



The European Union
for Georgia
EU4Youth



SOCIAL ENTREPRENEURSHIP IN GEORGIA

*LEGISLATIVE ENVIRONMENT, CHALLENGES AND
INTERNATIONAL PRACTICE*



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The present desk review was commissioned by CENN with the support of the European Union, as part of the project "EU4Youth: Social Entrepreneurship Ecosystem Development (SEED) for Green Growth".

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Introduction

The present desk review was commissioned by the Caucasus Environmental NGO Network (CENN) as part of the project "EU4Youth: Social Entrepreneurship Ecosystem Development (SEED) for Green Growth".

The aim of the study is to explore the elements, as well as challenges and opportunities facing the social entrepreneurship ecosystem in Georgia, and examine the potential of other countries' best practices with a view to adapting them to the Georgian reality.

Social entrepreneurship represents a relatively novel but growing sector in Georgia so a number of in-depth studies and analyses have already been initiated in the area. The novelty of the present review lies in an attempt to pay due attention to all the elements of the social entrepreneurship ecosystem and, taking account of the European Union experience, divide these elements conditionally into seven main domains. (General Culture, Legislative and Regulatory Framework, Institutional Framework, Access to Finance, Access to the Market, Systemic Support in Skills Building, Impact Management, Assessment and Measurement). In addition, the aim of the study is to demonstrate clearly both to the reader of the review and the decision-makers in the sector how social entrepreneurship can particularly be linked to achieving the UN Sustainable Development Goals.

Working on the document also involved a survey of social entrepreneurs and representatives of the support system (private, public and non-governmental sectors), which aimed at gaining insight into the current context and promising avenues of social entrepreneurship in Georgia: detect common trends, perceptions and attitudes, identify contemporary challenges and explore possibilities for further development. In addition, all of the social enterprises operating at present in Georgia were invited to fill in a questionnaire, aiming to determine which particular areas of entrepreneurial activity are most actively covered by the local entrepreneurship sector, as well as identify the social purpose they serve, the problems they encounter and the sources they generate their income from.

The results of both the examination and the survey, along with the overview of the international practice, are summarized in different chapters of the document, providing the basis for detecting the challenges and drawing relevant recommendations.

The document reflects on the issues facing the field of social entrepreneurship in Georgia at the legislative, institutional or practical levels. Due to the low degree of civic engagement, citizen-driven initiatives and movements, as well as the poor perception and understanding of social sustainability, only very slowly is the society developing its interest towards social economy. In the absence of an appropriate legal framework, it is fairly hard to identify social enterprises and select the appropriate legal form, which certainly affects the process by making it a strenuous task to inquire into businesses as to their taxation, funding sources or revenue streams. The weakness of the support system and the heterogeneous attitude of state, private or non-governmental sectors towards the nature and key features of social entrepreneurship have a significant impact on the development of the sector. Central or local government programs supporting social entrepreneurship are scarce and insufficiently tailored to existing challenges or development prospects. This can be partly explained by the fact that in the absence of the legislative basis for social entrepreneurship, it is virtually impossible to collect

data on social enterprises, their needs or capabilities. Part of social entrepreneurs are less focused on sustainable business, which can partly be explained by the lack of relevant entrepreneurial skills. All these factors affect the sustainability and development prospects of social enterprises.

Nevertheless, conferring with social enterprises and studying the existing practice have revealed that if these types of entrepreneurs are equipped with appropriate skills, they are likely to successfully manage and expand their business, regardless of any obstacles or disruptive factors. Moreover, social and environmental purposes they maintain allow them to make their employment policy, environmental impact as well as their ambition and resources to equip the local community with entrepreneurial or civic activism skills, fully adapted to the social, economic and ecological aspects of sustainable development.

Key Findings

- It has been over a decade since the first social enterprises emerged in Georgia. With the support of international and local donors and non-governmental organizations social entrepreneurship has been developing ever since and according to the Alliance of Social Enterprises, for the time being, more precisely, at the moment of the present study, there have been 63 social enterprises working actively in the area. Their main goal is to address the social, educational and environmental challenges both at the community and municipal levels.
- Despite numerous attempts to initiate a parliamentary legislation that would regulate social entrepreneurship in a more consistent and standardized manner, there is as yet no legislative framework that would provide a straightforward guide in regulating the field. Therefore, organizations that have been registered as entrepreneurial or non-entrepreneurial legal entities are classified as social enterprises only by their own will or individual preference. Moreover, social enterprise definitions that donor organizations or financial institutions provide are also individual and accurate only as much as they fit the purpose of their own specific programs.
- Social enterprises are facing a variety of challenges. These include a lack of entrepreneurial skills, which obviously affects the sustainability of business activity; the drawbacks or shortcomings of the relevant ecosystem - difficulties related to regulatory or policy instruments, financial support mechanisms, public awareness and the assessment of the social impact of activities.
- With respect to state and organizational support, the active assistance rendered to the sector by international and local non-governmental organizations is observed to be the most notable one. This includes: accelerators, incubators, common workspaces, the alliance of social enterprises, academic sector organizations. However, initiatives in support of social entrepreneurship at the state level are still merely sparse and rather scanty in nature.
- Despite multiple challenges, which the following chapters will attempt to explore in more detail, it is important to take effective steps to create a proper ecosystem, considering the

potential of the social economy and entrepreneurship, the international experience, and the close link between the social entrepreneurship and the sustainable development goals. In particular, the introduction of a holistic approach, in which the public and private sectors as well as donor organizations and social enterprises would take joint action to develop the social economy in areas which traditional enterprises find less appealing, and where public service delivery is not cost-effective or is simply expensive, may lay the groundwork encouraging the development of a brand new direction in Public-Private Partnership (PPP), especially with regard to issues concerning the promotion of innovation, as long as the introduction of innovative approaches can be regarded as one of the main features of social entrepreneurship. However, in order to establish such a partnership, it is essential to create an appropriate ecosystem for social enterprises and substantially strengthen their capabilities.

The essence and definition of social entrepreneurship

Over the past decades, the concept of social entrepreneurship has become quite topical both in practice and in terms of academic research. Social entrepreneurship can be defined as an activity that ensures the acceleration of social change and the satisfaction of social needs through the innovative use of resources¹. **Although for-profit social entrepreneurship is market-oriented, unlike traditional economic activities it sees financial gain as a means to an end and not an end in itself - profit is used to create social value for society and/or to meet social needs².**

Thus, individuals who try to create social value through commercial activities and with the help of the resources at their disposal can be viewed as social entrepreneurs³.

Despite a lot of controversy and the differences of opinion regarding the definition of social entrepreneurship, the main features of this type of activity are:

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1. Mair, J. and Marti, I. (2006), "Social entrepreneurship research: a source of explanation, prediction, and delight", Journal of World Business, Vol. 41 No. 1, pp. 36-44.
 2. https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---sro-cairo/documents/publication/wcms_589097.pdf
 3. Bacq, S. and Janssen, F. (2011), "The multiple faces of social entrepreneurship: a review of definitional issues based on geographical and thematic criteria", Entrepreneurship & Regional Development, Vol. 23 Nos 5/6, pp. 373-403
 4. Defourny, J. and Nyssens, M. (2006), "Defining social enterprise", in Social Enterprises – at the Crossroads of Market, Public Policies and Civil Society, (Ed.), M. Nyssens, Routledge, London and New York, NY, pp. 3-26.
 5. Langdon, D. and Burkett, I. (2004), "Defining social enterprise enterprising ways to address long-term unemployment", Book One: The New Mutualism Series, PI Productions, Palmwoods Queensland.
 6. Defourny, J. and Nyssens, M. (2006), "Defining social enterprise", in Social Enterprises – at the Crossroads of Market, Public Policies and Civil Society, (Ed.), M. Nyssens, Routledge, London and New York, NY, pp. 3-26.

- a social or ethical mission that puts the creation of social value above an economic one⁴;
- earning income through commercial/economic activities⁵;
- involvement of stakeholders in the decision-making process and the management of an enterprise⁶;
- limited profit distribution⁷ and
- employing innovative approaches in resolving social problems⁸.

Given the diversity of social enterprises, their basic features and characteristics are systematically presented in the definitions developed by the European Commission under the Social Business Initiative (2011-2018) and the International Labor Organization (ILO). In particular, according to both international and regional definitions, the main features of social entrepreneurship comprise three major dimensions:

- **Social dimension** - a clearly defined social mission, the fulfillment of which is a priority of the enterprise/entrepreneur⁹. This goal should be clearly stated in the charter. In addition, the service or product created by the social enterprise should also be social by providing direct benefits to the beneficiaries and the community¹⁰. The term “social” and the scope of the enterprise activity may be different depending on the challenges of the respective community /society and vary over time and across geographic area. Within the European Commission framework an additional minimum criterion has also been developed. The latter requires that the primacy of the social purpose must be clearly manifested in national legislation, social enterprise establishment documents and other regulations¹¹.
- **Entrepreneurial / economic dimension** - a sustainable business model in which revenue should exceed expenditure. In order to meet this criterion, it is crucial that the production of goods/services by the enterprise should be predominantly of sustainable and continuous nature¹². Social enterprises should be market-oriented, which means that a significant part of the enterprise/entrepreneur's income (at least 25% of total income¹³) should be obtained through economic/entrepreneurial activities rather than grants and donations. In much the same manner that conventional enterprises do, social enterprise employees (both paid workers and volunteers) must have the appropriate skills, equipment, and infrastructure in order to create and deliver a competitive product or service¹⁴. Furthermore, goods/services should be produced in response to the factors characteristic of the monetary economy (paid labor, accumulation of capital and assets). However, in order to achieve sustainability, it is possible that volunteer labor and non-commercial resources (grants, donations) be also

7. Langdon, D. and Burkett, I. (2004), “Defining social enterprise enterprising ways to address long-term unemployment”, Book One: The New Mutualism Series, PI Productions, Palmwoods Queensland.

8. Dees, J.G. (2003), “Social entrepreneurship is about innovation and impact, not income. Social edge”, available at: https://centers.fuqua.duke.edu/case/wp-content/uploads/sites/7/2015/02/Article_DeeseisAboutInnovationandImpactNotIncome

9. ILO

10. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

11. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

12. ILO

13. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

14. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

used at the initial stage. The accomplishment of the statutory goals set by social enterprises requires adequate financial income, which is related to the ability to take economic risks. At the same time, they must balance equitable pay, the creation of capital and social value for the wider society.

- **Inclusive governance dimension** - a high degree of accountability to stakeholders, which is expressed through the existence of appropriate mechanism of measuring social impact and sharing to beneficiaries¹⁵. In order to ensure the primacy of the social goal, it is necessary to set limits on the distribution of profits and to "lock assets." The latter implies the restraints on the alienation of any asset, including profit, equipment or infrastructure to managers and employees, which, in the event of cancellation of enterprise registration, contributes to the conversion of assets into public value. In some cases, limits may be set on the remuneration for managers and employees to avoid indirect distribution of profits. Regardless of the legal form of the enterprise, all stakeholders (employees, beneficiaries /consumers) should be involved in the decision-making process. Besides, the right of ownership and control of the enterprise may be granted to one category of stakeholders (e.g. employees, founders). Some beneficiaries/ consumers may get involved in governing bodies or special committees. In the context of the definition developed by the European Commission, according to the minimum standard, it is significant in this regard that the management and organizational structure of the enterprise ensure the engagement of all stakeholders in the decision-making process.

Given these characteristics, a social enterprise can be defined as the one that carries out commercial activities to produce a social good or common benefit and/or respond to social needs, and whose management process is transparent, carrying a high degree of responsibility, ensuring active involvement of employees, customers and stakeholders and maintaining accountability to them.

In terms of international practice, there is no unified approach to the social enterprise definition. Some of the countries use the organizational definition, according to which an enterprise that may operate in any field and, at that, meet the basic standards of a social enterprise, can be regarded as a social enterprise. Organizational definitions formulate comprehensive and exhaustive characteristics of social entrepreneurship, which are reflected in the relevant legislation.

Other countries exploit a sectoral approach, whose perception of a social enterprise is confined to the organizations and entities that promote social inclusion and population integration in the labor market (work integration social enterprises - WISE)).

Sectoral definitions are typically common in countries where social entrepreneurship is regulated so as to encourage social inclusion. Across the EU member states, social enterprises are often associated with the so-called WISE type ones.

