



ევროკავშირი
საქართველოსთვის
EU4Youth



EU4Youth
Social Entrepreneurship in Armenia and Georgia

Social Enterprises in Georgia

Research Report

Rusudan Nadiradze



The contents of this paper are the sole responsibility of the Mercy Corps SEAG project and do not necessarily reflect the views of the EU institutions.

Mercy Corps. 2020

Table of Contents

Preface	2
1. Research Design	2
2. Research Tools and Techniques	3
3. Main Findings.....	3
4. General Overview.....	4
5. Definition and Legal Framework of Social Enterprise.....	6
6. Legal Status	8
7. Social Entrepreneurship and Business.....	10
8. Involvement of State Structures	11
9. Promoting Social Enterprises	13
10. Research Data from Social Enterprises	13
10.1. Key Findings	13
10.2. Areas and types of activity	15
10.3. Field of activity of social enterprises	17
10.4. Income Sources in 2019	20
10.5. Funding sources.....	23
10.6. Human Resources.....	26
10.7. Training/Education/Consultation	29
10.8. Product diversification/new product	30
10.9. Constraints for the development of social entrepreneurship.....	32
<i>Annex 1</i>	37
<i>Annex 2</i>	38

Preface

The present research document has been prepared by the International Non-Government Organization Mercy Corps as a part of the European Union for Youth Project (EU4Youth) - Social Entrepreneurship in Armenia and Georgia (SEAG). This report presents and discusses the results received from the survey with sphere experts and the social enterprises conducted between March and May 2020.

The technical approach of the research was developed in the framework of the project by using both quantitative and qualitative research methods. Objectives, methodology, and outcomes of each research component are presented below, in the relevant subheadings.

Research consultants were contracted for data collection in the target regions. They were responsible for surveying sphere experts and social enterprises and for drafting the technical report in close cooperation with SEAG Monitoring and Evaluation Coordinator. We thank the researchers – in particular, Khatuna Kharchilava, Tinatin Chulukhadze, Natia Tskvitaia, and Badri Matoshvili for their tremendous fieldwork efforts and input in data analyzing.

1. Research Design

The goal of the present research is to identify current state of social enterprises and analyze their development trends. Thus, the report, on the one hand, studies the general environment of social entrepreneurship through interviews with sphere experts and on the other hand, analyzes the data from social enterprises.

To be more specific, the following criteria were selected for the study:

- operating and enabling environment for social enterprises
- the efficiency of social entrepreneurship
- trends and characteristics of social entrepreneurship development
- stimulating mechanisms for social entrepreneurship development
- challenges of social entrepreneurship
- potential opportunities of social enterprise in Georgia

Interviews with sphere experts focus on assessing the development of social enterprises in Georgia, studying the legislative and enabling environment, evaluating support systems, and providing the insights on a more favorable environment for social entrepreneurship.

The research with social enterprises emphasized the following issues:

- social goals and results achieved
- funding sources

- incomes and financial sustainability
- members/employees and their qualifications
- structure and management experience
- products/services offered by social enterprises to customers
- experience in dealing with financial institutions;
- basic needs
- future plans

2. Research Tools and Techniques

Qualitative Research was conducted using in-depth interview techniques. The target group of qualitative research was sphere experts. Totally, 8 experts were interviewed. The duration of the interviews was 30-60 minutes.

A semi-structured questionnaire was used for quantitative research. The interviews were conducted online or/and by telephone. The duration of the interview was about 35-40 minutes.

Research results were entered and processed in a special statistical program (SPSS.23.0). In total, representatives of 58 social enterprises were interviewed throughout Georgia.

The following approaches were used for selecting respondents: (1) selection from the database of organizations posted on Social Enterprise Alliance's website; (2) selection based on "snowball" principle and in particular, on the base of information provided by social entrepreneurs in a database.

3. Main Findings

Interviews with sphere experts showed key tendencies covering both positive aspects and barriers of social enterprise developments.

- The vision how to develop enterprises as a sector in Georgia and overcome sectorial challenges is divided into two groups: some respondents consider the regulation of legal framework as an important challenge, moreover, they believe that the absence of legal regulations hampers the development of the sector, while the others believe that creating an effective action plan is a prerequisite for overcoming the sectoral difficulties and providing the solution to the problems facing the sector.
- Three basic factors as priority issues were identified - recognition and legal forms of social enterprises, and in particular, the term definition and its legal regulations; development of regulations related to the legal status of enterprises and fostering social enterprise as a business.

- There is a notable growth of social enterprise and most of them are young organizations, however, successful operations are carried out by the enterprises that fully understand the risks related to their activities and prioritize economic goals. To be more specific, although social entrepreneurship is based on the principles of solidarity, it is not a charity in the traditional sense, but they do have business principles.
- Most of the social enterprises are coming from civil organizations. A civil sector does not imply commercially-minded human resources; generally, their activity is focused on social component of their activity, and therefore, this factor affects the sustainability of social enterprise as a business.
- There is no state agency responsible for supporting the social entrepreneurship sector in Georgia. Apart from that, none of the regulations of the current ministries do determine the functions and responsibilities related to social entrepreneurship.
- There is also no financial support from the government for social entrepreneurs in Georgia, in particular, the practice of subsidies, loan allocation, or any other ways to increase their opportunities.

4. General Overview

Social entrepreneurship has become increasingly popular in Georgia due to support from donor community. In 2009, the Center for Strategic Research and Development of Georgia (CSRDG) by the support of the British Council and Eurasian Partnership Foundation launched the program on social enterprises to promote the concept of social entrepreneurship and practical implementation in Georgia.

"In 2009, CSRDG, Eurasian Partnership Foundation, the current European Fund, and the British Council launched a joint initiative to provide support for the first project in the field of social entrepreneurship. Until 2009, there were no supportive measures and projects in this regard. The concept of social enterprises was explained in the framework of the above-mentioned project, European models were shared and since 2009 the concept has been developing".

Priorities envisaged by the EU Strategic Document for 2014-2017¹ (EU Strategy for Cooperation with Civil Society of Georgia) include the concept of social enterprise and application of social entrepreneurship to deliver social and environmental impact . The strategic document was a precondition for financial support for the project *Social Entrepreneurship - Innovative Approach for Economic and Social Changes* implemented in partnership with the CSRDG, Education Development and Employment Center of Kutaisi, Arbeiter-Samariter-Bund Georgia and Crystal

¹ EU strategy for the cooperation to civil organizations in Georgia, 2014 – 2017
http://eeas.europa.eu/archives/delegations/georgia/documents/civil_society_library/roadmap_final_ka.pdf

microfinance organization in 2016-2018. The project aimed to increase the opportunities for civil organizations by developing social entrepreneurship to achieve social and environmental goals and economic empowerment of vulnerable groups. In 2017 we launched the second project aiming at the economic and social reintegration of people conflicting with the law through the establishment and development of social enterprises. At this stage, the donor institute Bread for the World is the sponsor to the CSRDG taking priority over promoting and encouraging the sector of socially responsible business.

According to the data given by CSRDG, about 80 social enterprises were established up to now via grant programs throughout Georgia. At the moment, about 60 enterprises are active and the remaining have suspended their activities.

Within the research, respondents were more homogeneous on the term definition - social entrepreneurship. As they believe, social entrepreneurship is a tool providing financial sustainability to the civil organizations. In fact, this model can be tailored on any idea; it differs from the business sector even though it operates through business principles. The scope of action of social enterprises is diverse and their social mission covers different areas.

„The starting point of social entrepreneurs is the social mission. Social entrepreneurship is focused on achieving maximum results for a particular group or community of the society, economic empowerment of vulnerable group members, and achieving social changes“.

"Social enterprise is a business that uses its incomes for achieving social objectives".

It is of note that the European International Research Center (EMES) developed universal criteria that describes the sector characteristics and applies to all countries where social entrepreneurship is introduced. The characteristics of a social enterprise cover the criteria of three groups²:

Economic Management - (a) continuous production/supply of goods/services; b) economic risks; c) need for paid work.

Social Management – (a) focus on the well-being of vulnerable groups; b) the idea initiated by individuals/community members/social groups with common goals about the establishment of the enterprise; c) restriction of profit distribution.

Co-management - (a) independent management of the founders with strict restrictions on management by public, private and other organizations; (b) equal right to make a decision/vote for

² https://emes.net/content/uploads/publications/EMES-WP-12-03_Defourny-Nyssens.pdf

all members of the enterprise; c) allowing the representation of customers/stakeholders, ensuring participation in the decision-making process.

According to EU standards, the goals of social entrepreneurship in Georgia include four areas:

- increase employability of the socially vulnerable groups
- provision of social services
- selling product/service produced by socially marginalized groups (lower social status)
- business-oriented on social goals.

The research shows that currently, the social goals of social enterprises in most cases are focused on integrating people with disabilities, developing various fields of heritage crafts and supporting employment of socially vulnerable people. There are some other social enterprises with other social purposes, however, in small numbers. It should also be noted that most of the social enterprises are youth organizations and the interest of young people in the process of establishing the social enterprise is quite high.

Some challenges about current and potential prospects for the development of social enterprises were identified during the research. Each of these challenges, as the impeding factors for the sustainability and institutional strengthening of the sector are presented in the relevant subheadings below.

5. Definition and Legal Framework of Social Enterprise

The study has identified two different approaches to social entrepreneurship (current or planned activities) from a legislative point of view that, on its part, emphasizes different perspectives/priorities foreseen by the law.

- (1) **The first approach** - determining status for social enterprise is not a fundamental issue and the main priority. Moreover, the status of a social enterprise is not a guarantee of privileges or development for the enterprises themselves. To identify enterprises, it is sufficient to determine share allocated from the profits for social goals in LLC statute that on its part will enable organizations to automatically have a social status.

„Social enterprise does not need any status. The statute should state that it is a social enterprise and a certain percentage of the profit is directed to social issues. By making this statement in a statute social entrepreneurship is defined. Even, while establishing a non-commercial legal entity, one has the right to conduct non-permanent economic activities by law. However, the profit must be spent for various statutory purposes. It is possible to indicate the amount of money spent on

social projects as a part of the goals. Accordingly, the statute defines the social purpose of the enterprise instead of status.”

(2) The second approach - legal recognition of social enterprise is one of the most important problems for developing the sector. In particular, in the country, there is no legal term defining social entrepreneurship and its regulatory legal basis or mechanisms. Consequently, it is difficult to develop various tools and programs promoting social entrepreneurship. Thus, according to the same opinion, it is important to define the content of social enterprise status (today there is no definition of what a social enterprise means) and give official status to the registered enterprises. In the first place, the lack of a specific legal basis causes problems for identifying social enterprises which in turn creates barriers to collecting statistical data and analyzing the dynamics of social enterprises. Besides, legal regulations will facilitate social enterprises to have legal recognition from financial institutions and access to the credit opportunities (tailored for social enterprises).

