Financial instrument (FI) to support social economy under OP Employment

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Need to be emphasized at the very beginning
Social services vs enterprises

➢ Social services
  • Existing legal framework
  • Multi-resource financing
    ➢ state care allowance
    ➢ client’s/user’s payment
    ➢ regional and municipal subsidies
    ➢ others (private, donations, ESIF grants etc.)

➢ Social enterprises
  • No legal framework
  • ESIF grants
  • Benefits from Active labour policy
State of play in Czech Republic

• Still a **very small number** of social enterprises
• **Slow development** of social economy, the sector is still weak
• Reasons?
  • Interrupted tradition of a social entrepreneurship
  • Discredited cooperative movement
  • Weakness of NGOs, limited ability to carry the business risk
  • Lack of political will (central government)
  • Awareness of regional offices varies
More than 200 social enterprises are registered, 90% of them are WISEs

State of play in Czech Republic (2)

Source: České-sociální-podnikání.cz
We’ve been using grants to support social economy for 10 years

Support is provided by several calls for proposals + Support structure project from the beginning

✓ **Calls are from two OPs (20 mil. Euro each)** – the Employment Operational Programme (ESF) and the Integrated Regional Operational programme (ERDF) – **MA of these OPs are from different ministries (MoLSA and MoRD)**

✓ Close link between OPs was planned

✓ The original idea of a flexible coordination between the ERDF and ESF schemes faded

✓ MoRD no longer plans any further call to support social economy
Operational Programme “Employment”

✓ 90 projects
✓ 12 mil. EUR
✓ 366 vulnerable people supported
How about lessons learned?

Strengths

• Global grants helped to move forward the consolidation of the sector
• Learning process for all stakeholders, mostly for MoLSA
• Increased awareness of the government about social entrepreneurship, proved by SE global grants
• New partnerships between stakeholders have been established and they worked well
• Increasing number of on-going good practices
How about lessons learned?

Weaknesses

• Only WISE are perceived as social enterprises
• Social enterprises **got used to a grant support**
• The implementation of the **joint grant schemes did not work well**
• Two sets of complicated administrative rules for each global grant, ERDF being more difficult than ESF
• Business sector was not fully involved
Why financial instruments?

• Sector is **lacking financial resources** (other than grants or subsidies)
  
  It is said and proved that various sources of funding are crucial for the sector development.

• **For each development stage of the enterprise (life cycle), a different approach should be used**
  
  ✓ Grants (for start-up)
  ✓ Loans (for start-ups or enterprises in early stage of development)
  ✓ Microcredit (for small enterprises or self-entrepreneurship)
  ✓ Guarantees (for larger investments)

  …
What’s our aim?

- **MoLSA is implementing Financial instruments to promote social economy enterprises in this programming period**
- **Lack of money is a key issue in the market – needs to be proved by ex-ante assessment** (ex-ante conditionality – examined absorption capacity, proposed the best investment strategy, financial intermediary etc.)
- **When to start? The sooner, the better**
- **The aim is to promote tailor made financial instruments**
  - ✓ Loans with non financial support/consultancy
What’s our aim? (2)

- Pilot FI is prepared under the SO 2.1.2 “Social economy development”
- **FI will be available in all regions**, including Prague
- The **whole allocation for FI: 15,5 mil EUR**
- ESIF financial allocation for FI: 12,02 mil EUR (0,6% of the whole ESIF allocation for OP)
How do we do so far?

- the *ex-ante assessment* was completed in 2017
- the *ex-ante conclusions* have been verified in the beginning of 2019 and are *still valid*
- the investment strategy of FI was finalized in the beginning of 2019
- *implementation structure without Fund of Funds*
- tailor-made FI
- fund manager - the MA plans to direct award the Czech-Moravian Guarantee and Development Bank (CMGDB) = national development bank
How do we do so far? (2)

- Selection of fund manager/ signature of funding agreement expected in May/June of 2019
- Negotiation of the funding agreement with CMGDB completed in April 2019
- The funding agreement has been sent to the national authorities for the mandatory consultation – process underway
- Currently working together with CMGDB on the call for proposals
Setting up the financial product

• Amount of loan up to 100% of the envisaged project eligible expenditure
• Loan maturity up to 10 years/12 years for real estate loans
• Fixed interest rate from 0,0% p.a. (interest free loan in the first call for proposals)
• Grace period up to 36 months
• Optional consulting services for final recipients
• Detailed setting of the financial product will be specified in calls for proposals
What are the expectations?

• Piloting the new way of financing
  • We are expecting lower support from ESF in the next programming period
  • Less money will be granted

• What are the benefits of the FI?
  ✓ Money from the revolving – could be used again
  ✓ More supported projects
  ✓ Bigger investment efficiency
  ✓ Better quality of business plans
  ✓ Faster and easier administration, transparency

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Je Vaše podnikání závislé na podpoře z veřejných zdrojů? - v rozjezdové fázi jednoznačně, výhledově předpokládáme, že se bez veřejné podpory dokážeme obejít.

Uvažujete žádat z OP Z? [Určitě Ne,] nesmyslná pravidla a složitost podnikatelského záměru v kombinaci s "chytrostí," hodnotitelů nás od toho odradila, orientujeme se na SZIF, kde je sice % podpory menší, ale byrokracie snesitelná.

Čistě "komerčně - podnikatelsky" bez veřejných zdrojů nedokážeme sociálně podnikat a udržet žádoucí počet pracovních míst pro zaměstnance, natož pro vedení. Když jsem peníze potřeboval, žádná banka mi nechtěla půjčit.

Vzhledem k tomu, že z druhé výzvy bylo rozdáno méně než 25 % alokace, velice zvažujeme, zda máme znovu vynakládat síly na psaní dalšího projektu.

[Uvažujete žádat z OP Z]? [Spíše Ano,] ale pro narůstající administrativní překážky máme z tohoto kroku obavy...

Vox populi
What is the offer from the support structure project?

- Project **Support of Social Entrepreneurship in the Czech Republic**
  - Promotion – web, spots, events
  - **Local consultants** to provide information and help in regions
  - **Traineeships/Internships** in the social enterprises
  - **Experts/Coaches** (gastronomy, risk management, marketing etc.)
  - Workshops

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Register of social enterprises

Map shows where the companies are:
Thank you for your attention!

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