15. https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---sro-cairo/documents/publication/wcms_589097.pdf

Definition	Content	Main criterion	Sources of social enterprise definitions			
Organizational	Description of the specific nature of social entrepreneurship as a legal entity pursuing public interest	Priority of social goal, specific constraints in terms of profit distribution and form of governance	International definition British Council, European Research Network (EMES), International Labor Organization (ILO), Global Network of Continental Networks of Social Solidarity Economy (RIPESS)	National legislation Belgium, Bulgaria, Denmark, Germany, Greece, France, Italy, Latvia, Luxembourg, Portugal, Romania, Slovakia, Slovenia, Spain, United Kingdom	National Strategies / Programs Croatia, Denmark, France, Greece	Trademarks, certificates ¹⁶ Finland, Germany, Poland, United Kingdom
Sectoral	Achieving the goals set by political strategies (e.g. social inclusion)	Prioritization of employment of vulnerable groups and persons with disabilities/disabled community members	European Network of Social Integration Enterprises (ENSIE)	Albania, Czech Republic, Finland, Hungary, Serbia	Poland	Austria

Social Entrepreneurship and the UN Sustainable Development Goals

An estimated annual SDG financing gap in developing countries amounts to approximately 2.5 trillion dollars. This is a substantial gap that cannot apparently be filled only with development investments and assistance (United Nations Development Program (UNDP) and the United Nations Conference on Trade and Development (UNCTAD)). Therefore, **the private sector is considered to be a key partner in achieving the UN Sustainable Development Goals**. The UN also sets high hopes on social enterprises as major contributors and agents of change¹⁷. **For example, in 2016 alone, the number of beneficiaries of social enterprises in 9 countries in Europe and Central Asia reached 871 million. The sector succeeded in providing € 6 billion worth of services and products and creating additional jobs for the most vulnerable social groups. By 2016, the share of social enterprises in Australia was 2-3% of their GDP, having created 200,000 job places¹⁸.**

In order to determine the link between social enterprises and the sustainable development goals, representatives of the UN Regional Academy (RAUN) surveyed 30 social enterprises around the world. In particular, with a view to possibly detect the straightforward correlation between enterprise activities and the goals on the UN Sustainable Development Act, they investigated which type of activity

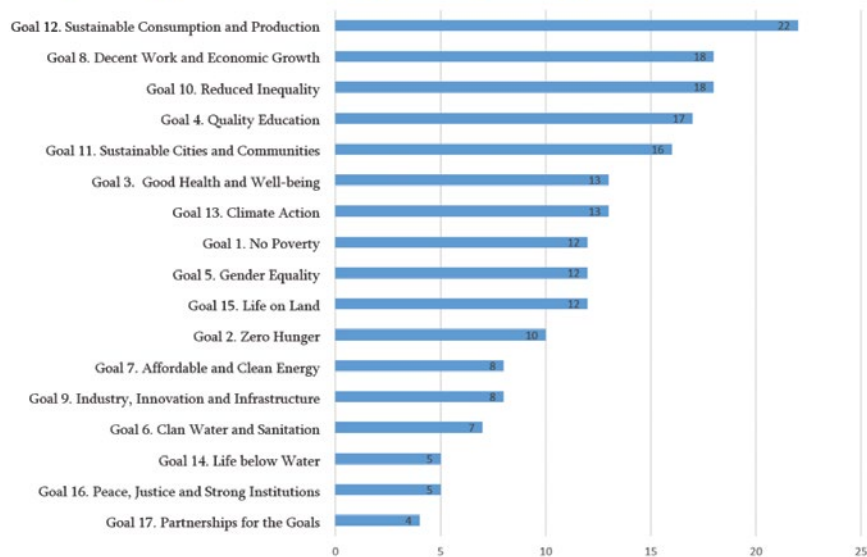
16. https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---sro-cairo/documents/publication/wcms_589097.pdf

17. [un.org/uploads/4/7/5/4/47544571/6_unido_the_role_of_social_entrepreneurship_as_a_key_driver_of_the_agenda_2030.pdf](https://www.un.org/uploads/4/7/5/4/47544571/6_unido_the_role_of_social_entrepreneurship_as_a_key_driver_of_the_agenda_2030.pdf)

18. <https://www.un.org/development/desa/youth/wp-content/uploads/sites/21/2020/07/2020-World-Youth-Report-FULL-FINAL.pdf>

may most likely correspond to the achievement of each goal. **The results showed that one of the major directions commonly shared by the majority of enterprises (22), is related to the goal of "sustainable production and consumption", which is a key principle of the social business model**¹⁹. Only the least number of social enterprises (4) proved to be contributing to the seventeenth goal (partnership to achieve goals). Some of these enterprises are engaged in cooperation with local self-government with the aim of encouraging the circular economy²⁰.

Social Enterprises covering the Sustainable Development Goals (UN Regional Academy (RA-UN) Survey)



On the basis of the evidence, it can be firmly concluded that the development of social entrepreneurship can be of great importance for achieving the sustainable development goals. Given the current political and economic climate, it is becoming obvious that effective resource mobilization and employment promotion, which constitute an integral part of the Sustainable Development Goals, call for innovative approaches. By creating a sustainable and inclusive labor market social entrepreneurship gains the potential to significantly contribute to the achievement of the sustainable development goals.

19. Three-dimensional modeling (<https://www.un.org/ecosoc/en/sustainable-development>) implies the relationship between economic, social and environmental sustainability

20. [un.org/uploads/4/7/5/4/47544571/6_unido_the_role_of_social_entrepreneurship_as_a_key_driver_of_the_agenda_2030.pdf](https://www.un.org/uploads/4/7/5/4/47544571/6_unido_the_role_of_social_entrepreneurship_as_a_key_driver_of_the_agenda_2030.pdf)

In addition, Target 17.17 encourages and promotes "effective public, public-private and civil society partnerships, building on the experience and resource mobilization strategies". **Accordingly, social enterprises are complementary partners for international organizations and states in meeting the 2030 agenda.**

General ecosystem of social enterprises

The ecosystem in which social enterprises develop consists of numerous interconnected elements, which can be conventionally divided into four main areas, namely:

- **Citizens' ability to self-organize**, which contributes to the creation of social enterprises and the emergence of demand for them;
- **The degree of visibility and recognition enjoyed by social enterprises** at different levels, from political and legal recognition to self-recognition and self-assessment;
- **The capacity to access various kinds of resources**, including resources needed for establishment and consolidation, resources from income-generating economic activities as well as access to credit, tax and fiscal benefits
- **The degree of research aimed at exploring social entrepreneurship**, not only in terms of comparative analysis and research, but also activities aimed at developing entrepreneurial skills of stakeholders (formal and non-formal learning opportunities) which are designed to enhance competitiveness of social enterprises in achieving their economic and social goals²¹.

A more detailed version of these four areas is presented in a joint instrument of Economic Cooperation (Center for Entrepreneurship, Small and Medium Business, Regions and Cities) and the European Commission (Directorate-General for Employment, Social Affairs and Inclusion), which seeks to estimate the effectiveness of policy measures in seven main areas²².

Legislative and Regulatory Framework - in the absence of viable instruments of formal recognition, differentiating social enterprises from others can be a fairly difficult task. Thus, the legislative and regulatory framework implies that not only should there be a legally established definition of a social enterprise but administrative procedures required for its establishment should also be simplified.

Institutional Framework - the latter assesses the assistance provided by the state in the development of social enterprises, as well as functioning of a coordinating body in this or that field and the level of coordination between different agencies. In addition, the institutional framework suggests that there are appropriate social entrepreneurship strategies, which have been adopted and developed with the involvement of relevant stakeholders.

21. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

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

Social Entrepreneurship Culture - which reflects local activities, among them at the policy-making level, in relation to civil society and social economy organizations. In particular, significant importance is attached to measures that are targeted at raising awareness of social entrepreneurship, the degree of state support for citizens' initiatives, as well as public, governmental and non-governmental sectors' knowledge, understanding and attitudes towards social entrepreneurship. What is also measured is the number and quality of social entrepreneurship courses designed by formal and non-formal education providers, and the number of studies conducted by universities in this area. Studying how consistently or systematically statistical data on social enterprises are collected is also the element of social entrepreneurship culture.

Access to Finance - access to finance is of central importance to the development of social entrepreneurship. That is why it is especially significant to evaluate the measures taken by the state to ensure social enterprises' access to financial instruments. This element of the ecosystem also implies the presence of agents that support social enterprises to obtain funding, the effectiveness of the measures targeted at raising awareness of funding source suppliers, and the availability of public funding for social entrepreneurs.

Access to Markets - the extent to which social enterprises have proper access to both public and private markets. This element of the ecosystem includes: the possibility of involving social enterprises in the public procurement process; the extent to which social enterprises make use of new technologies for commercial purposes and to gain market access, and whether social enterprises have resources to build partnership with traditional enterprises.

Skills and Business Development Systemic Support - Entrepreneurs whose main motivation is to achieve social impact may not always have the skills needed to develop strong business models. That is why this element of the ecosystem looks at the extent to which stakeholders have availability to affordable training, coaching and mentoring at different stages of their development. What is also subjected to analysis in this regard is whether there are strong networks in which social entrepreneurs have the opportunity to exchange knowledge and experience or influence policy.

Managing, Measuring / Reporting Impact - social impact management, evaluation and measurement are vital for social enterprises. However, it may be related to certain costs. That is why this element of the ecosystem assesses whether there are quality framework documents measuring and reporting on the impact of social enterprises and umbrella organizations, as well as of the state, whether the generated results and evidence are applied in public policy-making, and if there are measures aimed at increasing awareness of the importance of standards.

Taking account of the above-mentioned elements of the ecosystem and their importance, the following chapters provide a detailed overview of the social entrepreneurship ecosystem in Georgia and its components. The review will also explore relevant international experience, whose adaptation for the development of the social entrepreneurship ecosystem in Georgia, can prove to be absolutely crucial.

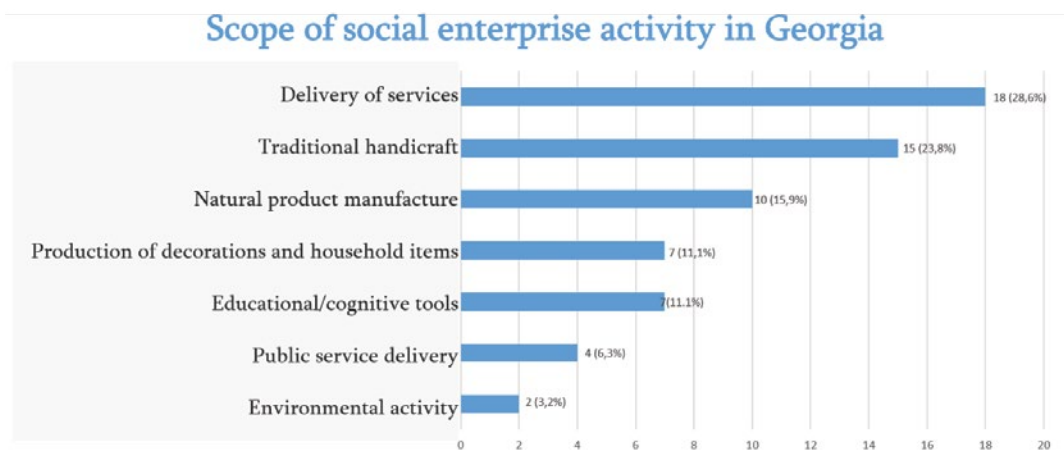
Social Entrepreneurship in Georgia - General Overview and Survey Results

Unlike the United States and European countries, where interest towards social entrepreneurship has been evident since as early as the 1980s²³, it was not until the late 2000s that the field of social entrepreneurship emerged and started evolving steadily in Georgia. More precisely, in 2010 the Georgian Center for Strategic Research and Development, in collaboration with the European Foundation and the British Council launched a joint effort to develop social entrepreneurship²⁴.

Social enterprises are established and startup ideas are financed mainly by the local non-governmental sector and international donor organizations. They also provide various training and retraining opportunities to stakeholders.

It is as a result of the relentless efforts and activities of international organizations and the local civil sector that the concept of social entrepreneurship is gradually gathering momentum in the country. According to the data provided by the Alliance of Social Enterprises, there are 63 social enterprises operating in the country presently²⁵.

The following table shows diverse spheres of activity of social enterprises in Georgia:



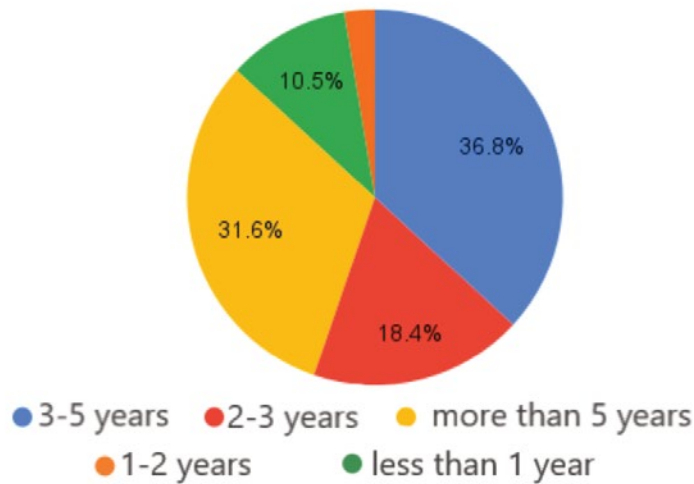
The majority (36.8%) of the social enterprises surveyed (a total of 38 social enterprises participated in the survey) have been operating in Georgia for no longer than 3-5 years, on average:

23. <https://www.degruyter.com/document/doi/10.1515/npf-2018-0046/html>

24. https://www.civilin.org/pdf/Social_Enterprise_geo.pdf

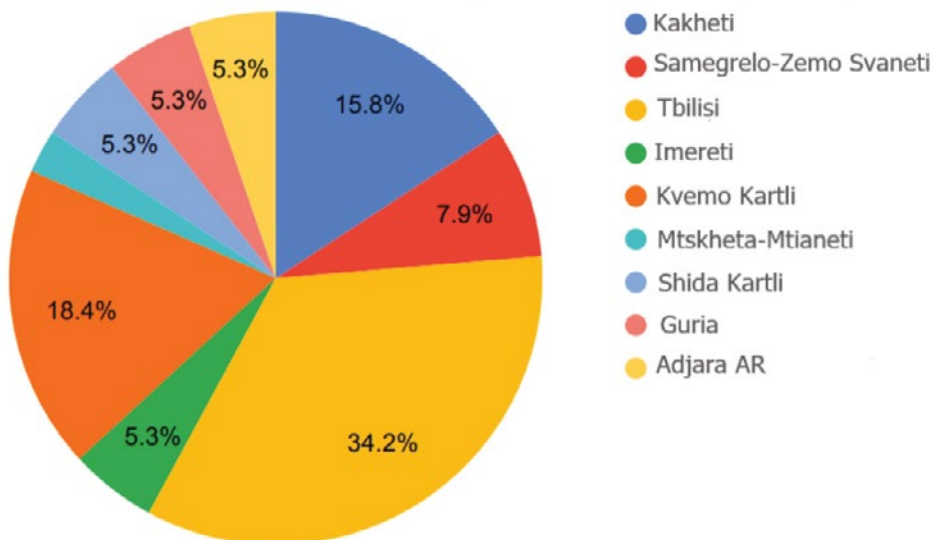
25. <http://seageorgia.ge/social-enterprises/all-enterprises>

Social enterprises in Georgia according to the length of activity



Most of the respondents (34.2%) by geographical area are concentrated in Tbilisi; 18.4% are founded in Kvemo Kartli. 15.8% of the surveyed social enterprises operate in Kakheti.