„Current legislative package should provide the opportunity for obtaining the status of social enterprise. We may not consider this issue critically important, but if we are talking about the development of social entrepreneurship the state should create a good ecosystem for it. If we had this type of support (recognition of status) in 2019 we would be in a more advantageous position today. Previously many grants were given to social enterprises. Up to \$ 5 million has been invested directly in the development of social enterprises, but it has been significantly reduced. In 2020, the European Union has outlined social entrepreneurship as a priority, it has not had such an approach before. Therefore, the lack of status did not allow the entrepreneurs to get financing, so today, we have enterprises that have almost ceased operations”.

As some of the respondents' state, a lack of a special legal positions allows the organizations to work and operate with the self-granted status of *social enterprise*. When one asks what the purpose of *grabbing* the *social enterprise* status by organizations can be, the answer to this question is - the competitive advantage of receiving funding/grants; in rare cases, to mislead donor organizations to obtain grants. The interviewed experts believe that any civil organization could have a desire to use funding/grants designed for social enterprises regardless of whether they comply with the basic criteria of social enterprise. In such cases, self-determination as a social enterprise is due to receiving the financial benefits (in the form of grants) and not doing the entrepreneurship.

As the respondents' state, in July 2015, a legislative proposal was presented to the parliament aiming at creating a legal basis for the institutionalization and development of social entrepreneurship. As the representative of the CSR DG state, the legislative proposal was prepared by involving social entrepreneurs; most of them supported the bill. The initiative defines social entrepreneurship as organized entrepreneurial activities in the fields such as social care, social adaptation, overcoming and reducing poverty, increasing employment opportunities for vulnerable groups in society,

education, health care, culture, sports, environmental protection which do not aim to make and distribute profit among the shareholders. In addition to the basic principles and issues related to the statute and status of social enterprise activities, the legislative proposal also includes items regarding the state programs designed for the strengthening of social entrepreneurs.

The respondents believe in the importance of state support to raise entrepreneurs' motivation. State support should include the followings:

- developing and participating in social entrepreneurship development projects and programs
- ensuring opportunities for getting preferential credit programs and grants for social enterprises
- establishing different rules and limits for tax administration for social enterprises
- on equal terms with ordinary businesses, giving priorities to products and services produced by social enterprises

The given measures are initiatives aiming at developing the sector. The respondents believe that the legal basis for social entrepreneurship will support not only the development of social enterprises but also will raise the level of social responsibility and enable the government to achieve socially beneficial goals with business and non-governmental sector. In particular, the respondents think that support for social entrepreneurs from the state will increase the application of social mission through business principles. In some respects, the absence of state support measures will increase the risk of tailoring social mission to business ideas. The question arises: *why should a business organization apply a certain percentage of profit to social activities?* According to the same view, state preferences (different rules and limits for tax administration) should include mechanisms to control that ordinary business-organizations should not be transformed into social enterprises.

6. Legal Status

The study shows that there is no specific legal status/form for social enterprises in Georgia. Therefore, all registered organizations representing social enterprises are generally having the status of non-entrepreneurial (non-commercial) legal entity. A small number of social enterprises (approx. 18 organizations) are registered in the form of limited liability (LLC). Some respondents believe that such statistics of organizational-legal forms of social enterprises are caused by the advantages and disadvantages of the juridical forms per the goals of social enterprises.

Advantages and disadvantages of legal forms

Non-governmental organizations operating in Georgia are not established to get material benefits, however, they are allowed to enjoy limited supportive economic activity with and/or without a statutory provision elaborated by them. However, according to the Civil Code of Georgia, a non-profit legal entity does not have the right to essentially move to entrepreneurial activity and its main activity and goal should not be changed by commercial activity for the purpose of making a profit.

The goal of non-entrepreneurial (non-commercial) legal entity can be anything that does not conflict with the current legal framework.

Limited Liability Company is a business structure organized in a quite simple and flexible way. Its management and organizational structure and all other issues are determined by the founders' agreement (statutory provisions). In terms of structure and management, there are minimum requirements established by the law for LLC, however, for a legal entity it is difficult to integrate social goals, and besides, they have limited access to funding/grants

According to the respondents, no juridical form can fully implement the idea of social entrepreneurship without obstacles. The following factors have been named as problems for non-entrepreneurial (non-commercial) legal entity:

- not considering it as a revenue-oriented organization;
- unable to enjoy tax benefits in case of profit reinvested;
- the legal form does not provide sufficient guarantees for creditors, therefore, it is difficult to access the loan;
- all types of civic organizations enjoy such legal form; therefore, it is difficult to separate it as a social enterprise from the rest ones.

The following factors have been named as problems for limited liability company:

- positioned as an entrepreneurial entity
- fails to ensure the integration of social goals; however, in another opinion, it is sufficient to determine the portion of expenditure of the profit for the social purposes in the statutory provisions
- LLC has limits to receive grants
- taxation of expenses made by LLC on social goals
- it does not enjoy the right in respect of tax advantages related to social goals;

"It seems that LLC meets the definition of an enterprise by all criteria. However, when we talk about social enterprise, there are some shortcomings. A social enterprise is having two natures - social and commercial. Financial sustainability is necessary when focusing on commercial success, which cannot be reached only at the expense of grants. Every company must get loan/credit which is not limited for LLC by a legal form/status, unlike non-entrepreneurial (non-commercial) legal entity. But if we consider that most of the enterprises operating in Georgia today are based on grants and large donations have already made from donors for a certain period, it is not recommended for enterprises to lose this opportunity. The same problem arises, but vice versa in case of non-entrepreneurial (non-commercial) legal entity".

„Apart from financial opportunities, due to its legal structure, LLC is less associated with social goals in society and is more perceived as a business, a profit-oriented organization. In this regard, non-entrepreneurial (non-commercial) legal entity is a civil organization and its activity priorities

are social goals however, it is grant-oriented and unstable due to donor dependency. For some time, the development of social enterprises was not a priority for donors, and small grants were allocated. This period weakened many enterprises so much that they are struggling to survive".

The research shows that the legal form of social enterprises is not an essential problem for sector development despite the above-mentioned shortcomings. In particular, most of the enterprises had start-up grants and they were established as non-entrepreneurial (non-commercial) legal entities; however, to ensure the development of production and financial sustainability, civil organizations have the opportunity of establishing a member of the non-entrepreneurial (non-commercial) legal entity (in the form of a membership fee) and a limited liability company (LLC). Limited Liability Company has a right to use the assets of non-entrepreneurial (non-commercial) legal entity and be responsible for the development of the business component along with social component since the LLC has very favorable and affordable conditions for the business entity - the opportunity of using credit/loan, being profit-oriented and establishing as an enterprise, however, such approaches are not too many in practice.

7. Social Entrepreneurship and Business

As it is identified by the research, most social enterprises are coming from civil organizations. According to the respondents, the essence of civil society is directly related to the shortage of commercially-minded human resources. It is not a must for them and therefore, they do not have "business mind" and experience. Under these conditions, the focus of entrepreneurs on the social mission is more obvious than striving for profit maximization, which results in scarcity of business production.

„Most of the social enterprises in Georgia have been established by people employed by NGOs who rarely have business experience. If the enterprise is not profit-oriented, then it is a charitable or another type of organization. Business is characterized by multiply lucrative actions. The Social enterprises here do not have such kind of entrepreneurial skills. They take a grant and then they shut down not thinking how to run and sustain the business. Therefore, lack of business skills is a significant challenge for the sector".

„There are people in a civil sector who think socially and their education, experience and skills are oriented on that type of activity, however, social entrepreneurship covers both social and economic activities. That fact must be considered".

The present research shows that experts' opinions were divided in this regard. Some experts believe that regular training in business is important. Training must take place permanently to develop the sector and make it more efficient even though most of the entrepreneurs have gone through this type of training. However as other experts think, the problem is that both entrepreneurs and donor

organizations associate the social enterprise activities with the prioritized social goals and the civil sector. A substantial change in approaches to social enterprises, in particular, prioritizing profit-oriented enterprises, is one of the mechanisms for solving this problem, which will give meaning to the training on business skills.

„The purpose of activity of civil organizations is not the distribution of the profit among the owners. Accordingly, the bill provides restrictions on the distribution of profits. If most of the entrepreneurs were LLCs, there would be no emphasis on restrictions. So, the activities of the enterprises suppress the emphasis on profit a priori. Hence, I do not see the development prospects of the sector and the importance of improving business skills through effective training and education“.

To improve and develop business activities, the respondents believe in the importance of elaborating an action plan in the frames of which social goals will not lap over business principles of social enterprises and profit-orientation but "enterprise" will retain the content defined by the definition.

8. Involvement of State Structures

As the respondents state, information about legal regulations for social enterprises in Georgia shows that the support of social enterprises as a sector has not been provided by the state agencies so far. The involvement of state agencies to develop social enterprises is primarily associated with the support of the initiated bill. As they indicate, the bill unites all the issues that are important for the sector development; their implementation in the form of law is considered as a support from the state. The representatives of the civil sector addressed the Parliament of Georgia in an attempt to regulate the legal framework in this regard. The draft law on *Philanthropy, Charity and Public Partnership*³ prepared by the *Tasso Foundation* was among the others; however, it was not supported by the civil sector.

According to the information by CSR DG, work on legislation initiative has begun in 2013 due to the legal needs for social entrepreneurship. In 2015, CSR DG submitted a bill regulating social entrepreneurship to the Parliament. The legislative proposal is supported by the majority of social entrepreneurs; it is noteworthy that it was prepared as a result of their direct involvement. In 2017, due to moving to a new model of taxation (Estonian model), initiative no longer corresponded to reality. Therefore, in the middle of 2017, the bill was updated, the approach was changed and an initiative on introducing the status of social entrepreneurship appeared. In early 2019 the draft bill⁴

³ Law of Georgia on Philanthropy, Charity and Social Partnership <https://info.parliament.ge/file/1/BillReviewContent/122188>

⁴ Legislative Proposal on Social Entrepreneurship and Support <https://info.parliament.ge/file/1/BillReviewContent/132460>

supported by CSRDG was initiated in the Parliament of Georgia and included in the list of initiatives to be considered. Respondents confirm that the discussion of the bill in the Parliament is regular, a working group directly involved in the discussion of the bill was set up, however, the legislative initiative has not been approved yet.

