepreneurship, the personalities that matter are the clients and, what is even more important, people in need of assistance whose problems a social business founder aspires to resolve. Personified approach helps a lot in the social enterprises' communications and marketing. Relevant strategy should ensure such enterprises' pro-active stance in presenting their goods and services/works, and should identify and detail the key target audiences, positioning of goods or services,

main spokespersons, key messages and their tenor, plan, format and frequency of creating content, communication channels and tools, product presentations at public events and thematic meetings, activities to build partnerships with the authorities, media, potential investors and competitors.

It is also important to join efforts with other social entrepreneurs to promote ideas of social business – synergies help to dismantle stereotypes and overcome ignorance, engage more people into collaboration.



Be alert to opportunities of getting financial support to social entrepreneurship development in Ukraine

Financial support for social enterprises in Ukraine is mostly provided by international donor agencies through implementation of technical assistance projects. They include: USAID, UNDP, the governments of Germany and the UK, IOM, Ukrainian Women's Fund, IRF, EEF, etc. Venture philanthropy and impact investing institu-

tions also seem dedicated to harnessing the power of markets to create opportunity for people to improve their lives. They are Omidyar Network, Western NIS Enterprise Fund, several Ukrainian charities (such as the Nechytailo Family's Charitable Foundation, Pomogator Charitable Foundation, and Olena Pinchuk's Foundation), to

mention but a few. Therewith, one should bear in mind that investors look, first and

foremost, into the social enterprise's sustainability and its scale-up potential.



Keep learning and improving skills of the management and personnel, studying peer experience, both positive and negative

According to expert estimates, there are more than 1,000 units of social entrepreneurship in Ukraine, and over 2 million social businesses operate in Europe. With the multitude of materials online, thematic events, networking and mentorship opportunities, there should be no problem learning about their practices and approaches,

success stories and useful tips, methods of addressing challenges. It is advisable to provide both vocational training for the personnel involved in production, and development of managers' skills³⁵ in such areas as optimisation of processes, HR and financial management, PR and marketing.



Invest in commercial consultants

Unbiased and critical review by an external expert is a valuable development tool in the course of putting the business model to-

gether and optimising business processes and administrative mechanisms.



Carefully consider criteria, frequency and mechanics of measuring business performance and social impact

Social business is open to scrutiny. The on-lookers can see everything: where and how social enterprises raise funds, who their

partners are, how they do their marketing and distribute their profits. It is crucial (for the businesses' own sake) to develop clear

³⁵ See: «11 Articles Every Social Entrepreneur Should Read» on www.socialchangecentral.com/11-articles-every-social-entrepreneur-should-read/.

performance indicators and communicate them to the outer world, undergo financial

and operational performance review and external audit, ideally on an annual basis.



Introduce a practice of public reporting

Transparency is key to building up clients' confidence and developing good relations

with donors, investors, partners and public authorities, media and local community.



Initiate partnerships

Networking, updated database of positive contacts with other social businesses, local authorities, classical commercial companies, celebrities, best civic activists and social projects in relevant sectors, – all of these are the social entrepreneur's

assets. Hence, a need to be proactive and focused in communications: one should have a clear vision of one's positioning, identify important partnerships, be present and visible at thematic events.



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