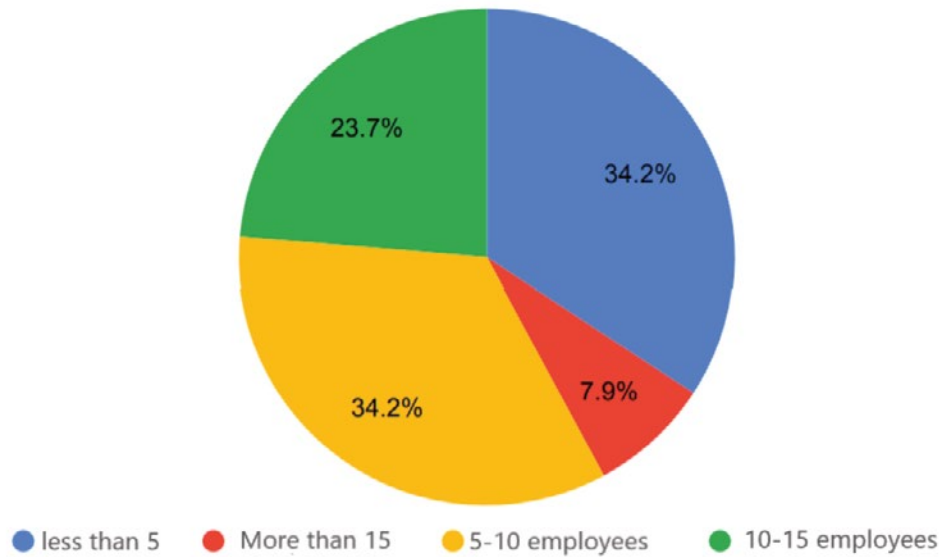
Distribution of social enterprises according to regions



Only 28.9% of social enterprises operate in rural areas.

It is noteworthy that 68.4% of the employees of social enterprises have 5 to 15 employees. At that, vulnerable community members are employed only by 21.1% of the enterprises surveyed.

Number of persons employed by social enterprises



Despite the financial challenges facing social enterprises, interviews with social enterprises have revealed that their wage policies are quite competitive and in frequent cases even exceed the average wage in the sector. The representatives of the surveyed enterprises explain this with their urge to promote the increase of the average pay in relevant sectors and to protect the interests of the employees in the process of achieving the social goal.

According to 2020 data²⁶, the majority of the social enterprises in Georgia were founded as non-profit legal entities (72%).

According to the Civil Code, it is not the purpose of a non-profit legal entity to involve in commercial activities and obtain financial benefits. He may undertake any activity permitted by law, even if that activity is not designated by the founding documents. Among them, they have the right to operate in a supplementary/auxiliary enterprise, however, the profit earned is utilized for the realization of the statutory and publicly beneficial purposes of the Non-entrepreneurial Non-commercial Legal Entities (NNLEs) and its distribution in the form of dividends is prohibited.

Some of the social entrepreneurs in Georgia operate as limited liability companies (25%)²⁷.

26. https://www.civilin.org/pdf/Social_Enterprise_geo.pdf

27. Only 3% are social enterprises operating as cooperatives or individual entrepreneurs.

According to the Law of Georgia on Entrepreneurs, a limited liability company is an entrepreneurial legal entity. Its liability to creditors is limited to the property owned by the LLC itself. Its management, organizational structure as well as the rights and responsibilities of LLC partners and the rules of initial allocation of shares are defined by the charter of the enterprise.

The decision to be registered as NNLEs and LLCs can be explained by the simplicity and flexible organizational structure of their registration, management and arrangement systems. More specifically, **the decision to register an entity as NNLE may be determined by the following factors:**

- Given that the social entrepreneurship culture is a novel sphere, it may be assumed that social goals can better be achieved through a non-entrepreneurial legal entity.
- Access to tax benefits in the event of social expenditure and charitable activities (within the framework of the grant). Part of the social enterprises have been created by NNLEs as an innovative opportunity to achieve the goals (usually solving social challenges) set by their own charter. This is the "parent" NNLE that designs the business model and undertakes all the initial implementation. Having reached a certain level of sustainability, in a number of cases, a social enterprise created by a NNLE can be registered as a separate, entrepreneurial legal entity²⁸.
- Due to the absence of an explicitly formulated legal definition of a social enterprise, organizations, partners and programs fostering²⁹ the field of social entrepreneurship either give preference to NNLEs - individuals oriented to social goals, or have no clear-cut requirements for the legal status. This is explained by the absence of legally defined status of social entrepreneurship and the fact that donor organizations find it more acceptable to cooperate with the social enterprises registered as NNLEs due to the fact that grant issuers can refund the value added tax on the grant amount.

The major flaw of this organizational legal form is that the tax legislation of Georgia does not consider benefits for a NNLE if the latter reinvests profits or undertakes ancillary economic activities. Based on the legal form, NNLEs can offer fewer guarantees to financial institutions or investors, and their entrepreneurial experience is limited too - this is reflected in the lack of access to credit (including cheap credit) and investment opportunities. This lack of access to financial resources leads to a greater reliance on grant programs.

On the other hand, **registering as an entrepreneurial legal entity has the following advantages:**

- Ability to offer financial guarantees to creditors and investors, which allows the LLC to avail themselves of more diverse financial resources;

28. https://www.civilin.org/pdf/Social_Enterprise_geo.pdf

29. https://www.civilin.org/pdf/Social_Enterprise_geo.pdf

- Tax benefits in the event of reinvesting profits;
- Skills needed to develop and manage a sustainable business model;
- Ease of keeping financial accounts and calculating tax burden;

However, if registered as a LLC, social enterprises are restricted access to the grant programs that promote the development of social entrepreneurship, according to Article 4 of the Law of Georgia on Grants. In addition, any expenses that are incurred by an entrepreneurial legal entity and are unrelated to economic activities (social expenses), are imposed income tax, under the Tax Code of Georgia. Therefore, social enterprises registered as LLC cannot benefit from any tax benefits that are associated with grants or intended for the execution of various social goals. (Tax Code, Article 982).

In conclusion, even though an NNLE or LLC registration is far from being complicated and their organizational structures and arrangement systems are quite flexible, none of the existing forms can bring the concept of social entrepreneurship to perfection.

Essentially like Georgia, in other countries of the world, such as Australia, Poland, Lithuania and Slovenia, there is no special organizational-legal form for social enterprises. Nevertheless, Lithuanian legislation (Law on Social Enterprises) defines a social enterprise as a unit focused on creating new jobs for members of the vulnerable groups/communities. In order to acquire the status of a social enterprise, the founding documents of a unit must clearly state the purpose of employment of the beneficiaries or the aim of their social integration and must not work in a direction prohibited for social enterprises. Enterprises with such status (Work Integration Social Enterprise (WISE)) have the opportunity to receive state funding and other benefits, including tax benefits.

Another type of enterprise - a Community Interest Company (CIC) was introduced by the United Kingdom in 2004, originally allowing charities to engage in entrepreneurial activities, but is currently used only by social enterprises³⁰. The CIC has a structure similar to a traditional company, but is subjected to “asset lock” - a limit on assets and a strict cap on dividend distribution. In particular, in these types of organizations only 35% of the profit can be distributed in the form of dividends³¹. The CIC structure is of interest to socially responsible lenders or investors, especially as entities investing in this type of organization enjoy appropriate tax benefits.

A number of Canadian provinces have a special legal form which focuses on embedding social mission into business activity and is based on the CIC principle. This legal form allows the social mission to be achieved through business activities³². This is ensured through directing excess profit to meeting social interests, and placing restrictions on the distribution of dividends and capital.

30. Doeringer, MF. Fostering Social Enterprise: a Historical and International Analysis. See. Source: <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1052&context=djcil>.

31. Desk Research on International Experience in State Support Mechanisms for Social Enterprise Development p. 110

32. <http://www.fin.gov.bc.ca/prs/cccl/>

Social Entrepreneurship Culture

The development of the social entrepreneurship sector is driven by the social and civic movement of citizen groups, is created within citizen-initiated projects, and is often founded on volunteerism. Such groups have only limited resources at their disposal and what appears to be the core motivation for setting up a social enterprise is a number of unresolved challenges at the local level, among them limited access to various social services or education, the issues with integration of vulnerable groups in the labor market and so on.

For the creation, development and full functioning of the social enterprises that would respond to the needs of the local context, it is essential that there is a high level of citizen activism and participation, and the sense of solidarity and understanding of the principles of volunteering are also strongly present. For example, in Bulgaria, the Czech Republic, Estonia, Hungary and the southern regions of Italy, the development of social entrepreneurship is under significant threat due to low levels of trust, social awareness and activism. Under such circumstances, special emphasis is placed on second-tier organizations (coalitions, associations) that appear to be pivotal in promoting social enterprises, raising awareness of decision-makers, and lobbying legislative initiatives or policies (Croatia, Czech Republic, Italy). Networks of social enterprises and active citizens can be described as a mutual support mechanism that enhances capacity to influence policy-making, facilitates awarding social enterprise certificates/trademarks and promotes public awareness of social entrepreneurship, continuing education and all the best practices. The support offered by coalitions includes not only provision with workspaces and additional financial instruments, but also assistance in increasing the visibility of social enterprises and developing opportunities for sharing experiences. In some countries, similar networks may perform lobbying and coordinating functions as well. (Belgium, Denmark, Finland, France, Italy, Sweden, United Kingdom).

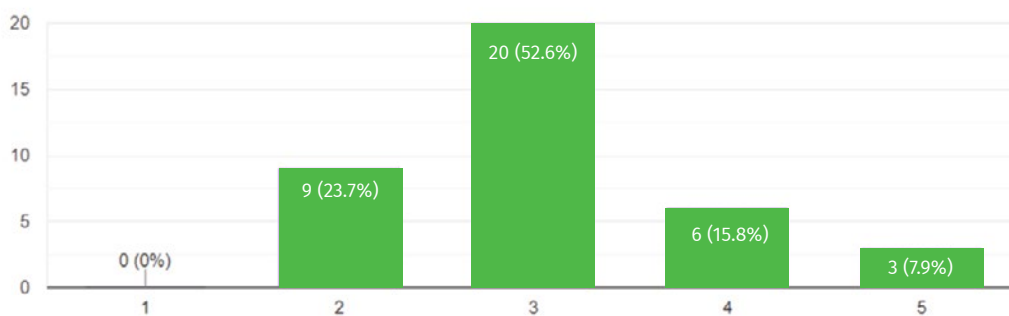
Hence, along with the level of social or civic activism, coalitions and networks are of great importance in introducing a culture of social entrepreneurship. In the countries where such networks are weak or underdeveloped social enterprises are progressing rather slowly (Cyprus, Malta). With the creation of regional networks that bring together social enterprises operating in a specific geographical area, it is pertinent that there should be sector-focused social enterprise coalitions as well, under which enterprises with similar interests and experiences will collaborate.

A relatively strong civil society is a necessary prerequisite that enables the formation of social enterprises and their supporting coalitions. Active engagement of international organizations and the non-governmental sector can greatly contribute to the development of society and civic self-awareness (e.g. “Social Business Day” events in Austria).