„On the one hand, such delays in the process of approving the bill indicate some kind of obstacles from the part of the state in terms of some issues and mainly granting status to the social enterprise. On the other, it is interesting to think that delays may have a positive effect. I think it is important to develop a strategic plan for social enterprises, which will be well defined with the involvement of professionals and entrepreneurs themselves, and then the main issues of the strategy will be reflected in the law. ”

It is interesting why the legislative regulation began to be taken care of in 2013, if it was so important for the development of the sector, even to determine the official status regulated by law. According to CSRDG, there has been a small number of practically functioning social enterprises in Georgia at the initial stage since 2009. The countries with successful social entrepreneurship practices are characterized by two types of approaches to legislative regulation – for the first type of countries, before the introduction of social entrepreneurship, the need for a bill is the principle approach and for another countries it is reasonable to use the best practices of successful social enterprises and reflect these precedencies in the law regulations.

“it was important to make the best practices in the country and work on legislative framework/regulations. In 2015, we had our first attempt to work with the Parliament of Georgia and relevant committees to introduce legislative regulations, so the "black material" was created”.

As some of the experts believe, a small number of social enterprises in Georgia did not create the need for legislative regulations until 2013. On the one hand, the challenges that would arise after the expansion of the sector were clear from the beginning, however, working on a legislative package after some practical experience was considered more optimal. On the other hand, the fact that the majority of the social entrepreneurs are established as civil organizations was caused by the lack of legal status on a social enterprise.

One part of the bill envisages the possibility of giving grants to entrepreneurial activities. Under current law, with some exceptions (education, agriculture, etc.), grants for entrepreneurial activities are limited. The initiators of the bill believe that it will be possible to get a grant for organizations and start-ups that serve good purposes for the society. As the interviewed experts state, it is important to have the state support in determining the priority areas with impact from the side of social enterprises. Social enterprises have the opportunity of creating new jobs and integrating vulnerable groups in the labor market which is a significant benefit for the country.

9. Promoting Social Enterprises

According to the respondents, the popularity of social enterprises is growing in Georgia. For the development and popularization of social entrepreneurship, on the one hand, it is necessary to increase the civil engagement and, on the other, to have a support from the state and business structures. For promoting the concept of social entrepreneurship, the European Union funded a three-year project *Social Entrepreneurship - an Innovative Approach to Economic and Social Changes* in 2016. This is one of the large-scale projects aimed at sector development, increasing capabilities for civil organizations, providing economic empowerment of vulnerable groups. Within this project, 14 new social enterprises were founded in the different fields throughout Georgia.

According to the respondents, to encourage social entrepreneurship, it is necessary that a state (stimulating) economic policy should be designed. The research shows that the state agencies are the clients of social enterprises in many countries, which is considered to be an effective experience of their promotion and support. However, respondents are of the view that today, in Georgia, on advertising and selling products produced by social enterprises, focus on the social goals of enterprises is more significant than the focus on quality. Such an approach does not serve the popularization of the sector; it seems rather manipulating customers and a priori ignores the demand for quality, which is important for business development.

It was suggested that the state, donor community, non-governmental and private sectors should encourage the creation of social enterprises in areas where interest in the business sector is low and the government services are expensive (for example, rehabilitation of those in conflict with the law). Diversification of the field of social enterprises, in turn, will help to increase public awareness about the sector in society and interest in social entrepreneurship. The sector should also promote innovation and creativity, being necessary prerequisites for the development of social entrepreneurship.

10. Research Data from Social Enterprises

10.1. Key Findings

The present study of social enterprises has identified problems that could most hinder the development of social enterprises in Georgia.

- Some social enterprises operating in Georgia develop in a more or less stable way. Those social enterprises that make and execute more decisions are able to gain a competitive advantage in the market. The extent to which an enterprise can realize its potential determines the degree of success.

- Most of the companies interviewed are registered in the form of non-entrepreneurial (non-commercial) legal entity and are established by civil organizations. In exceptional cases, the social enterprise is having the legal forms of LLC and an individual entrepreneur.
- The focus of the enterprises is on the provision of services for people with social status, integration and employment promotion. Also, part of the activities of enterprises is aimed at the development of workshops and traditional fields.
- Basic sources of income of enterprises at startup phase and in many cases, up to present is a grant. Incomes of most social enterprises showed a slight, however, a growing tendency in 2019; Current year, those enterprises who planned expansions expected 10-20% increase in revenue, however, force majeure due to the pandemic has dramatically changed a lot.
- Revenues from commercial activities by enterprises are small. Nevertheless, on the one hand, they want to diversify their business and increase commercial revenue, on the other hand, they remain focused on financial income received in the form of grants. Besides, as most of them are the representatives of civil organizations, they do not consider the relationship with financial institutions. They are not truly motivated to establish a business organization and miss the grant opportunities.
- Most of the enterprises have set long-term goals, without specifications. As their working practices shows, new projects or processes are planned in parallel with the current project, without the evaluation system of the previous performance.
- Among the social enterprises, we encounter a small number of business models where the business provides solution to a certain social problem and the enterprise is not just a place of people employed with social status.
- The vast majority of the enterprises want to increase knowledge in a certain area or improve the skills. The necessity to participate in business management, marketing, accounting and financial management trainings is of utmost importance.
- In most cases, enterprises have to produce products and provide services through low-competitive personnel, which in turn, affects the efficiency of their activities.
- The main challenges of the enterprises justify all difficulties caused by the lack of business difficulties. Social enterprises have limited access to capital, financial and industrial resources; they also talk about the difficulties they are facing in commerce due to the non-competitiveness of the product.
- Due to the force majeure situation caused by the pandemic in the current period, the problems related to the sustainability of enterprises is becoming especially obvious in social enterprises. As the survey shows, uncertainty about the business priorities leads them to a nihilistic attitude.
- Key problem is that there are no formalized procedures and methodologies in the enterprises. The quality of their performance depends entirely on the employees' qualifications of the business structure and not on the established approaches to the work processes. Therefore, it is important to study and describe the internal current processes,

their formalization, optimization and automation as much as possible, the knowledge of which is minimal among the existing enterprises.

10.2. Areas and types of activity

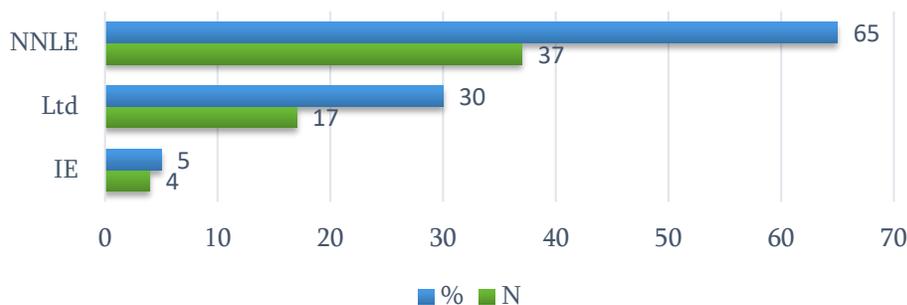
A total of 58 managers of social enterprises from different municipalities were interviewed within the survey. The table below shows the geographical distribution of enterprises:

Table 1. Geographical distribution of the interviewed social enterprises⁵

Municipality	Quantity
Tbilisi	17
Kvemo Kartli	14
Samtskhe-Javakheti	4
Kakheti	15
Other	8

The interviewed organizations have different legal status: 37 of them are registered as NNLEs, 18– as Ltds and 4 – as IE.

Diagram 1. The legal status of social enterprises



The foundation date of the organizations has started since 1991. From 58, the profile of 27 organizations was social entrepreneurship since the beginning. These organizations have been unified under the term of social enterprise since 2009. Almost half of the interviewed organizations (30) implemented civil activities and not entrepreneurship for a long time, though after 2009 they have combined the goals of social entrepreneurship or were founded according to relevant criteria and nowadays continue operation as social enterprises. The average rate of the experience of social entrepreneurship is 2 years. 50 organizations chosen the social entrepreneurship at the very

⁵ The three target regions (Kvemo Kartli, Kakheti, Samtskhe-Javakheti) of the SEAG project was fully covered and is demonstrated in separate categories.

beginning of their foundation. The longest experience of social entrepreneurship has started since 2009 (since the implementation of the institution in Georgia) and the smallest one – since 2020.

Diagram 2. Organization foundation date

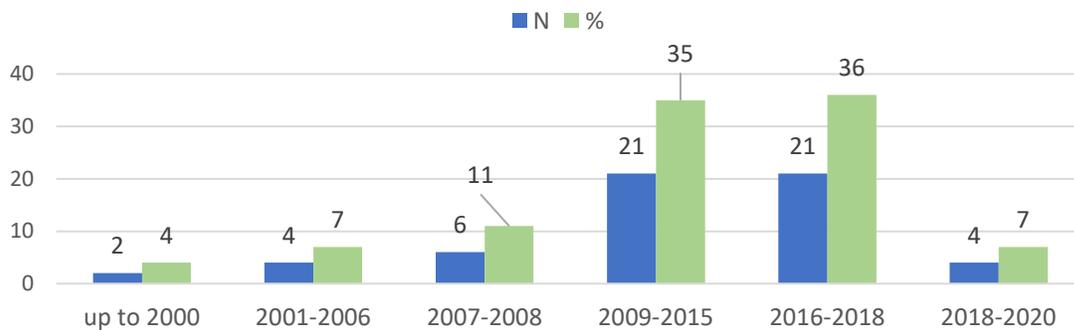
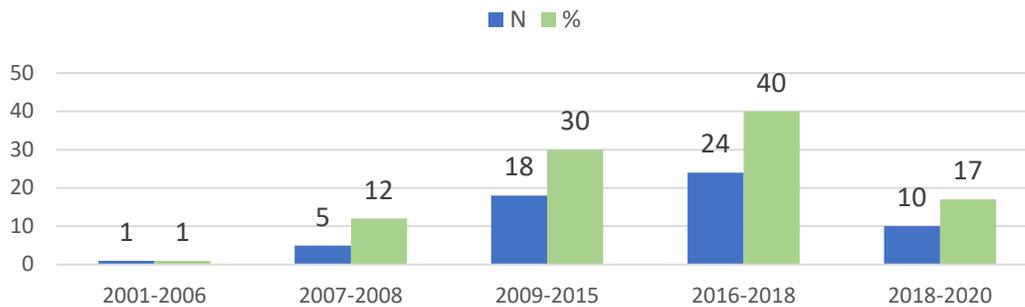
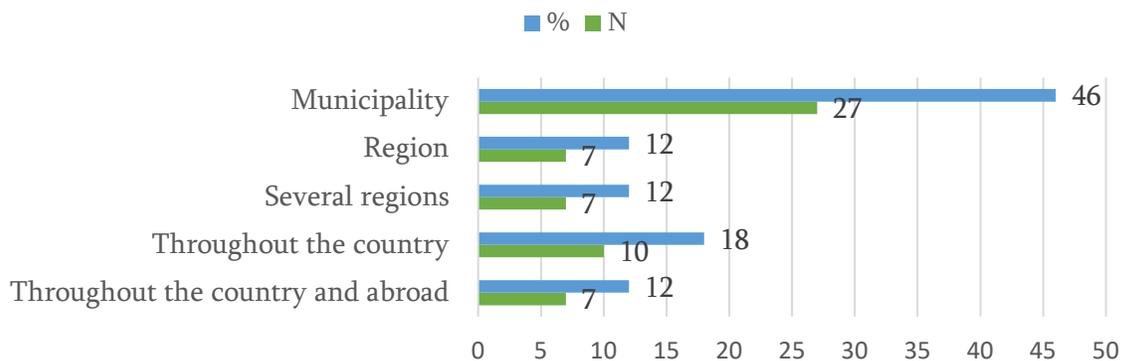


Diagram 3. Beginning of entrepreneurship



About half of the interviewed social enterprises operate within the local municipalities. The service/product of 14 organizations went beyond the municipality and covered region or several regions, 10 social enterprises state that their activities cover all Georgia, and a small part managed to export their products abroad.