As regards Georgia, in order to assess the level of social entrepreneurship culture, it would be expedient to determine the level of citizen participation in the public sector. In this respect, it would be applicable to consider the results of the Unified National Assessment of Municipalities of Georgia (2019)³³ and the Georgian Democracy Index. According to both indicators, despite the increase in citizen involvement in the decision-making process, it appears that the activism of individuals is relatively slow to develop, due to various hurdles (rigidity of decision-makers at the municipal and national levels to effectively involve citizens in the decision-making process, proactively release public information and contribute to the development of local civil society). In this case, international and local NGOs prove to be the main actors in strengthening civic activism and to seek for alternative ways of dealing with unresolved social problems. Notably, their support can not only raise civic self-awareness, but facilitate the formation of civic initiatives and the mobilization of funds for their implementation as well. These two directions can be viewed as excellent preconditions for boosting the interest of individuals and groups towards social entrepreneurship in the long run. Owing to multiple measures that have been taken in this direction, the interest towards social entrepreneurship is growing steadily (up to 100 organizations have been identified as social enterprises at various times. There are currently 63 of them). However, given the challenges with financial instruments, legislation and business skills, social enterprise resilience is still relatively fragile. The aforementioned challenges are further aggravated by the attitude of the general public towards enterprises. 24% of the 38 enterprises surveyed indicate that public awareness of social entrepreneurship is fairly low.

On a scale of 1 to 5, rate the knowledge of your community members about social entrepreneurship (1- have heard nothing about social enterprise; 5- are well aware of the essence of social enterprise)

38 responses



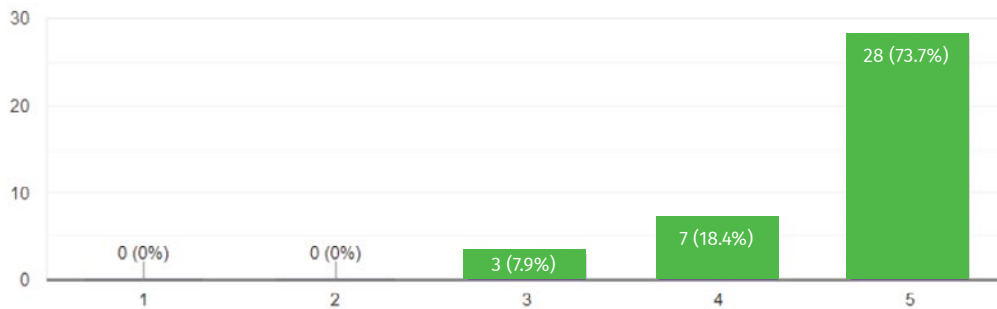
In addition, the interviews with social entrepreneurs have revealed that members of the public, in some cases, equate this type of entrepreneurship with a charitable activity and wish to receive a particular product or service for free. In addition, the ignorance of the significance of social enterprise activities, as mentioned above, hinders the sales of a product/service that is relatively costly and/or different in quality, and forces some entrepreneurs to focus on a small group of people (tourists, youth) who, along with encouraging business, aspire to contribute to solving social and/or environ-

33. http://www.lsgindex.org/uploadimages/adm_folder/LSGINDEX_Report_GEO_WEB_final.pdf

mental problems, and when selecting a product or service provider, not to mention the quality, they direct their focus on the level of social responsibility of the enterprise. This explains the desire of the majority of the respondent entrepreneurs (73.7%) to plan relevant awareness campaigns.

On a scale of 1 to 5, rate to what extent you agree with the following statement: "It is necessary to raise public awareness of social entrepreneurship in order to develop and increase sales in the field of social entrepreneurship" (1- Totally disagree; 5- Strongly agree)

38 responses



As for the attitude of social entrepreneurs towards their own activities, the survey revealed that some of the social entrepreneurs cannot fully and effectively incorporate business principles into their occupation. Other respondents believe that if the sector is regulated by legislation, they may fail to meet the standards of social entrepreneurship and may be classified as socially responsible traditional business enterprises. This finding is quite interesting in the light of the fact that all of the enterprises in the survey comply with the criteria set out for social enterprises as they were described in the introduction of the review (clearly defined social goal, reinvestment of most of the profit in production, accountability and participatory decision-making process). Both of these examples point to the challenges associated with self-identification of social entrepreneurs. The deficiency of self-positioning skills and the absence of a standardized definition as well as of an agreement on the basic characteristics of social entrepreneurship determine that there is no common approach among supporting organizations on the need for social entrepreneurship, its tangible or intangible added value and its essential characteristics. In particular, some of the organizations that support entrepreneurship and the local non-governmental sector see no need for social entrepreneurship in Georgia at this stage and believe that the activities of socially sustainable traditional enterprises can achieve social goals much better and more cost-effectively. The programs designed specifically for social entrepreneurs explain the nature of social entrepreneurship in different ways. Thereby, the criteria that the program participants should meet lack uniformity and are different in each individual case. Moreover, the requirements or criteria of social entrepreneurship support programs created by one and the same organization are modified over time so some social enterprises either no longer meet the criteria for participation or become less competitive, owing to the fact that start-ups and/or low-income social enterprises (especially those registered as NNLEs), to a large extent try to meet the interests or needs of existing or potential donors. The ever-changing environment and the shortage of a consistent vision and standard criteria are forcing such social enterprises to adapt to the demands of donors - this

negatively affects their business model, self-perception and, ultimately, their stability.

Therefore, it is required that steps be taken to make social entrepreneurs elaborate a unified approach towards the fundamental nature and essence of the field, which will definitely promote its further growth.

In terms of strengthening social entrepreneurship culture in Georgia, mention should be made of the contribution made by civil society and international donors. Among other valuable actors in the field is the “Center for Social Entrepreneurship”, managed by the Center for Strategic Research and Development of Georgia (CSR DG). The center works to support social enterprises by organizing grant competitions and holding periodic consultations or trainings on organizational, financial, marketing and legislative issues³⁴. Besides, in order to counterbalance the weakly developed network of social enterprises and enable entrepreneurs to share useful experiences and knowledge, in 2016 they established an “Alliance of Social Enterprises”, which currently includes up to 35 social enterprises³⁵. The Alliance aims to establish an ecosystem that will propel social entrepreneurship forward and overall, foster the advancement of social entrepreneurship in Georgia³⁶.

In addition, the Center for Strategic Research and Development of Georgia has been offering a variety of support tools to social entrepreneurs since 2010 through training, counseling, awareness raising, financial assistance, and lobbying on social entrepreneurship issues at the state level³⁷.

The Civil Society Institute, another supporting organization, promotes the development of social entrepreneurship through legal advice and lobbying on legal issues³⁸.

Legislative and Regulatory Framework

Despite numerous attempts made by the Georgian legislation to work out a rigorous, agreed upon definition of a social enterprise, it met with little success. So there is still no precise definition of a social enterprise at the legislative level and neither is there a relevant regulatory legislation. In addition, existing national and local regulations do not yet clearly explain the essence of a social enterprise. However, there is at least an overwhelming consensus that without proper legal regulation, the development of the sector may be jeopardized.

At this stage, it is impossible to differentiate social enterprises from other enterprises or non-profit legal entities that work to achieve the statutory goals. Moreover, it is impossible to evaluate the public impact of the sector and social enterprises, hence, to produce relevant statistics. Besides, having no defined legal status, social enterprises have difficulty in gaining access to finances. In particular, under

34. <http://segeorgia.org/>

35. <http://seageorgia.ge/social-enterprises/alliance-members>

36. <http://seageorgia.ge/about-us>

37. <https://gcsd.org.ge/>

38. <https://civilin.org/?fbclid=IwAR2Y3WBAAn9pJjq-CwTQKwO5jvTOUEJIhk1K-0Vllg2myijbDPBg4w7YEfk>

the circumstances when there is no legal status for social enterprises, actors involved in the sector have to register themselves as entrepreneurial legal entities (as mentioned above, part of social enterprises are registered as limited liability companies, cooperative or individual entrepreneurs) or non-entrepreneurial legal entities.

As mentioned in previous chapters, if enterprises are registered as entrepreneurial legal entities, they are restricted from accessing grant programs. Besides, according to the Tax Code, expenses incurred by an entrepreneurial legal entity, which are not related to economic activities (social expenses) are imposed income tax. Consequently, social enterprises registered as LLCs cannot enjoy the tax benefits intended for the fulfillment of various social purposes (Article 982, Tax Code of Georgia). When a social enterprise is registered as a non-entrepreneurial legal entity, which the Georgian legislation does not view as a for-profit or income-oriented organization, the social enterprise cannot offer sufficient guarantees to creditors and, consequently, its access to credits or investments is significantly limited. Non-profit legal entities are not allowed to distribute dividends, therefore, in the event of profit reinvestment, the NNLEs do not enjoy the tax benefits provided for entrepreneurial legal entities by the Tax Code of Georgia (Article 981, Tax Code of Georgia).

On top of that, the lack of relevant legislation makes it significantly more difficult for state or municipal services to recognize the needs of social entrepreneurs. The issues with identifying or meeting these needs prevent the state from building and implementing effective social entrepreneurship support mechanisms. The absence of a unified approach to the definition and perception of social entrepreneurship makes it difficult for inherently meagre state or municipal programs, designed directly and specifically for social enterprises, to elaborate the right criteria.

The social benefits created by social enterprises cannot be duly assessed, unless they are legally recognized, especially in view of the fact that due to limited resources and lack of knowledge, the majority of enterprises do not have an internal monitoring mechanism to identify and assess the social impact entrepreneurial activities may have on local communities.

The absence of both the legal definition of a social enterprise and adequate regulations that would be flexible and adapted to social enterprises, give rise to a number of challenges that hinder the development of the field of social entrepreneurship and more than that, call into question the sustainability of enterprises.

To address these challenges, several legislative bills have been proposed since 2015 to regulate social entrepreneurship. More precisely, the draft law prepared by the Center for Strategic Research and Development of Georgia (CSRDG) with the involvement of social entrepreneurs was submitted to the Parliament of Georgia. The bill defines social entrepreneurship as “organized entrepreneurial activity in the areas of social care, social adaptation, poverty reduction and eradication, employment of vul-

nerable groups in education, healthcare, culture, sports and the environment, which is not aimed at making and distributing profit among shareholders or stockholders³⁹." Under the same bill, the following components were deemed to be the characteristics of a social enterprise:

- A)** is designed to achieve social goals in the areas of social care, social adaptation, poverty reduction and eradication, employment promotion of vulnerable groups in society, education, healthcare, culture, sports, the environment;
- B)** engages in entrepreneurial activities and the profit generated from entrepreneurial activities constitutes a large part of its income;
- C)** reinvests at least 70% of the profit in the activities targeted at achieving the social goals, as spelled out in the charter;
- D)** is run/managed in compliance with democratic principles, and any changes in the statutes and statutory goals are allowed by a majority of not less than 80% of the votes;
- E)** is not directly or indirectly affiliated with, or subordinated to any state or local self-government body.

In addition, according to the draft law "On Philanthropy, Charity and Public Partnership" prepared by the NNLE "Taso Foundation", social entrepreneurship was defined as "auxiliary economic activity of a civil society organization, whose profit is used for the philanthropic and/or charitable activities of the organization, in compliance with the the goals and objectives stated by the organization charter⁴⁰" The third draft law prepared by the Union of the Blind of Georgia considered introducing amendments to the Law on Entrepreneurs of Georgia by adding the terms "social enterprise" and "social cooperative⁴¹". In 2018, members of the parliament initiated a draft law on Social Entrepreneurship, with the aim of creating a legal basis for supporting the institutionalization of social entrepreneurship and the development of social entrepreneurship. The project defined social entrepreneurship as an entrepreneurial activity that ensures social equality, employment of vulnerable groups, and the achievement of social goals in the fields of education, culture, healthcare, sports and the environment. The draft law also set the standard for the status of a social enterprise and defined what types of legal entities can obtain authorization to be granted this status:

- A Non-entrepreneurial Non-commercial Legal Entity, a Limited Liability Company, a Joint Stock Company or a Cooperative, which has been established to promote social equality, employ vulnerable groups or achieve social goals in the fields of education, culture, healthcare, sport and the environment, is engaged in entrepreneurial activities and a large part of its income is the profit generated from these activities;
- An enterprise that reinvests at least 70% of its profits in activities targeted at achieving the social goals set forth in the charter;
- An enterprise that is run by the observance of democratic principles and any changes in the charter, as well as the statutory goals, is allowed by a majority of not less than 80% of the votes;

39. <https://info.parliament.ge/file/1/BillReviewContent/132460>

40. <https://info.parliament.ge/file/1/BillReviewContent/122188>

41. <https://info.parliament.ge/file/1/BillReviewContent/132911>

- An enterprise that is not directly or indirectly affiliated with or subordinated to any state or local self-government bodies.

The bill was met with rather mixed reactions. For example, among the items that proved to be especially problematic, was Article 3, which endorsed the creation of a social enterprise only for the employment of vulnerable groups, or for the employment only in the fields of education, culture, healthcare, sports and the environment. Given that Georgian law does not provide for the definition of "vulnerable groups", it is important to clarify who should be regarded as vulnerable groups with respect to a social enterprise. In addition, such restrictions on the areas of activity reduces the ability of stakeholders to set up a social enterprise in other areas. Moreover, such limitations may hinder the introduction of technological innovations to the field of social entrepreneurship.

Although Article 1 of the draft law provided for the regulation of the legal mechanisms relevant for the monitoring of social enterprise activities, it did not set forth in what specific form this objective could be realized. The draft should have defined not only the rules and mechanisms of internal monitoring and accountability, but the rules and mechanisms of state monitoring as well. The criteria for conferring the status of a social enterprise also raised ambivalent attitudes. Especially the criterion concerning the ban on "direct and indirect affiliation with and subordination to the state" was met with criticism for being implausible. A better explanation of this record was sought to avoid conflict of interests. The bill also provided for a 5-year period for revoking the status of a social enterprise, although it did not provide a mechanism for the status deprivation if the enterprise could no longer meet the established criteria.

Deemed inconsistent with the Law of Georgia on Entrepreneurs⁴², one more entry of the draft law aroused disapproval. The latter said that the partners, shareholders and stockholders were liable for the cash and/or property obtained by the enterprise in the event of the status revocation.

The definition of the measures the state should take to promote social entrepreneurship, which was suggested by Article 8 of the draft law, was rather general and declaratory in nature and did not specify the mechanisms for the implementation of the proposed measures in practice. Particular attention was attached to the record which suggested that in the public procurement process, where the actors are usually meant to compete on equal terms, social enterprises should gain the upper hand: the goods/services produced by a social enterprise should be given a priority. As the record did not specify the standards a state should apply in prioritizing social enterprises, it increased the risks of corruption and abuse of social enterprise status⁴³.

In this context, it is particularly interesting to examine international experience regarding legislative regulation and strategic frameworks. Some European countries (Spain, Czech Republic, Slovenia) have developed social entrepreneurship legislation, which regulates the legal forms of social entrepre-

42. "Partners of a limited liability company, a joint stock company and a cooperative are not liable to creditors for the obligations of the company."

43. <https://gyla.ge/ge/post/saias-mosazrebebi-parlaments-socialuri-metsarmeobis-shesakheb-kanonproeqtze#sthash.KaOCrHq2.dpbs>

neurship and sets standards for obtaining social entrepreneurship status. In some countries, social entrepreneurship is not regulated at the legislative level, even though the state ensures their visibility by recognizing them in relevant strategic or policy documents. Croatia, which launched a social entrepreneurship development strategy for 2015-2020, is one of the striking examples. The strategy sought to create an enabling and favorable environment for social entrepreneurship⁴⁴ and included information on problems or accomplishments related to the development of social entrepreneurship.

In countries where social entrepreneurship is regulated by law, there is a diversity of approaches to its legal form. In Spain, the Czech Republic, Poland, a social enterprise must be established in a form specifically designated for it, which differs from the legal form intended for other legal entities. Alternatively, some other countries do not determine such a special form for social enterprises. Moreover, similar to the status of charitable organizations, any legal entity with any organizational form can apply to a regulatory body to acquire the social status. (Slovenia, Lithuania).

In the United States, around 40 states have passed legislation on social entrepreneurship. None of the states require an exclusive form for a social enterprise. However, in a number of states special forms have been introduced: for example, a Low-Profit Limited Liability Company (L3C), which was first established under Vermont legislation and later replicated in other 8 states. Another is the so-called Benefit Corporation - the latter form can only be granted to social and environmental enterprises⁴⁵.

Although there is no social entrepreneurship law in the United Kingdom, this area is dominated by the Community Interest Company legal form. This has significantly contributed to the establishment and operation of social enterprises⁴⁶.

Policy and strategic documents, municipal acts

Despite the growing interest towards social entrepreneurship in Georgia, no strategy for the development of social entrepreneurship has been developed yet. In addition, under the circumstances when there are no available statistics, the current performance cannot be sufficiently explored and the potential for development cannot be duly estimated.

Not only should the country create the legal framework for the functioning of social enterprises, but also elaborate a viable state strategy that would foster the development of social entrepreneurship in the country⁴⁷.

44. Boosting Social Enterprise Development, Good Practice Compendium, OECD, available at: <https://www.oecdilibrary.org/docserver/9789264268500-7-en.pdf?expires=1587906190&id=id&accname=guest&checksum=F947E592C8C34C9FD732F-0C84B0D29C1>

45. <https://www.degruyter.com/document/doi/10.1515/npf-2018-0046/html>

46. Doeringer, MF. Fostering Social Enterprise: A Historical and International Analysis, იბილეთი წყარო: <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1052&context=djcil>, last accessed 23 September 2016.

47. https://www.tsu.ge/data/file_db/economist_faculty/soc%20mec.pdf

The purpose of the development of social entrepreneurship is depicted in various strategic documents, however, the definition of social entrepreneurship is not provided anywhere and the relating records also bear a general nature. For example, the 2019-2022 document of the Georgian Government "On the Main Data and Directions of the Country" stipulates the following:

"The state will implement support measures in the youth sphere; it will help strengthen youth communities by engaging them in social entrepreneurship"; "The scale of youth projects will expand and the non-governmental sector will actively support civic engagement and social entrepreneurship."⁴⁸

In addition, a 2020-2022 Pilot Program approved under the Georgian government resolution and aiming at the integrated development of regions, states that the support for social entrepreneurship projects is one of the activities defined as strengthening civic engagement⁴⁹.

As well as this, the 2020-2030 Youth Policy Concept stipulates that "in the direction of social entrepreneurship it is necessary that the relevant legislative basis be improved, support projects be initiated and assistance be reinforced; public awareness needs to be raised and other measures promoting this direction need to be taken too."⁵⁰

The legal documents of local governments also contain the records of measures to promote the development of social entrepreneurship. For example, the Law on the 2021 Republican Budget of the Autonomous Republic of Abkhazia acknowledges social entrepreneurship to be one of the directions to strengthening the relations between Georgian and Abkhazian communities⁵¹. The 2017-2021 Kutaisi Municipality budget states that "for the development and realization of opportunities for disabled community members, priority will be given to projects oriented at the development of social entrepreneurship and income generation by persons with disabilities." In the 2016-2021 Mtskheta-Mtianeti Development Strategy Document, the development of social entrepreneurship is defined to be one of the objectives to "promote the development of innovative sectors of the economy and attract investment."⁵²

Various records on social entrepreneurship in state strategic documents and municipal acts indicate the growing political recognition of the field in Georgia. It is noteworthy that the trend is observed to be a lot more powerful in other countries. Political recognition takes various forms, from the political debate on the concept of social entrepreneurship to special government or municipal initiatives (Luxembourg, Denmark, the Netherlands) supporting social entrepreneurship and a wider social economy (France and Spain). Social entrepreneurship enjoys indirect recognition too, which is reflected in the reforms implemented in relevant social areas (welfare, employment, public procurement) as a result of evidence-based advocacy. Some countries have launched social entrepreneurship strategies and action plans (Bulgaria, Croatia, Poland, Estonia), while in some others (Denmark, the Netherlands) similar strategies have been developed at the municipal level as well. In the United Kingdom, the civil society strategy defines the perception of social entrepreneurship and suggests that public contracts must place a greater emphasis on social value.

48. <https://mof.ge> > 2020-monacemebi-mimartulebebi

49. <https://matsne.gov.ge/ka/document/view/4741784?publication=0>

50. <https://matsne.gov.ge/ka/document/view/4936402?publication=0>

51. <https://matsne.gov.ge/ka/document/view/5073279?publication=1>

Cyprus, where the implementation of the Social Entrepreneurship Ecosystem Action Plan is significantly hampered by the absence of the relevant legislation, is another interesting example⁵³.

National Social Entrepreneurship Policy for Ireland 2019-2022 covers three main areas; the first is to reinforce support for social enterprises; the second - to maximize their impact and the third - to offer a common strategic framework to stakeholders.

The following are the mechanisms introduced by Ireland for the enforcement of the above-mentioned areas:

1. Building awareness of social entrepreneurship;

- Developing an awareness-oriented strategy;
- Disseminating information on best practices;
- Organizing large-scale campaigns and events on annual social entrepreneurship;
- Building partnership with educational and research institutions for the development of social entrepreneurship.

2. Promoting the creation and development of social entrepreneurship;

- Increasing the availability of business support schemes for social entrepreneurs to create and develop them;
- Continuous provision of information on existing funding mechanisms;
- Developing capacity of social enterprises to increase their competitiveness in the private and public procurement process;
- Assessing existing legal forms and assessing the need to introduce a specific form.

3. Developing a relevant policy;

- Strengthening relations between the government and social enterprises;
- Ensuring policy compliance with other relevant acts (climate action, future jobs in Ireland, etc.) in order to build a holistic ecosystem;
- Ensuring international involvement (the EU, Organization for Economic Co-operation and Development);
- Improving statistical data collection;
- Developing a methodology for measuring/assessing/determining the impact of social enterprises.

According to the Irish Policy Document, the strategy to achieve these goals must be specific, time-bound and accompanied by an appropriate budget. In addition, stakeholders should be involved in the process of strategy development and implementation. Also, according to the aforementioned policy document, the research element should be widely applied⁵⁴.

52. <https://matsne.gov.ge/ka/document/view/3337546?publication=0>

53. <https://ec.europa.eu/social/main.jsp?langId=en&catId=952&furtherNews=yes&newsId=9534>

54. <https://www.oecd.org/cfe/leed/OECD-Workshop-Highlights-Luxembourg-FINALwithcover.pdf>

Institutional framework

Under various projects, social enterprises have been effectively collaborating with the private financial sector, which is definitely a very positive experience and this will be explored in more detail below. However, there are no institutions that would support social enterprises in obtaining credit or gaining financial guarantees. Neither is there a state or municipal fund which would make social enterprises their major beneficiaries by providing them with subsidies, loans or grants, and capacity building. Moreover, there is no agency in Georgia responsible for supporting the field of social entrepreneurship. Besides, in the provisions of ministries almost no mention is made of the functions of social entrepreneurship. The statute of the National Agency for Crime Prevention, Execution of Non-Custodial Sentences and Probation, operating under the Ministry of Justice, is one of the exceptions in this regard. The latter promotes the establishment and effective functioning of social enterprises with the aim of employing ex-prisoners⁵⁵.

There are a number of state institutions as well, whose policies and measures encourage social entrepreneurship. The Children and Youth Development Fund is a notable example: 20% of the projects that they funded in 2013-2016 were social entrepreneurship initiatives. Although the fund's immediate functions did not directly include the promotion, subsidization and implementation of targeted social entrepreneurship programs, it financed social entrepreneurship summer schools, trainings programs and other related academic activities. In addition to collaborating with international and local organizations in the social entrepreneurship sector, the fund also participated in the development of legislative initiatives. Despite scarcity of resources, the fund was considered to be one of the most powerful institutions to promote social entrepreneurship and innovation.

Under the Prime Minister of Georgia and in compliance with the 2019 legislative changes, the Children and Youth Development Fund was substituted by its legal successor - LEPL Youth Agency. The responsibilities of the agency include coordinating youth policy and developing their entrepreneurial skills. The Youth Agency is no longer subordinated to the central government, as it formerly used to be, and is currently under the jurisdiction of the Ministry of Culture, Youth and Sports. This may be affecting its capacity of coordinating various executive bodies. That is why it is significant to reinforce its further role in promoting social entrepreneurship.

Social entrepreneurship is one of the directions the Ministry of Corrections and Probation of Georgia pursues for the re-socialization and employment of offenders. To this end, since 2015, with the financial support of international organizations - the International Organization for Migration and the Swiss Federal Office for Migration - they have established social enterprises in a number of detention facilities. The products made by these enterprises are sold in penitentiary institutions.

The Ministry had no target programs or funds to finance social entrepreneurs. Like the above-mentioned institution, the Ministry of Justice of Georgia sees social entrepreneurship as a means of convict re-socialization, crime prevention and rehabilitation of former drug addicts.

55. <https://matsne.gov.ge/ka/document/view/4764384?publication=0>

Despite the fact that social entrepreneurs are among the beneficiaries of the projects managed by the Ministry of Economy and Sustainable Development, it does not either have special programs to support social entrepreneurship. Within the framework of its programs ("Enterprise Georgia", "Small and Medium Business Support Program"), the ministry supports entrepreneurs in such essential aspects as: the financing of startups, small and medium businesses to access loans; securing loans (guarantees) for large businesses; upgrading equipment of enterprises and developing them. Social entrepreneurs can also make use of these opportunities. Nevertheless, within entrepreneurship supporting programs social entrepreneurs find it hard to compete with small and medium-sized enterprises that have much more advanced infrastructure and property guarantees. In addition, the fact that social entrepreneurs focus less on financial gain or profit growth in favor of achieving social goals, also puts them in a less favorable position, as one of the criteria for competition is often the increase in financial gain. What is more, as the majority of social entrepreneurs are established in the form of non-profit (non-commercial) legal entities, they often cannot participate in competition at all.

The Ministry of Agriculture and Environment of Georgia also implements targeted projects to promote entrepreneurship. Social enterprises can also become beneficiaries of the programs, although they encounter the same problems as those in the programs administered by the Ministry of Economy and Sustainable Development.

At this point, none of the agencies are performing targeted and holistic activities to develop programs or strategic documents intended for the promotion of financial sustainability and capacity building of individuals involved in social entrepreneurship.

In terms of European experience, another country which should be mentioned is Sweden, where, despite the absence of a specific ministry, the development of social entrepreneurship is supported by various agencies through targeted programs (Swedish Economic and Regional Development Agency, Innovation Agency, Employment Service)⁵⁶.