Diagram 4. Geographical coverage of the activity conducted by social enterprise



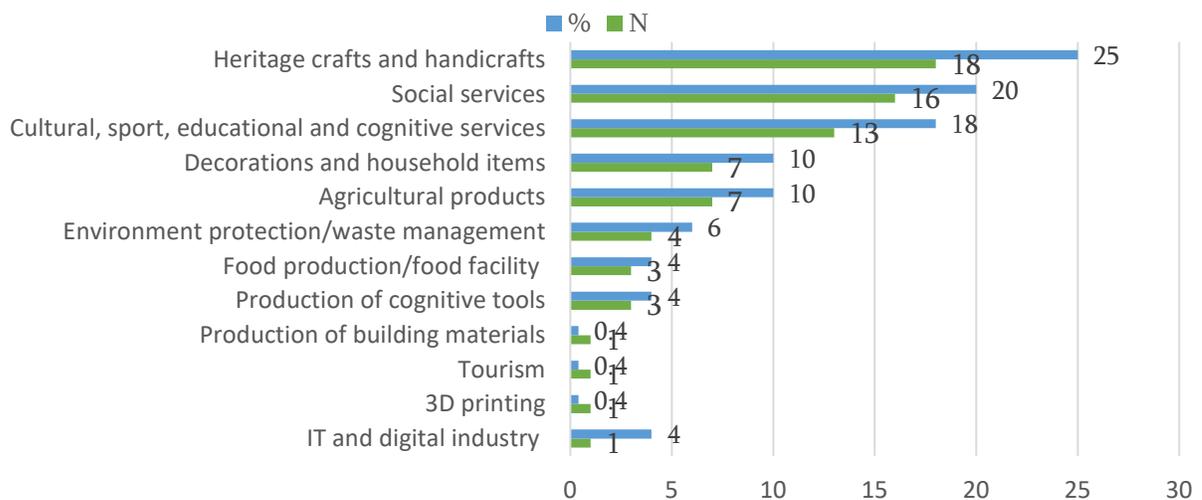
10.3. Field of activity of social enterprises

As the study shows, today, heritage crafts and handicrafts (24%) are identified as the priority fields for the sector, then comes: social services (20%), cultural, sport, educational and cognitive services (18%). In addition, the production of decorative & household items (10%) and agricultural products (10%) can be considered among the popular fields of activities (Diagram 5).

below are listed other mentioned field of activities:

- Environment protection/waste management
- Food production/food facility
- Production of cognitive tools
- Production of building materials
- Tourism
- IT/digital technologies and industry.

Diagram 5. Activity field of social enterprises

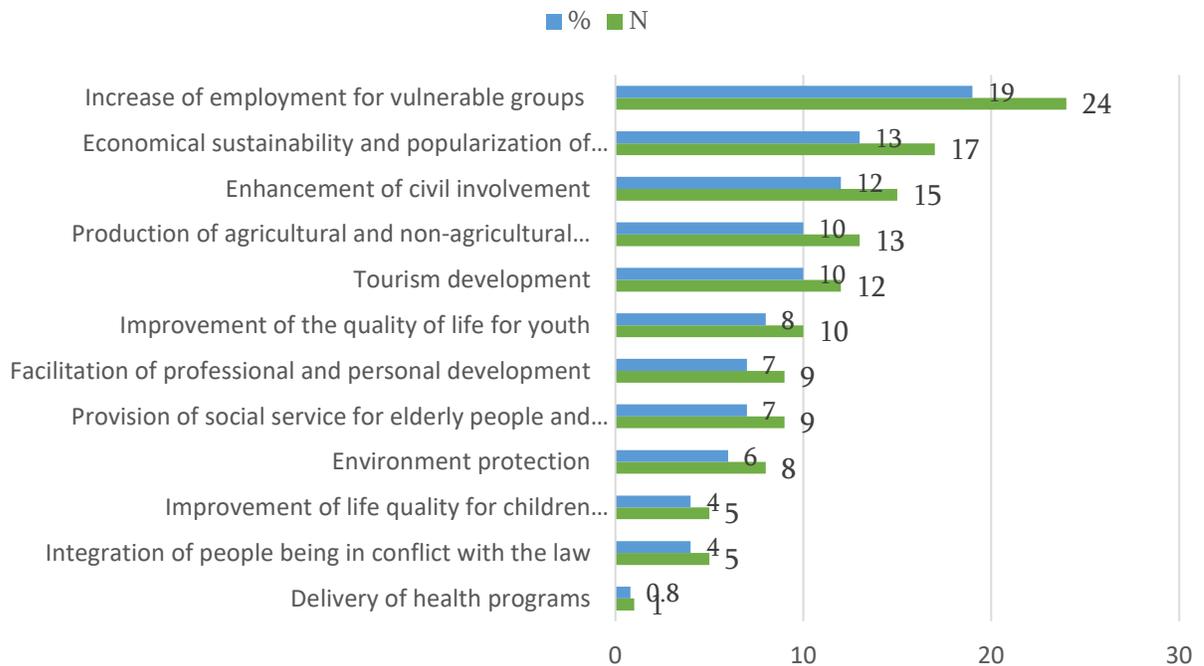


During the survey it was obvious that some of the organizations do not have mission applications, specifically, they do not have the plan and approach how to implement an organizational set goal. Their activity is limited to the general long-term plan in the broader sense. Relatively, due to market requirements, they do not rule out to change the field of activity.

More than half of social enterprises (31 organizations) indicate that their activities are diverted to achieve the several goals. If we look through their social goals in 2019, we will mainly see the following: increase of employment capability for vulnerable groups (19%), economical sustainability and popularization of cultural, sport, material and non-material sectors (13%), enhancement of civil

involvement (12%), production of agricultural and non-agricultural ecologically clean products (10%), tourism development (9%).

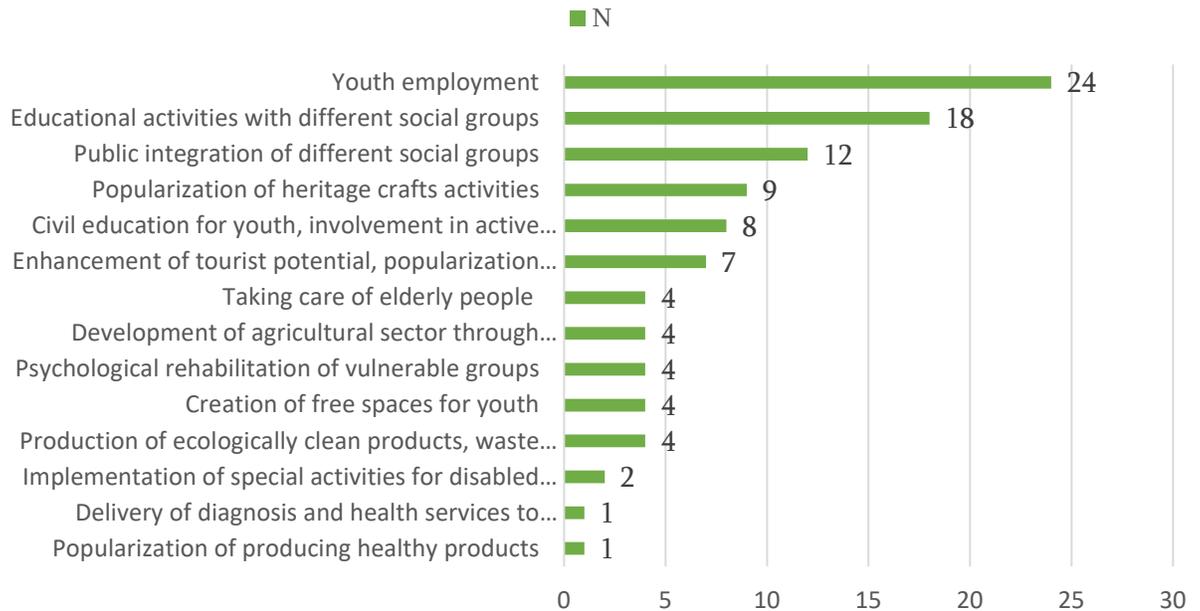
Diagram 6. The goal of social enterprises during the last year (2019)



Social goals were formed as a social outcome as listed below:

- Youth, representatives of different vulnerable groups were employed (for example, people with disabilities, female victims of violence, people conflicting with the law, etc.)
- Different types of education are available for the specific social groups (including ethnic minorities, people with disabilities, etc.)
- Integration of different vulnerable groups
- The popularization of cultural-traditional activities
- Increase tourist potential and popularization of cultural heritage monuments, etc.,.