The Latvian Investment and Development Agency is also a body responsible for the development of social entrepreneurship and innovation. Its targeted programs are aimed at supporting startup social enterprises, commercializing innovations as well as increasing the attractiveness of social enterprises for investors and in order to export their products⁵⁷.

In Poland, a public body - the Social Economy Systemic Decision Council - has been set up, chaired by the Minister for Family, Labor and Social Policy. The Council consists of representatives of the relevant ministries, local authorities and the social economy sector⁵⁸. The agency mandate is to provide financial and non-financial support to social enterprises, and to develop policies and legal documents in the field of social economy⁵⁹.

56. Support mechanisms for social entrepreneurship in the Baltic Sea Region; <https://www.socialenterprisebsr.net/2018/08/support-mechanisms-for-social-entrepreneurship-in-the-baltic-sea-region/>

57. Social enterprises and their ecosystems in Europe – Comparative synthesis report; <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274>

58. European Commission, Map of Socially Owned Enterprises and Their Ecosystems in Europe, Country Report: Poland, 2014, p. 4.

59. European Commission, Map of Socially Owned Enterprises and Their Ecosystems in Europe, Country Report: Poland, 2014, p. 4.

As for Canada, social entrepreneurship support systems operate mainly at the regional level. The Ministry of Economic Growth and Development is responsible for the social policy of social entrepreneurship and its implementation in Ontario. In addition, the Office of Social Enterprises (OSE) assists the Ontario Government in coordinating various activities in the field of social entrepreneurship⁶⁰. Based on the study of social entrepreneurs' needs, the Office facilitates the planning of corresponding government activities and also, creates relevant programs to support the field⁶¹.

Toronto Enterprise Fund⁶², an entrepreneurship fund based in Toronto, is an independent inter-agency partnership that brings together representatives of local civil society, self-government, the Department of Social Services, and the federal government. The foundation supports social enterprises that provide temporary or stable employment to vulnerable populations and the ones that are involved in the planning of employment-oriented training⁶³.

Access to finance

In terms of access to finance, there are three dimensions that are particularly interesting. These are non-credit mechanisms available for social enterprises (investment, grant, subsidy), credit financial instruments and tax benefits, tax incentives or tax advantages.

Non-credit mechanisms - investment, grant, subsidy

As of 2017, the amount spent on the development of social entrepreneurship in Georgia exceeded 7 million GEL⁶⁴. In 2012-2017 the Government of Georgia, the President of Georgia, municipalities and other state institutions allocated significant financial resources for the development of social entrepreneurship. This was done in the form of various budget allocations, which in total exceeded 1.6 million GEL⁶⁵. The majority of the social enterprises were set up with the financial support of institutional donors (the EU, Bread for the World BfW, Danish International Development Agency (DANIDA), and Swedish International Development Cooperation Agency (Sida).

60. <http://seontario.org/home/about-social-enterprise-ontario/government-of-ontario-support-for-social-enterprise/>

61. <http://seontario.org/social-enterprise-in-ontario/>

62. <http://www.torontoenterprisefund.ca>

63. <http://www.torontoenterprisefund.ca/about-tef/what-is-the-toronto-enterprise-fund>

64. <https://info.parliament.ge/file/1/BillReviewContent/204468?>

65. <https://info.parliament.ge/file/1/BillReviewContent/204468?>

In terms of providing access to finance, the grant program funded by Bread for the World and implemented by the Center for Strategic Research and Development, is particularly remarkable. The grant contest was announced in light of the challenges and opportunities imposed by ongoing global COVID-19 pandemic and it has two directions:

- Developing a social enterprise, which means refining the product or service of the enterprise, applying a new approach in pursuing the activity, using technological innovations and the internet space, introducing changes in the work process, etc.
- Expanding a social enterprise, which means producing a new good/service, covering a new region, entering the international market, etc⁶⁶.

In terms of financial support for social entrepreneurship, private sector initiatives should also be noted. The Bank of Georgia Foundation "Tree of Life" is one of the examples whose priority direction is to promote social entrepreneurship. The grant competitions announced by the Foundation are aimed at the promotion of social entrepreneurship, acquisition of innovative initiatives and strengthening care in order to employ disabled community members and improve their quality of life⁶⁷.

Credit financial instruments

Under the ongoing EU-funded project "Social Entrepreneurship - Innovative Approach to Economic and Social Change", the microfinance organization "Crystal" has developed a credit product "Social Credit" to support social entrepreneurship, strengthen business skills and enhance the financial self-sustainability or self-sufficiency of social enterprises. The credit is granted to early-stage businesses or startup projects to launch a social enterprise and also to those intending to further expand their social entrepreneurship activities⁶⁸. Despite the steps taken by individual representatives of the private sector, the majority of financial institutions have trouble offering credits and other financial instruments that would match the needs of social enterprises.

What should also be noted in this regard is LEPL "Enterprise Georgia", operating under the Ministry of Economy and Sustainable Development of Georgia, and aiming at improving the business environment, developing the private sector, popularizing the investment climate in Georgia and boosting export. Entrepreneurial legal entities can participate in the grant programs administered by the agency. Although social entrepreneurship is not among the priority areas of the agency, a variety of their programs prioritize the areas of funding: projects focused on high-inclusion sectors: starting/expansion of business by a female entrepreneur; starting/expanding business in rural/ highland villages; starting/expanding business by internally displaced persons (IDPs). In addition, its credit-guarantee mechanism is aimed at issuing credit guarantees to small and medium-sized enterprises that cannot meet the requirements needed to secure repayment of a loan. Among the potential sources of funding are the startup investment programs of the Georgian Innovation and Technology Agency (GITA), both in the commercialization and research/development stages, which are accessible to entrepreneurial legal entities. However, GITA's priority is to introduce innovative approaches and it focuses mainly on startups.

66. <http://segeorgia.org/info.php?ID=97>

67. <https://tree.ge/news-item/63/>

68. <http://segeorgia.org/nmore.php?NID=256>

Within this framework, theoretically, social enterprises have access to GITA-supported financial instruments. However, their competitiveness under general programs is weaker than that of for-profit organizations, which have more advanced infrastructure and property guarantees. And finally, social enterprises registered as NNLEs are deprived of access to these programs⁶⁹.

Tax benefits, tax advantages and tax incentives

The Tax Code of Georgia does not provide benefits for social enterprises. At that, social enterprises operating as NNLEs do not benefit from any tax exemption if they have received grants for economic activities⁷⁰. Accordingly, if a NNLE enterprise applies the obtained grant for economic activity, the financial gains will be subjected to taxation. At that, an economic activity is defined as any type of activity that is performed for profit, income or compensation, regardless of the consequences of such an activity, unless otherwise provided by this Article. With social enterprises registered as NNLEs, only the expenses incurred for social (charitable) purposes are exempt from income tax.

An exception to this rule is made by paragraph 2 of Article 5 of the Law of Georgia on the Development of Mountainous Regions, according to which "an entrepreneur that has been granted the status of a highland settlement enterprise by the legislation of Georgia, will be exempt from tax liability within the timeframe and in accordance with the procedures defined by the Tax Code of Georgia." However, owing to the fact that social enterprises registered in the form of NNLEs are not considered as entrepreneurial entities, they do not enjoy the tax benefits provided by the Law of Georgia on the Development of Mountainous Regions.

Similar to traditional enterprises, social enterprises operating as LLCs and other entrepreneurial entities, enjoy a new tax regime according to which reinvested earnings (i.e., profits invested in entrepreneurial activities) may be exempt from the tax. Although the impact made by the record is unequivocally positive (especially given that social enterprises are reinvesting most of their profits), it should be noted that such a tax exemption does not apply to "non-economic" (social and charitable) donations. Consequently, a social enterprise that uses a large portion of its financial gain to achieve a social goal is unable to enjoy the benefits mentioned above.

That being the case, in terms of taxation, social entrepreneurs face many obstacles.

The 2014-2020 Central Program of Poland (POWER), considers the creation of financial instruments (loans and guarantees) to increase access to finance for social enterprises⁷¹.

In order to aid social enterprises gain greater access to financial instruments, the 2016-2021 Ontario's Social Enterprise Strategy⁷² attempts to connect social enterprise with markets and capital, to identify new opportunities and demonstrate the value of social enterprise and social finance to investors, the government and the public.

69. <http://www.enterprisegeorgia.gov.ge/ka>

70. Part 2 of Article 2 of the Law of Georgia on Grants

71. Map of Social Enterprises and Their Ecosystems in Europe, Country Report: Poland, 2014, p. 8-10.

72. <https://www.ontario.ca/page/ontarios-social-enterprise-strategy-2016-2021>

The table below lists the types of public and private assistance and the degree of access to each of them across different countries.

Types of support tools	Available without restriction	Available with restriction	Not available
State grants and subsidies	Austria, Finland, Italy, Luxembourg, Malta, Netherlands, Poland	Belgium, Cyprus, France, Germany, Ireland, Latvia, Lithuania, Portugal, Romania, Slovakia	Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Slovenia, Spain, Sweden, United Kingdom
Grants and other support instruments from private institution funding	Austria, Belgium, Croatia, Czech Republic, Germany, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, United Kingdom	Bulgaria, Estonia, France, Ireland, Malta, Portugal, Slovakia, Spain	Cyprus, Denmark, Finland, Greece, Romania, Slovenia, Sweden
Private and public assistance to incubators and business innovation centers	Austria, Belgium, Cyprus, Estonia, Finland, Greece, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Spain	Croatia, Denmark, France, Hungary, Ireland, Italy, Portugal, Romania, Slovenia, United Kingdom	Bulgaria, Czech Republic, Poland, Slovakia, Sweden

An Ontario-based (Canada) funding mechanism - the Microfinance Fund for Social Entrepreneurs assists social entrepreneurs by increasing their access to financial resources. In particular, the mechanism offers profit-oriented economic enterprises a credit and financial inspection/audit of their economic efficiency, with the aim of rendering further consultations⁷³. The Jubilee Fund of Canada provides credit to social enterprises that would not normally receive assistance from financial institutions due to insufficient economic guarantees⁷⁴. The program finances business projects for social purposes, focusing on the social and economic return of investment rather than just the financial return. What is also interesting, in order to find investors needed to accumulate the funds for loans/credits, the fund offers investors a 3-5 year investment certificate⁷⁵.

Market access

2A survey conducted as part of Social Entrepreneurship research in 2017 revealed the problem with this type of enterprise as having limited access to the market. Namely, it turned out that international or local NGO grants were the only source of income for 18% of respondents. 70% of the respondents named entrepreneurial (economic) activity as another source of their revenue. However, sales appeared to be the only source of income for only 27%. Overall, it was revealed that 48% of the survey participant enterprises had a single source of income. Only 6% of respondents received revenues from public procurement - in exchange for supplying goods/services ordered by state/local self-government. 51% of respondents stated they did not have annual profit at all, while in the case of 21% the annual profit equaled around 1000 GEL.

73. <https://socialinnovation.org/about/thought-leadership/the-ontario-catapult-microloan-fund/>

74. <http://www.jubileefund.ca/faq.php>

75. https://static1.squarespace.com/static/598b47ff6a49631e85d75e53/t/5bf705e4f950b75bc4a1fd03/1542915557271/The+Jubilee+Fund_FINAL_EN_0_acc.pdf

These figures can be explained by a number of factors. Among them is the one mentioned recurrently in the review: low competitiveness in the private market, which can be caused by a wide variety of reasons. In particular, our survey of various social enterprises, literature reviews and observations brought to light the following factors affecting the competitiveness:

- 1. A poorly planned business model in which business principles are not properly embedded.** Consequently, the role of an enterprise is more of a charity or a non-governmental organization, than a unit that combines the goals of social welfare and economic sustainability. Even the enterprises that have relatively better incorporated economic sustainability aims into their business model, frequently encounter problems depending on the type of their activity and resort to alternative strategies such as raw material diversification or outsourcing of a particular stage of production.
- 2. Lack of infrastructure and equipment, which can negatively affect the volume of production and the quality of a product.** In particular, being focused on social priorities, some social enterprises refuse to introduce innovative "human labor substitute" technologies in order to maintain the number of employees, which affects the volume/quality of production and, as a result, may lead to a reduction in customer base. Due to the low number of social enterprises, it may be less realistic but quite feasible, to resort to ad hoc cooperation with other social enterprises in the same field, to produce an acceptable volume of goods for the client. In addition, certain specific aspects of social enterprises' activities (e.g. recycled paper and stationery produced from it), make the quality of the product differ from the standards that are generally accepted in the market. Consequently, market penetration and self-establishment take longer, which, at some point, has a negative impact on economic sustainability.
- 3. Narrow circle of consumers** - in some cases such targeting is due to the factor mentioned above (the appearance of the product, the quality which differs from the accepted standard). Consequently, if there is a decrease in the sector of consumers (e.g. tourists/travel companies), sales may also plummet sharply.
- 4. High cost of production, as compared to the market/selling price** - which is explained by the lack of access to equipment, and precisely by the aim to create social welfare - often expressed in the wage policy of the social enterprise, where the wages are higher than the average wage in the labor market; also in giving priority to the use of more expensive raw materials.
- 5. Low public awareness of the importance of the activities of social enterprises and the general economic vulnerability of consumers,** which prevents the permanent consumption of a relatively expensive or different quality product.
- 6. Lack of relevant marketing skills,** which prevents attracting new customers, producing aggressive advertising campaigns.
- 7. Small number of workers.**

What should also be noted in this regard is the competitiveness of social enterprises in the public procurement process. In addition to the factors mentioned above, their successful participation in the public procurement process can also be hampered by the following circumstances:

8. Owing to the absence of legislative regulations, the Law on Public Procurement does not recognize the concept of social entrepreneurship and sets out obligations for them to participate **in the same competitive conditions as traditional enterprises**. No additional social benefits are provided and evaluated in procurement. Therefore, there are no benefits that this type of enterprise would receive.
9. **No privilege/preferential treatment regime is provided** for entities based in any of the basic organizational-legal forms of social enterprise (NNLE, LLC);
10. **Under public procurement law**, priority is given to the bidder who can bid the lowest price. This circumstance puts social enterprises in less favorable position compared to traditional businesses, as long as many of them are start-up enterprises, and the cost of production, due to the above-mentioned factors, is relatively high. The system does not distinctly see or feel the social benefits created by enterprises. If they indeed produced a lasting impact on communities (job creation for vulnerable people, training of young people for the labor market) they would considerably reduce the social burden of the state.