Diagram 7. Outcomes of social enterprises (%)



The representatives of some organizations specified the social outcomes of their activities:

„Since 2014 up to date we have prepared 110 children for school, implemented the method of bilingual learning – children learn two languages: Georgian and Armenian; besides, they study behavior rules. Parents have had free time for economic activities; furthermore, we have employed three women living in the village. “ „Children’s educational day center”, Bolnisi

„We employed 8 internally displaced women, taught making vitreous enamel to 44 women, created 4 new enterprises, more than 114 people participated in the training for the development of transversal skills, about 15 people went through internship “. „Ikorta“, Gori

„We facilitate the socialization of deaf people through the popularization of gesture language. We created a board game through which players are aware of gesture language. During a year we organized more than 20 events and 500 board games. More than 1000 young people learned a gesture language.“ „Chu“, Tbilisi

„During one month we implemented more than 10 events, training, seminars, where local youth and elderly people participate free of charge. Last year, we were the organizers of 154 events. 2642 people received the service and used the space of “Knowledge Cafe” (library, reading hall, cafe, informal education area) in 2019. We organized decoupage workshops for elderly people, where they were making congratulation cards and bookmarks. We funded more than 70 events for youth during a year. “ „Knowledge Cafe“, Sighnaghi

„Our main outcome is the change of society's opinion on the issues related to people with disabilities and environment protection. We arranged a comfortable forest territory of 1000 sq/m adapted for wheelchairs and people with disabilities. We provided informal education for youth through movies and discussions in the camp arranged in the territory of the reserve. Attendance is increasing, the requirement from schools is also grown. They choose the topics themselves – inclusion, gender, environment protection.“ „Ochokempi”, Lagodekhi

10.4. Income Sources in 2019

As the survey shows, the interviewed social enterprises were receiving the income mainly from two or three sources during 2019. Only some organizations (6 organizations) name more than three income sources. In 2019 most of the enterprises got income from commercial activities (43 organizations) and grants (33 organizations). Donations (9 organizations) and public sector (7) are also named within the incomes of the organizations. Only 2 organizations had incomes through credits, which made up to 50% of the total budget. It is noteworthy that these latter organizations (LTDs) are distinguished with highest business performance compared to others. (Table 2).

Table 2 – Income source of social enterprises in 2019 (share from 100%)

	N	Minimum share from 100%	Maximum share from 100%	Average rate %
Commercial activities (production, sales, service)	43	1%	100%	66%
Grant	33	1%	100%	50%
Membership fee	3	10%	100%	50%
Different donations	9	5%	50%	18%
Credit	2	30%	50%	40%
Support of public sector	7	10%	60%	38%

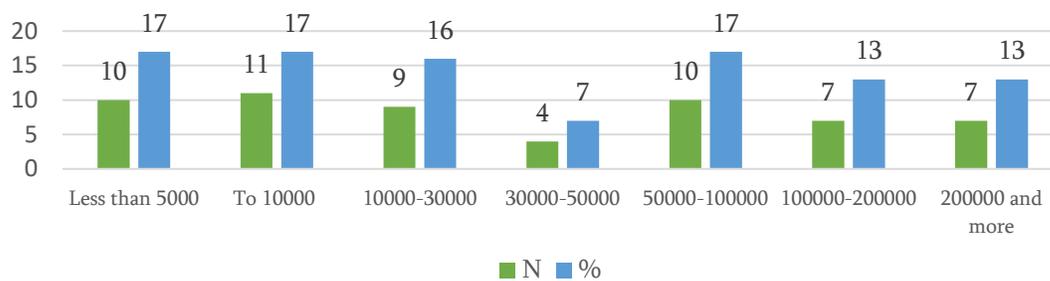
In 2019 the income received from the commerce showed an increasing tendency comparing with 2018 and was grown averagely by 20% (42 social enterprises). The income of 7 social enterprises was significantly reduced (averagely by 63%). During a year, the income remained the same for 5 organizations.

Table 3 –annual income received from entrepreneurship last (2019) year compared to 2018

	N	Minimum (%)	Maximum (%)	Average (%)
Increased	46	3	100	20
Decreased	7	30	100	63
Remained the same	5			

According to financial data of 2019, about one-fifth of enterprises mentioned that their annual financial turnover was less than 5000 GEL. 21 enterprises received income from 10000 to 50000 GEL. Annual turnover of one-fifth of the interviewed enterprises made up from 50000 to 100000 GEL. The representatives of the 14 enterprises indicated that in 2019, their annual turnover was more than 100000 GEL.

Diagram 8. Annual turnover of social enterprises in 2019 (GEL)



From 14 social enterprises, 9 are registered in the capital city with more than 100000 GEL annual financial turnover in 2019. It is noteworthy that the majority of the mentioned enterprises (11 social enterprises) operate as Ltd.

Table 4 – Annual turnover of more than 100000 GEL in 2019

Region	Number of enterprises	Turnover in 2019
Tbilisi	5	More than 200 000
Rustavi	1	More than 200 000
Akhaltzikhe	1	More than 200 000
Tetritskaro	1	More than 200 000
Tbilisi	5	From 100 000 to 200 000 GEL
Telavi	1	From 100 000 to 200 000 GEL
Kvareli	1	From 100 000 to 200 000 GEL

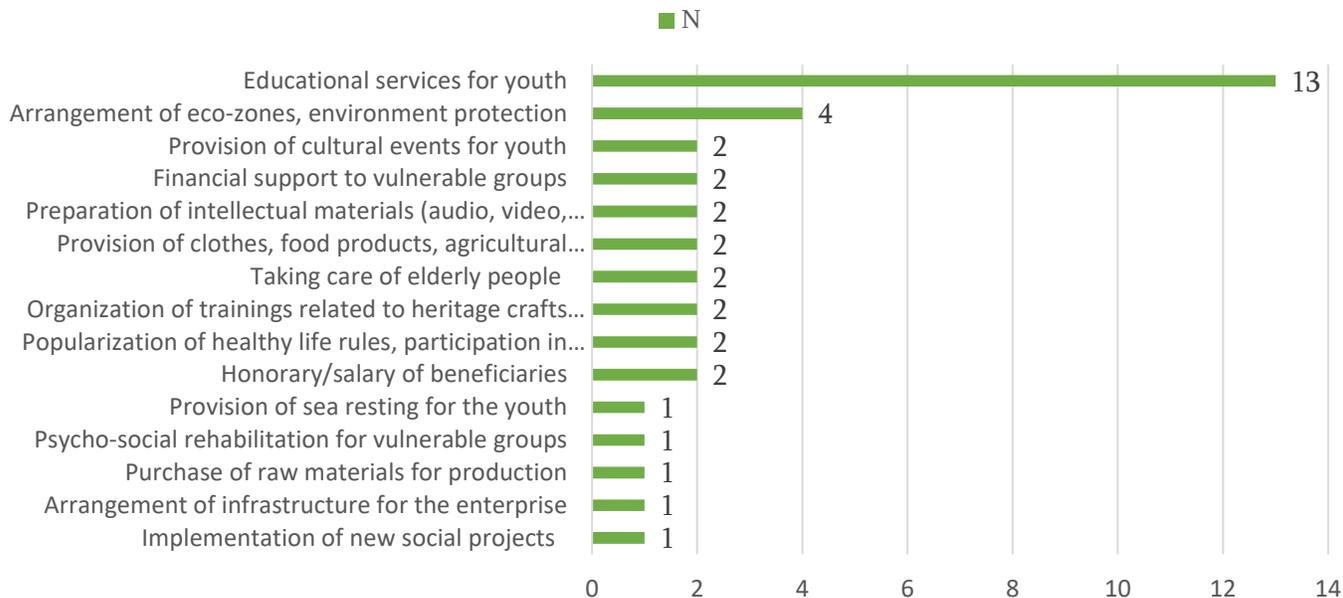
According to the survey results, profit redistribution in 2019 mainly was addressed to the development of entrepreneurship. Aimed at increasing entrepreneurship the minimum share of reinvestment implemented by 29 enterprises makes up 10%, and maximum share – 100%. From 24 enterprises 12 organizations together with redistribution on social activities, implemented reinvestment, and 3 of them funded a new project. Profit redistribution on founders/partners conducted only 5 enterprises.

Table 5 – Profit distribution in 2019

	N	Minimum share from 100%	Maximum share from 100%	Average
Redistributed on founders/partners	5	10%	50%	35%
Reinvestment for increasing the production	29	10%	100%	68%
New project was funded	8	10%	50%	28%
Redistributed on social activities	24	1%	100%	36%
Redistributed on operational expenses	33	4%	100%	51%

Profit redistribution in 2019 was implemented on different social activities (noted by 24 social enterprises). It is of note that among the interviewed organizations target segment of social activities is often the youth together with different vulnerable groups (people with disabilities, victims of violence, internally displaced people, ethnic minorities, former convicts, etc.,). The intensity of educational services (33%) among social activities is the result of focus made on youth. Within the research, environment protection measures are limited to the arrangement of eco-zones and waste recycling.

Diagram 9. Social activities on which social enterprises redistributed financial resources (24 social enterprises).



Due to the pandemic, the leadership of the enterprise cannot assess different probabilities and thus predict the results. Only goals are known and the process of decision-making is based on intuition. Consequently, though the social enterprises anticipated the growth by 15-20% during the current year, due to the unforeseen conditions, only 14 enterprises suppose the profit growth by 24% on average. The representatives of 10 enterprises suppose that the profit will be reduced averagely by

42%. The financial condition of 7 enterprises will remain the same. The remaining 28 enterprises cannot predict financial development tendency within the current year.

Table 6 – Business profit change within the current (2020) year

	N	Minimum	Maximum	Average
Increased	14	3%	50%	24%
Decreased	10	7%	80%	42%
Remained the same	7			
Do not know	28			

10.5. Funding sources

As the survey shows, the scarcity of funding sources is considered as one of the significant difficulties faced by enterprises. It is of note that at the startup phase, majority of the interviewed social enterprises had an optimistic view towards the financial support from donors, non-governmental organizations and public sector. Due to the fact that most social enterprises come from the civil sector and also, the introduction of social entrepreneurship is the result of the donor support since 2009 in Georgia as well as the expectation of financial support (mainly grant) aimed at developing the sector is high, it is clear that the organizations are still considering donor community as the main funding source in future.

Among the interviewed enterprises, only 3 organizations (LTDs) started activities with their own funds, moreover, these enterprises were not oriented on the grant type financial support. It should be mentioned that all three enterprises show the “business vision” and stable growth tendency.

In some cases, social enterprises take the initiatives to establish relations with the state agencies. However, lack of attention from the state, no supportive mechanism and no state funding programs underlies the deficit of state- social enterprise cooperation that the respondents experience.

34 out of the 58 interviewed enterprises received financial support from only one financial source. 10 organizations had two and 13 enterprises had three financial supporters.

Table 7 – The number of funding sources at the creation of social enterprise

Number of funding sources	Number of social enterprises
One funding source	34
Two funding sources	11
Three funding sources	13

Most of the enterprises (20 enterprises) named *CSR DG* as its funding organization. Also, there are other financial supporters as follows: *ASB Georgia, Europe Foundation, Tree of Life*, etc. Initially, 6 enterprises got funding from *the Children and Youth Development Foundation*. Financial supporters of other interviewed enterprises are embassies, non-governmental sector, ministries (5 organizations), city hall (3 organizations) and the representatives of local municipality (2 organizations). In addition, 3 enterprises received a long-term, low interest (2-5%) or interest-free credit (Bank of Georgia and TBC Bank), which are periodically offered by banks in the frames of social enterprises' development program. As an exceptional case in our survey, 2 social enterprises (Ltd.) received a business credit service from a financial institute. 3 of the 58 interviewed enterprises announced that they used only their own resources for the enterprise without seeking and receiving additional financial support.