In terms of international practice, the Canadian experience is a notable one. In particular, the procurement guidelines in British Columbia allow that a tender proposal takes into account the product/service created by the bidder; the procurement process is monitored on a mandatory basis⁷⁶.

The public procurement law of Croatia allows for making a limited number of contracts with social enterprises for the provision of health, social and cultural services⁷⁷, while Lithuanian public procurement law allows for simplified procurement from social enterprises. In addition, a product/service worth of at least 5% of the total cost of purchases must be purchased from a social enterprise⁷⁸.

Systemic support for skills and business development

As mentioned in the introduction to the document, in order to develop the field of social entrepreneurship, it is of great importance to regularly examine statistics, identify the needs and challenges related to the field, as well as conduct regular research. This is the lack of statistics that can also explain why it is so problematic for decision makers to implement relevant changes in the field of social entrepreneurship.

76. Ibid

77. Social enterprises and their ecosystems in Europe – Comparative synthesis report; <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274>

78. https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/public-procurement/study/country_profile/lt.pdf

Besides, shortage of skills among the individuals involved in social entrepreneurship at the national level is one of the major issues underscored in the thematic reports of the EU Member States. The skills for business development, investment attraction, financial planning, product or service development appear to be lagging. This shortage negatively affects their competitiveness and opportunities to create social good. In terms of capacity building, even though effective collaboration with the private sector is an essential factor too (in the Danish experience, where such cooperation is sporadic), initiating a shift in perspective and the formation of a new entrepreneurial mindset based on a healthy balance of business and social principles must be brought to the forefront. That is why, in terms of international practice, social entrepreneurship has already aroused the interest of numerous research institutions and universities. Social entrepreneurship-tailored programs are being created, coaching and mentoring opportunities are emerging, which encourages both business development and strategy building skills, assessment of the social impact of entrepreneurship and the involvement of users, employees and volunteers in the decision-making process by developing appropriate methodologies. In a number of countries, not only have they developed special vocational courses (Austria), but activities are also held among local communities (in remote and rural settlements) to develop these skills (Austria, Bulgaria, Greece, Hungary, Latvia, Lithuania, Slovakia). In addition, it is necessary that public officials and representatives of financial institutions should enjoy access to regular training to increase their knowledge of the unique nature and needs of social enterprises and to reduce the indicator of unreasonably high credit guarantee imposition. Training public workers, in turn, will raise their awareness of the positive role of social enterprises and reduce constraints in the field, which will facilitate the involvement of such organizations (Cyprus, Czech Republic, Netherlands, Romania, Sweden) in public procurement.

The sphere has also become part of the curriculum of educational institutions. There are practical crash courses and full-time programs available online as well. The United Kingdom Open University and the National University of Distance Education (UNED) in Spain provide a good example of higher education institutions that have a comprehensive social entrepreneurship curriculum. The examples of Slovakia and Slovenia are also noteworthy in this regard: there regional development agencies, the private sector and public institutions cooperate with universities to create and implement relevant programs. The programs lay particular emphasis on strengthening networking, leadership, communication, business and organizational management skills. In addition, programs or training courses provide the opportunity to obtain additional funding and establish relationships with potential investors. The purpose of such programs is to implement the principles of financial sustainability, social impact and innovation integration into enterprise activities. In addition, there are various incubators and accelerators, which are focused on delivering consulting services or allocating financial resources. Social enterprises and other organizations (coalitions, unions) whose field of activity includes the education of this type of beneficiaries, are also oriented towards supplying social entrepreneurship with educational resources. Such educational social enterprises generate their income from grant projects and tenders.

The example of Georgia should also be mentioned in this regard. In the fall semester of the 2019-2020 academic year, the Faculty of Business, Technology and Education of Ilia State University, in collaboration with the Center for Strategic Research and Development of Georgia (CSRDG), launched a practical course on social entrepreneurship. The course was successfully completed by 17 students and 7 social enterprise ideas were created as a result⁷⁹.

What is also important to mention is a series of trainings initiated by Mercy Corps for young people involved in social entrepreneurship and a grant competition for successful trainees, implemented within the project "Social Entrepreneurship in Armenia and Georgia"⁸⁰. In addition, in partnership with the CENN program EU4Youth - "Development of Social Entrepreneurship Ecosystem in Border Municipalities (SEED) for Green Growth", Ilia State University has developed a practical course on green entrepreneurship (undergraduate (the bachelor's) level) aimed to provide basic and profound knowledge about the core essence and fundamental theories of green entrepreneurship; build awareness of the concept, directions and opportunities of green entrepreneurship; promote green thinking, develop green entrepreneurial mindset and some of the necessary practical skills; give learners the opportunity to practice and actually go through the cycle of a green startup formation, from the very initial, concept stage of generating an idea to its further evolution⁸¹.

Impact management, assessment/measurement and reporting

Implementing the right mechanisms for assessing the economic, social and environmental impact of the activities of social enterprises is a significant challenge.

Measuring the result has a great value. Potentially, it can help social enterprises attract new private, institutional or state donors. In addition, impact assessment enables enterprises to set realistic goals and objectives, monitor and improve their activity, prioritize decisions, and become competitive in the securities market.⁸²

For the purposes of the present paper, it is particularly important to assess the social impact of the enterprise. According to various definitions, the latter is defined as:

- public value created as a result of the activity;
- the degree of well-being created for beneficiaries and other stakeholders;
- the impact that can involve both positive and negative aspects;
- the result that would not exist without the proposed activity⁸³.

79. <https://iliauni.edu.ge/ge/iliauni/AcademicDepartments/bte/siaxleebi-273/socialuri-mewarmeobis-praqtikuli-kur-sis-shesaxeb.page>

80. <https://iliauni.edu.ge/uploads/other/56/56798.pdf>

81. <https://www.euneighbours.eu/sites/default/files/publications/2021-03/1.%20Green%20Entrepreneurship%20BA%20Course%20-%20Iliauni%20Syllabus%20%28GE%29.pdf>

82. Nicholls, A. (2007), What is the Future of Social Enterprise in Ethical Markets, Office of The Third Sector, London.

83. <https://www.oecd-ilibrary.org/docserver/5jrtpbx7tw37-en.pdf?expires=1618814726&id=id&accname=guest&checksum=4E0D032E46051B73E1A17CB81E15FEA5>

The Social Outcome Assessment Guideline developed by the Group of Experts on Social Economy and Social Enterprises within the framework of the European Commission's Directorate-General for Employment, Social Affairs and Inclusion in 2014⁸⁴, emphasizes that it is practically impossible to apply a strict, standardized approach in formulating social impact indicators. There are numerous reasons for this, namely:

- Due to the diversity of the target impact of social enterprises, it is impossible to develop precisely tailored and, at the same time, sufficiently specific indicators for each of them;
- The application of quantitative indicators, which provide a clearer picture of the impact, may fail to show certain qualitative characteristics or may make them appear weaker than they really are;
- Working on an impact account can be far from being cost-effective and overly difficult for relatively small, resource-poor enterprises;
- Applying standard indicators may fail to measure the social impact of different types of social enterprises;
- The rapid development of social entrepreneurship may lead certain indicators to become obsolete.

Nevertheless, the present document outlines the key areas that social enterprises need to determine in order to assess their own impact. In particular, in order to balance the interests of donors, beneficiaries, social enterprises and the state, the document stipulates that there must be a certain kind of framework-evaluation criteria, which can evaluate at least 80% of the identifiable results. Indicators must be agreed upon by social enterprises and stakeholders (including investors and beneficiaries). In order to effectively measure social impact, the techniques used and the indicators developed must meet the following criteria:

- Relevant - the assessment mechanism must be related and logically consistent with the results it measures;
- Useful - must give us information on whether the result meets the needs of stakeholders;
- Simple - both the assessment process and the main findings must be easy to understand;
- Logical - must evaluate the result of the activity;
- Accurate - both the information obtained and the final report document must accurately reflect the results of the assessment;
- Understandable and acceptable to all stakeholders;
- Transparent and clear - it must be clear what assessment method was used and how it relates to the service or product provided;
- Based on evidence - it must be possible to replicate and validate the measurement methodology and the results obtained over a long period of time⁸⁵.

84. Proposed approaches to social impact measurement in European Commission legislation and in practice relating to EUSEFs and the EaSI; GECES sub-group on impact measurement 2014; <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

85. Proposed approaches to social impact measurement in European Commission legislation and in practice relating to EUSEFs and the EaSI; GECES sub-group on impact measurement 2014; <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

The process of developing indicators can be summed up as follows:

- defining goals and objectives - what is measured;
- impact on stakeholders - who wins and how they do, who the resources come from;
- introduction of appropriate measures - how the intervention planned by the social enterprise helps meet the key needs of beneficiaries and other stakeholders. This stage is closely related to the introduction and development of the theory of change by social enterprises. The unit of measurement most accurately assesses the relationship between the theory of organizational change and the impact achieved;
- measurement, validation and evaluation/assessment - at this stage it is determined to what extent the expected result was achieved, what impact this result had on the beneficiaries and other stakeholders;
- reporting, examination/study and improvement - after services and products have been delivered and the effectiveness of activities has been determined, the results are communicated to internal and external audiences.

Performance appraisal is necessary both for the social enterprise and the stakeholders/key actors with whom the social enterprise has a partnership. That is why the table below illustrates which actors need the outcome (including social impact) of their own activities to be evaluated/assessed and why they need it.

Actor	Need for measurement	Measurement aim
Social enterprise	<ul style="list-style-type: none"> • develop a clear theory of change in which activity and resources are logically linked to short-term output; • plan the necessary short-term results (output) to achieve the desired outcome; • create key performance indicators (KPIs). 	<p>The social enterprise must use it:</p> <ul style="list-style-type: none"> • when planning service and product delivery; • to improve resource allocation; • to manage business; • to report to stakeholders.
Public sector	<ul style="list-style-type: none"> • focus on policy deliverables that may be narrower than those identified by social enterprises; • demonstrate the consistency of the social enterprise activities during the period of cooperation. 	<ul style="list-style-type: none"> • to evaluate the effectiveness of the delivery of a political measure; • to control spending; • to determine the direction of political measures.
Donor and investor	<ul style="list-style-type: none"> • focus more on the results and outcomes to be achieved during the grant / investment period • focus on KPIs that are agreed upon with the investor/donor. 	<ul style="list-style-type: none"> • to assess the expediency of investing / granting; • to measure the quality of performance of the social enterprise; • to strike a balance between risk and return; • to ensure a smooth reporting process on the resources, results and achievements used⁸⁶.

86. Proposed approaches to social impact measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI; GECES sub-group on impact measurement 2014; <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

Some of the social enterprises in the world share the main findings of their activity analyses with stakeholders in the form of individual impact reports. However, still a small part of enterprises apply standard assessment techniques. In this regard, the so-called GBS standards (Gruppo di studio per il bilancio di sostenibilit a)⁸⁷ and GRI standards (Global Reporting Initiative)⁸⁸, which allow for making a structured measurement of the impact of social enterprises. Indicators on the UN Agenda 2030⁸⁹ also allow social enterprises to assess the impact of their activities on the UN Sustainable Development Goals. The table below describes the main areas/assessment techniques that are prioritized to measure the social impact of the enterprise⁹⁰.