During the survey we asked, how much financial support such as grant, credit or any type of donation did they receive at the start-up stage. As the data shows, a minimum amount of funding makes up 2000 GEL and maximum – 489000 GEL among the interviewed enterprises.

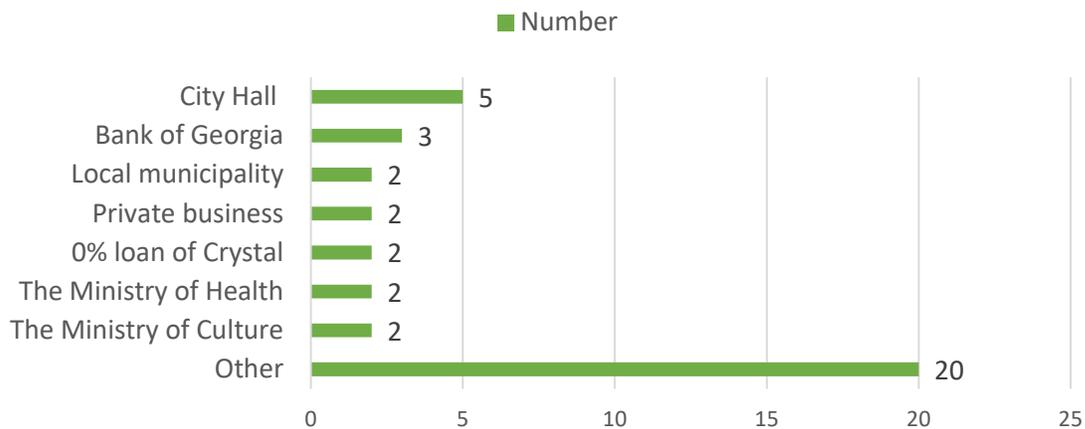
During the last two years (2019-2020) 19 organizations got funding. Among them 7 organizations used only one funding source, 6 enterprises received support from two sources, 6 organizations got support from three financing sources. A minimum amount of funding was 1000 GEL, and maximum – 300000.

Table 8 – Additional funding source (grant, credit, donation, etc) used during the last two years.

	N	Minimum	Maximum	Average
One funding source	7	1000	300000	40000
Two funding sources	6	1500	35000	16750
Three funding sources	6	1000	12000	3866

Though not consistent and systematic, its noteworthy that among the financial supporters of the organizations, the participation of state institutes is also noticeable. Social enterprises name local City Hall and Municipality (9 enterprises), the Ministries of Health and Culture (4 enterprises) and the Ministry of Education and Science as their financial supporters (2 enterprises).

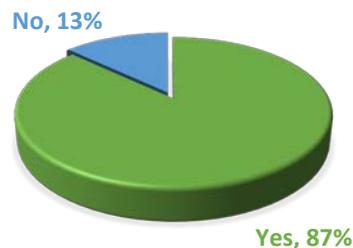
Diagram 10. Organization/financial institutes having issued funds for social enterprises in 2019-2020 (responses of 19 social enterprises)



Comment: "other" combine less than 2 answers

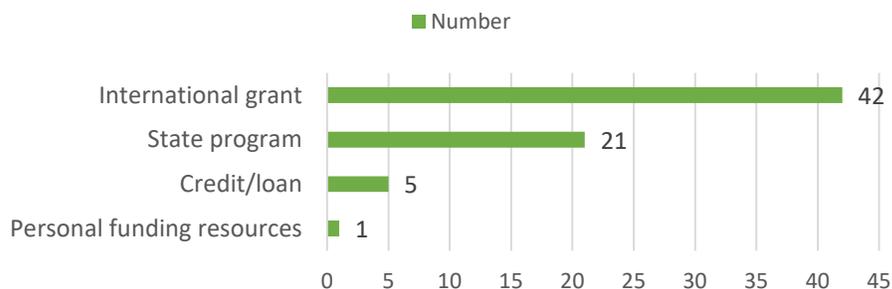
The study showed that despite the force majeure situation based on pandemic within the current period (2020), it is difficult to predict the incomes and in general, development of enterprises during the next one year, however, most of the organizations are plan to expand the business in 2020-2021.

Diagram 11. Extension plans of the enterprise in 2019-2020



Aimed at extending the activities, the majority of enterprises (60%) plans to mobilize additional funds in 2020-2021 through an international grant, 30% of organizations consider state programs as financing sources. Only 7% think to take credit/loan.

Diagram 12. Main types of funding source considered by the organizations for mobilizing additional finances (several responses were possible)



Most of the interviewed social enterprises (34 organizations) needs additional funds to achieve the business goals. Among them, 21 organizations state that the additional fund will also be allocated for fulfilling the social activities. 18 organizations are in need of rehabilitations/ infrastructure arrangements.

Table 9 - Needs for which social enterprises should obtain additional funds

	N	%
Business goals	34	60
Social goals	21	37
infrastructure	19	32

Some of the needs related to business, social goals and infrastructure arrangement are listed below:

- Getting knowledge of modern technologies
- Re-equipment of enterprises with modern technological tools
- Growth of qualified human resources
- Provision of enterprises with transport
- Product exporting
- Compliance of infrastructure with modern standards
- Elaboration/implementation of modern training modules for social groups

10.6. Human Resources

Founders

The founder of most of the social enterprises (18 social enterprises) interviewed is NNLE and it presents the new organization created with the purpose of social entrepreneurship. Among them, only 3 enterprises are presented with legal status of Ltd. Among founders, there is also civil sector. The founders of the enterprises are mostly women (56.9%) and men make up 36.1%. The age of about a quarter of the founders is up to 30 and 75% is more than 30 years old. It is noteworthy that 51 among the founders have social status. The majority of them are internally displaced people (22%) and people with disabilities make up 20%.

Table 10 – Founders of the enterprises

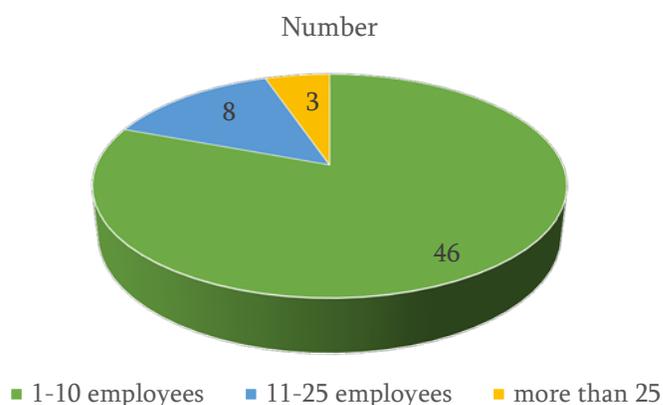
Age	N	%
Woman	82	56.9%
Man	52	36.1%
Age	N	%

Up to 30	35	25%
Older than 30	99	75%
Status	N	%
People with disabilities	10	19.6%
Representative of ethnic minorities	3	5.9%
Internally displaced people	11	21.6%
Eco-migrants	3	5.9%
Victims of violence	4	7.8%
Single mothers	3	5.9%
People in conflict with law	4	7.9%
Other	13	25.5%

Employees

By the number of employees, the main part of social enterprises is presented as small organizations. In most enterprises, the number of employees does not exceed 10 (39 social enterprises). A minimum rate of employment is 2 and maximum– 47 employees. The activities of only 7 enterprises are managed by the founders without any hired employees.

Diagram 13. The number of employees in social enterprises



The tables below show the social enterprises with 8 or more employees.

Table 11. Social enterprises with 8 or more employees

City	Name of social enterprise	Number of employees
Akhaltsikhe	Atelier „Lady X“	8
Gori	House Without Borders	8
Tbilisi	Ethno-design	8

City	Name of social enterprise	Number of employees
Gori	First Social Enterprise	8
Gori	Ikorta	8
Tbilisi	Audio Multi-Studio "Hera"	8
Tbilisi	Auto-life	9
Tbilisi	Green Present	10
Rustavi	Kafune	11
Gori	Gordesign	12
Telavi	Napareuli Workshops	12
Ozurgeti	Center for elderly people	12
Tbilisi	Babale	14
Tbilisi	Dadari	14
Dusheti	Art-House	14
Dusheti	Chirdili	14
Tbilisi	Istoriali	28
Tbilisi	Geoflowers	45
Telavi	Rainbow	47

Employees of the interviewed social enterprises make up 420, among them, 240 are women (57%) and 180 men (43%). 42% of employees are under the age 30 . Among the employees, 99 have social status. The majority of them are people with disabilities (43 employees), 20 – internally displaced people, also there are victims of violence among them (17 women), eco-migrants (7), and people conflicting with law (13).

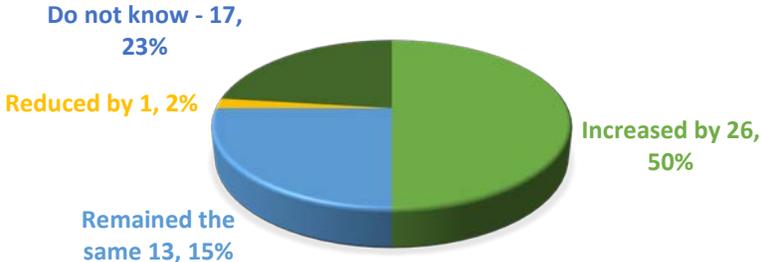
Table 13 – Total number of employees

Gender	N
Women	240
Men	180
Age	N
18-30 age group	176
Older than 30	244
Social status	N
People with disabilities	43
Internally displaced people	20
Victims of violence (women)	17
People in conflict with law	13
Eco-migrants	7
Representatives of ethnic minorities	6

A certain number of respondents (11 enterprises) mentioned that they have the experience to hold competitions according to criteria elaborated for publishing vacancy announcements and selection of employees. The interviewed organizations, together with paid human resources take care of developing volunteer resources and enhancing their qualification, which is significantly actual for social enterprises.

Mostly half of the interviewed enterprises consider, that the increase of employees is inevitable in the current year. A quarter of them does not plan to hire employees. Only one enterprise supposes to reduce employees, and a certain part of the enterprises cannot predict at this stage.

Diagram 13. Change in the number of employees within the current year?



10.7. Training/Education/Consultation

As the research shows, the majority of the respondents associate the challenges facing enterprises mostly to the lack of qualification and professionalism. They state the long-term development of enterprises’ competitiveness on the market to be a challenge. Relevantly, it is important to carry out measures to promote the production. To get the qualified consultation or the knowledge in the preferred field or have access to professional human resources is one of the important needs for the enterprise.

Some of the interviewed social enterprises consider that their companies develop strategies on the specific geographical region or group of consumers. Though, it is important to cover broader group of consumers to receive the feedback and adapt to their requirements as much as possible. Respectively, most of the interviewed enterprises want to get knowledge on marketing (54%) and business/enterprise management (47%). Aimed at become knowledgeable on the tax payment system and conducting accounting on a high level, 37% of enterprises needs to be qualified in this regard. 18% indicates the lack of knowledge on innovative technologies and digital services and is interested to receive the trainings on these topics.

Diagram 14. Fields of interest to get the knowledge



In addition, the following topics were listed in which the respondents are interested to receive the trainings/consultation:

- Coaching
- Culinary
- Early childhood integration issues recommended by the Ministry of Health
- Working principles of social enterprise (experience of foreign countries)
- Labour safety issues
- Provision of modern standards of sanitary regulations
- Management of post-crisis situation in business structures
- Environment protection issues
- Social media management.

10.8. Product diversification/new product

Interviewed social enterprises show the tendency of development during the last two years. Approximately, a quarter of them is focused on the increase of consumers. According to 18% of respondents, enterprises have grown sales areas, about the same number of companies (17%) launched new products and diversified their activities. Enterprises' development and growth tendency are clearly shown in Tbilisi. However, the positive indicators of growth in the enterprises depends on their approaches to commerce and sustainability and not geographical area. Out of 18 Ltd. interviewed, 13 companies are at the stage of business development.

Diagram 15. Changes implemented in the social enterprise during the last two years

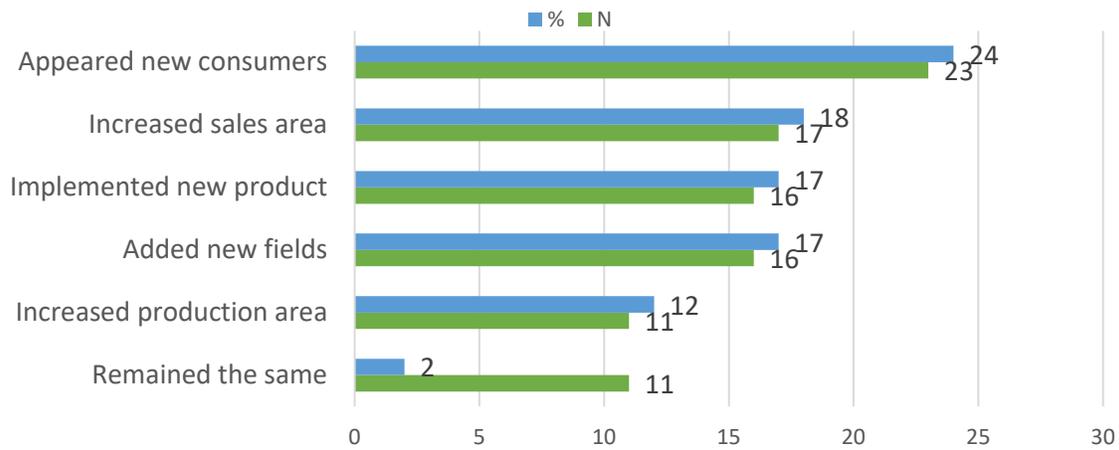
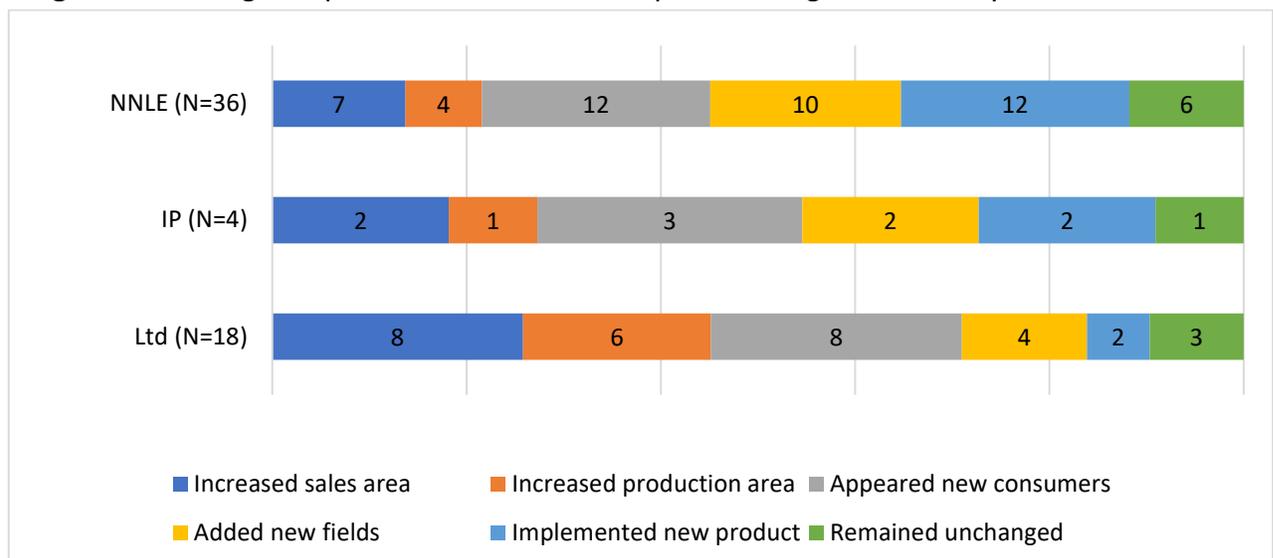


Table 14. Changes in the social enterprise implemented during the last two years according to geographical areas

	Increased sales area	Increased production area	Appeared new consumers	Added new fields	Diversified	Remained the same
Tbilisi (17 social enterprises)	7	4	9	5	5	1
Kvemo Kartli (14 social enterprises)	4	3	4	4		3
Samtkhe-Javakheti (4 social enterprises)		1			1	3
Kakheti (15 social enterprises)	3		4	3	4	5
Other (8 social enterprises)		1				6

Diagram 16. Changes implemented in social enterprises during the last two years



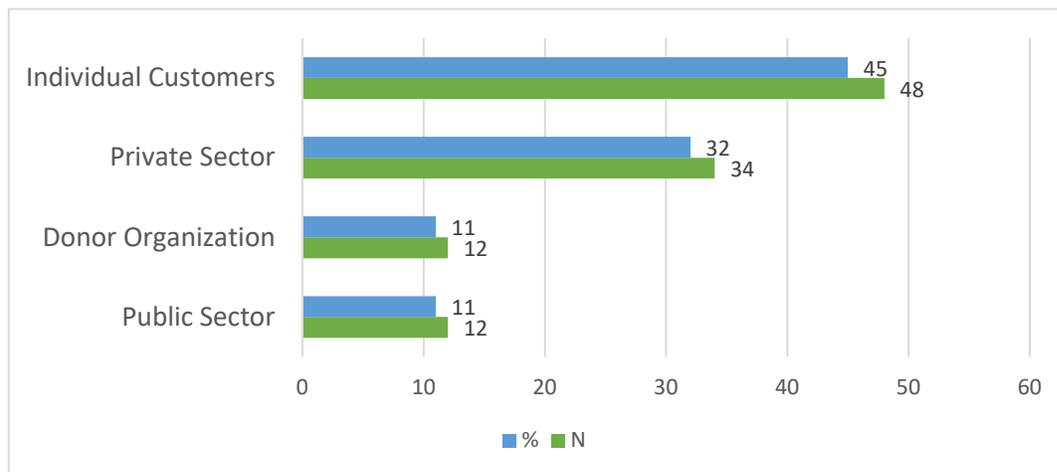
Product/service produced by the social enterprises is new for 5 companies, though, the product itself does not present innovation. Similarly, 5 social enterprises announced that the product created by them is innovation for the municipality or throughout the region, and 7 enterprises mentioned product having no precedent in Georgia.

Innovative products as follows:

- Multifunctional educational area – combines a cafe, book shop, bilingual library, educational area; equipped with internet and computers; free of charge for local youth and elderly people
- Project serving enhancement of bee role in the agrarian sector aimed at increasing the yield
- Boardgame through which players learn gesture language
- Audio and multi-comix books
- Zero-waste products’ shop in Georgia
- „Babale’s Sock “designed by pictures of national heritage
- Clay classes covering basics of working with clay, history and the modern tendencies of the world ceramic, production of utile (primary burning clay products).

individual consumers make up 45%, besides, private business (32%) are also named as their active consumers. According to the interviewed respondents together with the institutional development in recent years, the public sector increasingly shows interest towards entrepreneurs’ production and service.

Diagram 17. Consumers of social enterprises



10.9. Constraints for the development of social entrepreneurship

The study clearly shows that as the trends in the development of social enterprises increase, the importance of developing and applying different models, systems, and principles for them becomes more apparent. The interviewed organizations see the need to analyze the necessities and capabilities of the enterprise and adapt them to the current situation. In their responses on the

constrains, the entrepreneurs indicate the lack of sustainable development and the use of different approaches in management and business development. Specifically, the respondents named barriers to their activities by its importance. As expected, among the problems of the first and second importance is the lack of staff with proper experience, access to credits/finances. This is likely due to the close relation of enterprises with the civil sector and/or their origin from civil society organizations.

In the third place, the issue related to business sustainability (21%) plays the significant role, which in addition to the problem of business in general, often because of the influence of economic and political factors, is especially relevant for entrepreneurs in this period, due to the force majeure situation caused by the pandemic.