Term	Definition	Example of application in practice (promoting youth employment through support and mentoring)
Resource	Resources required for the implementation of an activity (financial resources, expertise and time spent, infrastructure, equipment); Resources can also have social outcome when members of a vulnerable group (beneficiaries) are simultaneously volunteers or a hired staff.	<ul style="list-style-type: none"> • funding needed to set up training courses, time needed and remuneration for mentors; • infrastructure and other tools; • time and experience of trainers and mentors (some of them may be volunteers, in which case a standard market pay rate may be used to emphasize that these individuals could have used the time differently).
Activity	Work using resources to achieve the desired result.	<ul style="list-style-type: none"> • group activities to create a support system; • trainings aimed at developing basic skills; • mentoring sessions.
Short-term result (output)	Activity results: how many beneficiaries were delivered the product or service.	<ul style="list-style-type: none"> • how many young people were involved in the scheme; • how many of them were employed by the employers participating in the program.
Social outcome	Change achieved as a result of the activity: social effects, positive and negative changes, planned changes and unexpected consequences for the beneficiaries and the community.	<ul style="list-style-type: none"> • employment retention by beneficiaries; • changing an attitude towards employment (perception that beneficiaries can find and keep a job); • opportunity to acquire additional skills (professional growth); • reducing dependence on social allowance as a result of employment; • reduced antisocial actions.
Social impact	Impact of social enterprise activities on social outcomes; excludes the result that a social enterprise would have still achieved, without this activity; the result in which other actors played the leading role and all unsustainable results (a change that returned to the initial state shortly after the end of the activity).	<ul style="list-style-type: none"> • excludes young people who would have got a steady job without a program; • impact is assessed after a long period of time, and by taking account of the individuals whose lives have changed substantially as a result of breaking the cycle of unemployment and exclusion.

87. http://www.gruppobilanciosociale.org/wp-content/uploads/2016/07/NEW3_GBS_2013_SOCIAL-REPORTING.pdf

88. <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/>

89. https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202021%20refinement_Eng.pdf

90. Proposed approaches to social impact measurement in European Commission legislation and in practice relating to Eu-SEFs and the EaSI; GECES sub-group on impact measurement 2014; <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

The social enterprises surveyed in Georgia have not introduced a systemic monitoring methodology similar to the one mentioned above. When they participate in grant projects or credit programs, their social impact is measured directly according to the indicators described within the context of these specific projects (interview with Kodala). In addition, there is a method of sporadic measurement of social impact, which determines the share of employees in the vulnerable group in relation to the total number of employees. The type of activity performed by a social enterprise (e.g. environmental activities), makes it relatively easy to assess their impact on that specific field (the number of trees saved as a result paper recycling). These three approaches partly allow us to assess the social good created by these enterprises.

The absence of the mechanisms for measuring the social impact of such types of enterprises, significantly affects their visibility. This reduces the capability of members of the public, legislature and executive branch to see the essential differences between social and traditional enterprises, which has a negative impact on (1) the efforts to standardize and regulate the sphere under law and (2) the willingness of community members to support such enterprises.

Conclusion and recommendations

The analysis of the available material and the survey of those involved in the field of entrepreneurship have shown that despite the steps taken towards the development of social entrepreneurship over the last decade, challenges still persist in all seven elements of the ecosystem:

- Given the fact that civic activism is still comparatively weak and young people lack entrepreneurial skills, the sphere is evolving at a relatively slow pace. Added to this are the different attitudes regarding the essence of social entrepreneurship and the need for it - for the part of the survey respondents, the full integration of the entrepreneurial component in their activity and, consequently, sustainability, still remain an issue. Part of the ecosystem participants are skeptical about the success of social entrepreneurship in Georgia and believe that traditional enterprises that are oriented on social sustainability will be able to achieve social or economic goals in a far more cost-effective way;
- Capacities in the public and private sectors are less adapted to relatively slow-growing social enterprises, a large portion of whose profits are spent on creating more effective wage policies (in comparison to those in the labor market) and reducing the negative impact on the environment;
- Given that there is no agency responsible for creating policies to support social entrepreneurship and informing the general public about the social impact of enterprises, state or local programs supporting this field are primarily sporadic and are not tailored to the needs of entrepreneurs in general;
- Support programs planned by the private sector (grant projects or credit mechanisms) are also inconsistent and erratic. They allow for allotting relatively small amounts of money and are less focused on the needs of startup companies;

- Due to consumers' low purchasing power and their ignorance of the impact of social entrepreneurship on the economy or employees, many of them give preference to comparatively low-cost products or the services that are relatively inexpensive. Based on the type of activity (emphasis on relatively high wages, use of recycled materials, orientation to a narrow segment of consumers), the social enterprises, with the majority having operated in the market for only around 3-5 years, cannot compete with traditional enterprises with a longer history.

However, the study showed that despite the above-mentioned challenges, it is evident that there are significant breakthroughs in this direction, such as, positive impact of social entrepreneurship on employment policy, the inclusion of vulnerable groups in the labor market, raising environmental and public awareness, and encouraging civic activism among young people. In addition, with the introduction of a holistic approach, which empowers the public and private sectors as well as donor organizations and social enterprises to take steps to develop the social economy in the areas where public service delivery is inefficient or simply expensive and traditional enterprises have little interest to operate, it is possible to build a new direction of public-private partnership (PPP), especially with regard to issues related to the promotion of innovation. However, in order to establish such a partnership, it is critical that first an appropriate ecosystem should be created for social enterprises and their capabilities should be substantially strengthened.

In particular, it is advisable to consider the following recommendations:

Recommendations

1. The research conducted as part of the present desk study, as well as the survey of the actors involved in the field of social entrepreneurship have shown that there is a fundamental need to recognize social entrepreneurship at the legislative level, clarify the concept and establish an appropriate regulatory framework⁹¹. The presence of relevant legislation will allow them to be subjected to appropriate goal-specific regulations in the areas of taxation, grant and public procurement; take advantage of public policy tools specially tailored to them. The regulatory framework will create a mechanism of protection against the misuse of social enterprise status - it will be possible to assess the real social impact of enterprises, the degrees of participatory governance and profit reinvestment. The legislation will make it possible to obtain information on social enterprises on a regular basis and to develop evidence-based policies⁹²;
2. International practice⁹³, according to which it is not reasonable to limit the areas of permissible entrepreneurship activities, should necessarily be taken into account while working on the legislation. A draft law should focus on the principal characteristics⁹⁴ of social enterprises without setting forth an exhaustive list of areas of activity. Instead, it is possible at the initial stage to identify the areas in which social enterprises can bring more social outcomes than traditional businesses, and to introduce incentive mechanisms in respective areas⁹⁵. In accordance with these priority areas it is possible to define the types of subsidies and the rules for their issuance, receipt and implementation (for example, the wage subsidy program if a new job is created and/or representatives of vulnerable groups are employed);

91. It should be noted that in some states (Australia, UK), there is no separate law on social entrepreneurship. Nevertheless, the Community Interest Company model in the UK contributes to the recognition, positioning and development of social enterprises. Some countries (Italy, Slovenia) have a relevant legislation. Social enterprises and their ecosystems in Europe - Comparative synthesis report; <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274>

92. Social enterprises and their ecosystems in Europe - Comparative synthesis report; <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8274>

93. http://segeorgia.org/FILES/doc/343_Desk_Research_State_SE_Support_Mechanisms_GEO.pdf

94. In particular, according to the social enterprise criteria of the European Enterprise International Research Center (EMES), a social enterprise is considered to be a unit that satisfies most of the following provisions: continuous production/supply of goods or services; substantial degree of economic risk; minimum standard of paid work (or the need for a minimum number of paid employees); social purpose; activity initiated by a group of citizens; limited distribution of profits; high degree of autonomy; participatory nature of decision making; a common participatory environment for stakeholders. https://www.europarl.europa.eu/RegData/etudes/STUD/2017/583123/IPOL_STU%282017%29583123_EN.pdf

95. There is an interesting concept of social enterprises in Lithuania, which involves (a kind of adjustment of the support and tax system to social enterprises is also considered) raising the general public's awareness of social entrepreneurship. Such a concept reflects the interest of the state to promote the development of social entrepreneurship. In addition, the Lithuanian concept pays special attention to the development of social innovations. https://issuu.com/verslumas/docs/social_entreprise_business_cases_lt_ee_fin_compres

3. A decision must also be made regarding the legal form of the social enterprise. In the case of Georgia, instead of creating a separate organizational-legal form of a social enterprise, it is acceptable that the status of a social enterprise should be granted to an entity registered in any organizational-legal form, provided that the latter meets the criteria set by law. The legislative framework has to reflect the preconditions for and the process of obtaining and depriving social enterprise status⁹⁶. Such an approach will increase the motivation of the social enterprise to meet the legislative requirements in order not to lose its status and it will also allow entrepreneurs to choose the most acceptable organizational-legal form for their activities;
4. Notwithstanding the foregoing, as maintained by the social enterprise definition (meaning of entrepreneurial activity), over time, it is important to encourage that only the subjects with the entrepreneurial legal entity status should officially be recognized as social enterprises and the units registered in the form of NNLEs should be reorganized into entrepreneurial legal entities;
5. In the process of drafting the legislation regulating social enterprises, it is important to consider changes in various legislative acts. For example, the Tax Code of Georgia should establish certain incentive mechanisms for social enterprises:
 - a. Expenses related to non-economic activities of social enterprises (in the case of an entrepreneurial legal entity) should be exempt from income tax;
 - b. As regards a social enterprise that has a non-profit entity status, the income derived and subsequently reinvested in ancillary economic activities should also be exempt from income tax (as is the case with entrepreneurial legal entities). However, this recommendation should be considered in the context of the above noted reservations. (Encouragement of registration as entrepreneurial legal entities);
 - c. In the case of entrepreneurial legal entities, it is possible that the value added tax be reimbursed with the goods or services purchased with the grant;

96. In this regard, an interesting parallel can be drawn with the legislation of Georgia, under which the status of a charitable organization is granted to an organization that is created for charitable activities, is registered under the law, has less than 1 year of experience in charitable activities and meets the requirements of the relevant article. Tax Code of Georgia, Article 32 (2)

- d. It is essential to initiate relevant amendments to the Law of Georgia on the Development of Mountainous Regions, which exempts business entities registered in the mountainous regions from taxes for the timeframe and in accordance with the rules established by the Tax Code of Georgia⁹⁷. It is important that the above-mentioned benefit also applies to social enterprises registered as NNLEs.
6. Along with building the legislative framework and policy instruments, it is significant that there should be a responsible structure at the central level, which will guide the steps towards the development of social entrepreneurship and will coordinate the activities of various agencies in this field. Given the diversity of issues related to social entrepreneurship, which are within the competence of different agencies, an interagency council should be established in Georgia, which will be responsible for developing policy and strategic documents in the field of social economy, supervising and granting the status of social enterprises⁹⁸;
7. In order to ensure the sustainability of social enterprises, it is important that the private sector component should be taken into account. In particular, it is essential to encourage cooperation between traditional and social enterprises in the delivery of products or services, as well as the development of mentoring and training programs, which will enable entrepreneurs to assist social enterprises in acquiring appropriate skills. In the long run, the establishment of such cooperative relations between traditional and social enterprises will encourage the formation of so-called hybrid value chains (meaning the production process in which a social enterprise can be one of the key links). This can be achieved by raising the awareness of traditional businesses about social sustainability component and of the importance of social enterprises;
8. In order to increase the potential of social enterprises to access credit, it is crucial to modify the opportunities to bring them into conformity with the social economy needs. For example, under the program "Enterprise Georgia", which is a good example of cooperation between the banking sector and government agencies, the area of social entrepreneurship promotion can be singled out as a separate priority;

97. Law on the Development of Mountainous Regions, Article 5 (2);

98. In terms of defining a responsible agency at the regional level, Poland provides an interesting example: there are Social Economy Support Centers (OWES), which are subjected to being accredited by the state agency and offer social counseling (in global and sectoral areas); training courses, financial support, social entrepreneurship advocacy at the local level. If a similar approach is introduced in Georgia, the Alliance of Social Entrepreneurs of the country could be a key actor in the process of establishing and accrediting social economic assistance centers at the local level. <https://www.oecd-ilibrary.org/sites/9789264268500-4-en/index.html?itemId=/content/component/9789264268500-4-en>

9. It is necessary for the representatives of social enterprises to develop skills related to the entrepreneurial component of the activity. A considerable number of social enterprises are established by/with the support of the persons employed by the non-governmental sector, so they do not possess sufficient entrepreneurial skills. It is advisable for the central government and local self-government bodies to take appropriate steps to involve representatives of traditional enterprises in the process of developing social entrepreneurship opportunities. What should be noted in terms of international experience is that it is deemed effective to combine two key aspects in the process: provide social enterprises with financial support and assist them to cultivate necessary skills⁹⁹;
10. It is important to introduce both financial and social impact accounting/reporting mechanisms. These tools, along with other components, can become a fundamental precondition for granting or depriving the status of a social enterprise. It should also be noted that unlike financial accounting/reporting, social accounting is a relatively new concept both in Georgia and around the world. Therefore, at an early stage social enterprises may find it difficult to manage this process independently. That is why it is essential that internationally recognized instruments¹⁰⁰ of measuring social impact should effectively be adapted to the Georgian reality and the skills of social entrepreneurs should also be developed in the relevant direction.

99. In particular, the Ontario Social Impact Voucher Program aims at ensuring the financial sustainability of social enterprises and, to this end, allocates C \$3,000 for social enterprises. Vouchers are administered by intermediary organizations that, in addition to providing financial assistance, offer social enterprises a variety of educational programs.

100. UK Social Audit Network Methodology and the corresponding guide describing in detail the criteria and process for measuring social impact. <http://www.socialauditnetwork.org.uk/>

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