Table 14 – Factors affecting the activity of social enterprises

	First type problems		Second type problems		Third type problems	
Small sales	7	12.5%	5	11.4%	2	5.9%
High prices of production/service	3	5.4%	1	2.3%	2	5.9%
Small profit margin of production/service	1	1.8%	5	11.4%	3	8.8%
Access to credits/finances	7	12.5%	2	4.5%	5	14.7%
Access to capital (land, installations, others)	4	7.1%	4	9.1%	4	11.8%
Access to production tools	2	3.6%	2	4.5%	2	5.9%
Access to information	2	3.6%	1	2.3%		
Lack of the staff having relevant experience	7	12.5%	6	13.6%	3	8.8%
Relations to the clients, suppliers	2	3.6%				
Governmental regulations (taxes, business regulations, food safety)	2	3.6%	6	13.6%	2	5.9%
Non-existence of specific legislation	4	7.1%	3	6.8%	1	2.9%
Market availability	2	3.6%	1	2.3%	1	2.9%
Infrastructure – roads, electricity, water supply	3	5.4%	4	9.1%	1	2.9%
Natural catastrophes (hail, freeze, flood, etc.)	1	1.8%				
Sustainability problems	6	10.7%	3	6.8%	7	20.6%
Patenting problems aimed at avoiding plagiarism	1	1.8%				
Exporting, expensive online platforms	1	1.8%				
Close location to occupation line	1	1.8%				

The respondents additionally added certain constraints as negatively affecting to the performance of their activities: The focused on the following obstacles:

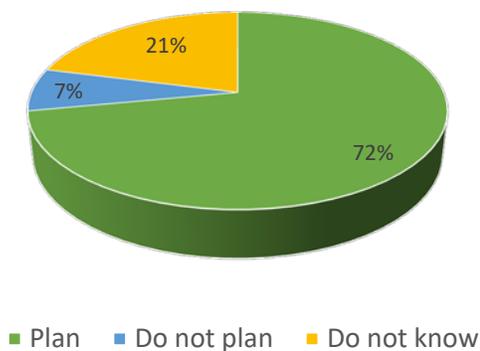
- Lack of credit availability for social enterprises as they mostly represent the civil sector;
- The non-existence of tax payment regulations relevant to social enterprises;

- Lack of qualified labor force;
- Low-income population negatively affecting sales stability;
- Improper infrastructure –office facilities, utilities, local conditions, transport;
- Lack of awareness on social enterprises; Lack of promotion from the side of business and governmental bodies;
- Lack of support for the development of the social enterprise including the unfavorable tax system

72% of interviewed social enterprises plan to continue entrepreneurship in the future, 7% decided to terminate social entrepreneurship, 21% did not have a vision about continuing activities due to problems named above; among them the results of enterprises’ activity in 2020 are significant.

It is of noteworthy some of the the respondents did not consider their own business as a social enterprise. However, they implement entrepreneurship through production or service delivery, they are thought of as successful companies and have clearly defined social goals (waste management, taking care of eco-system, service delivery for elderly people), they do not know the criteria determining their social entrepreneurship. Recognized by other institutions or due to the advice of donor organizations, they are informed that they are a social enterprise and have no other ambitions in this regard. Although this type of statement is limited to few individual cases, it describes well the gap of knowledge of the organization's founders/heads and the informational needs in this regard.

Diagram 19 – Continue activities in social entrepreneurship in the future

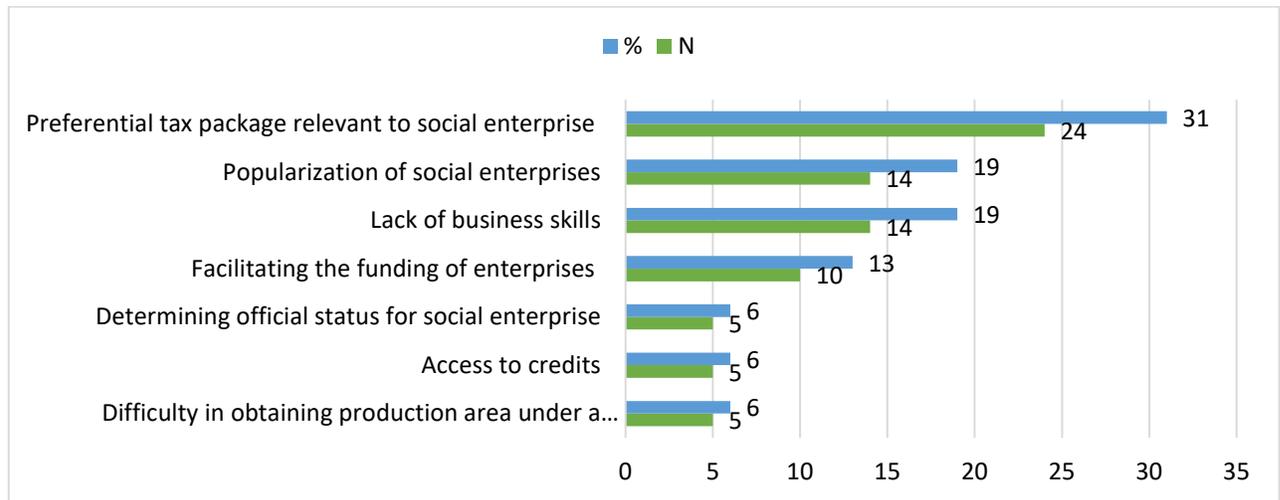


Respondents suggested the significant insights and recommendations for the development of social enterprises. According to them, it is of great importance to include tax payment regulations relevant of social entrepreneurship in the legislation (26%). One of the components of facilitating social enterprises’ popularization is considered to be the involvement of public and large business entities in the mentioned process. As 18% of the respondents say, participation in the exhibition-sale,

involvement in the various events, taking initiative to cooperate with social enterprises from the side of state or larger business sector will contribute to the sector's popularization.

Together with the increase of funding possibilities, developing business skills and providing qualification to the staff, respondents mentioned that it is significant to determine officially the status of *social enterprise* and *entrepreneur*.

Diagram 20. Approaches for the development of social enterprises



Quotes below present the explanations of the representatives of social enterprises about the affecting and further development factors.

Existence of regulative legislation, special legal form and status:

“It is important to recognize the phenomena of social entrepreneurship by the legislation of Georgia, make subordination of social enterprises to specific regulation and explain the following terms in legislation "social enterprise" and "social entrepreneurship". This can be implemented in different ways. For example, the mentioned terms can be explained in the civil and tax codes or separate law can be created which will make complete order in the field of social entrepreneurship. The problem regarding the recognition of enterprises' legal status can be prevented through simultaneous modification of the Law of Georgia on Entrepreneurs and the Civil Code of Georgia. Alternatives depend on the model selected by the legislator and better fitted to the Georgian legislation system”.

In turn, the status of the social enterprise should determine preferential package relevant to social enterprises:

„The non-existence of law creates a barrier for the social enterprise regarding tax payment too. Besides, an enterprise is considered to be a social enterprise, which will employ 1 or 2 people having social status, though, it is not occupied with social activities. It is significant to conduct a certain filtration which is provided by granting official status.“

"An enterprise employing vulnerable groups as the blind people and creating an intellectual project for them should benefit from subsidies in utility bills and other similar types of support. Since the mentioned enterprise differs from business giant companies (for example, Coca-Cola enterprise), relevantly, they should have different preferential packages.

"Government implements services, which should be conducted by civil sector. For example, rehabilitation of probationers costs expensive for the government, it copes with this less effective than it would be done by social enterprise. Thus, the government should provide not only the feedback but also offer encouragement through the determination of social enterprise status or certain preferential terms."

Improving business visions and capabilities:

"Often the idea of achieving the social outcome is quite clear, but the capability or ability to manage an enterprise is quite small, making it impossible for the enterprise to achieve economic results and thus, the viability of the enterprise is short."

"Enterprises, which have defined employment as their main social goal, frequently, had to provide production/services through low-competitive staff which in turn, can influence the activities of the enterprise."

"We should have successful business models of social enterprises and not civil organization type social enterprises."

"Organizations are said to be social enterprises where the non-competitive labour force is employed, it is weak organization and needs permanent financial support. The social enterprise should be prestigious and economically stable."

"Raising awareness about the social entrepreneurship will enable businesses to associate social goals with their activities."

Requirements towards state institutes are clear:

- to regulate legislation base
- to create a more flexible tax payment system
- to make popularization of social enterprises for the society from the part of the government to be aware of the significance of such type of enterprises
- to balance non-competitive conditions comparing to business
- to address state grants to social enterprises
- to recognize the sector as a priority area.

Annex 1

List of interviewed experts

Youth Agency- Ramaz Charkviani (Head of agency) and Kristina Kapanadze (Deputy);

Eka Datuashvili- Social Entrepreneurship Development Program;

Giorgi Arsenidze – Member of chair of Social Enterprise Alliance;

Zviad Modebadze- Program Manager- ASB Georgia;

Nana Chkareuli – Chairman of Social Enterprise Alliance;

Giga Chitishvili – Youth Social Entrepreneurship Program Manager;

Tako Baramidze- Young start up in social enterprise

Koka Zghenti- Trainer/ Consultant

Annex 2

List of Interviewed Social Enterprises

No	Municipality	Title of SE	Legal Status
Kvemo Kartli			
1	Dmanisi	First European	NNLE
2	Tsalka	Gumbati	NNLE
3	Rustavi	Groups for Social Changes	NNLE
4	Rustavi	Tili	NNLE
12	Rustavi	Caffe "Kafune"	NNLE
6	Rustavi	Rustavi international Scout Center	NNLE
7	Tetritskaro	Megatour	LTD
8	Tetritskaro	Art Coda and Universal Master	LTD
9	Tetritskaro	Crab Farm 1	LTD
11	Tetritskaro	Caucasian Adventures	IE
10	Bolnisi	Education Child Day Center	NNLE
5	Bolnisi	Decent old age	NNLE
13	Marneuli	Kharatula	NNLE
14	Marneuli	Hobby House	IE
Kakheti			
15	Lagodekhi	Lely	LTD
16	Lagodekhi	Ocho Kempa	NNLE
17	Lagodekhi	Tela	LTD
18	Signagi	Kedeli	NNLE
19	Telavi	Napareuli Sakhelosno	NNLE
20	Telavi	Tsisartkela	NNLE
21	Telavi	Dema	IE
22	Telavi	Lampari	NNLE
23	Telavi	Social Umbrella	IE
24	Telavi	Village women for human rights	NNLE
25	Telavi	Geo flowers	LTD
26	Signagi	Nukriani Sakhelosno	NNLE
27	Signagi	Codnis Kafe	NNLE
28	Kvareli	Temi	NNLE
29	Gurjaani	Purta Puri	LTD
Samtskhe – Javakheti			
30	Akhaltzikhe	Lady X	LTD
31	Akhaltzikhe	Agriculture Consultation Centre	NNLE
32	Akhaltzikhe	Akhaltzikhe adult education Centre	NNLE
33	Akhaltzikhe	Akhaltzikhe Youth Centre	NNLE
Tbilisi			
34		Green Gift	NNLE
35		Zero effect	LTD
36		Zeskho	LTD
37		Istorial	LTD
38		Poteria	NNLE

39		Kharatula	NNLE
40		Dadari	LTD
41		Hera	NNLE
42		Auto life	NNLE
43		Chu	NNLE
44		Kodala	LTD
45		Ethno Design	NNLE
46		Autolife	LTD
47		Bio Velly	LTD
48		Amphorea	NNLE
49		Zero effect	LTD
50		Babale	LTD
Other regions			
51	Ozurgeti	Caffe 8+	NNLE
52	Ozurgeti	Centre of elderly	NNLE
53	Gori	First social enterprise	NNLE
54	Gori	Gordizain	NNLE
55	Gori	Ikorta	LTD
56	Gori	House beyond borders	NNLE
57	Dusheti	Art House	NNLE
58	Zugdidi	Megobar	NNLE