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**SOCIAL ENTERPRISES:  
AN EASTERN EUROPEAN EXPERIENCE**

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This paper examines some of the lessons learned in Albania, Armenia and Ukraine during the process of creating new employment structures and opportunities for people with disabilities over the last five years. Local non-governmental organizations (NGOs), which operate a range of community-based services with the support of the international-donor community, sought to diversify their income bases. They found that creating social enterprises was an innovative, commercially sustainable approach to diversification and appeared to be one of the best solutions to the problem.

### **Changing environment**

The collapse of the former Communist Block resulted in a rise in unemployment and a drastic reduction in the value of state benefits. At the same time, the social-benefit system, which supported individuals who were unable to work, began to crumble, in part because there was no longer any funding and social welfare ceased to be considered an obligation of the state. As a result, disabled people who want and need to work have become critically disadvantaged. To date:

- Fewer jobs are available, and unemployment in all sectors of the economy is increasing.
- Benefits that people still receive are now worth less than previously, due to the massive inflation experienced in each country.
- Institutions that provide accommodations and cover basic living needs now face increased budget cuts and, therefore, offer fewer benefits.

Noticeable changes have occurred in the social and economic context in which NGOs now operate. In the wake of major upheavals in the early 1990s, followed by hyperinflation and instability, the economies of Albania, Armenia and Ukraine have improved dramatically. Economic conditions have stabilized to some degree, and these countries are now seeing the development of a middle class and entrepreneurial attitudes. Gone for good is the centralized-market system of the Soviet state, which stifled entrepreneurialism and innovation. Likewise, the public's dependency on the state is slowly withering away. In these three countries, the extended family is still strong, and the household income is usually generated by the people in it. Observations over the last 12 years seem to indicate that women are responding more creatively to these changes than men.

The economies of Albania, Armenia and Ukraine still are based essentially on cash and, to a decreasing extent, barter and exchange. There is still a lack of credit and loans and no expectation of financial grants from local authorities. Among local NGOs, there is growing dissatisfaction with financial dependency on international donors and the donors' changing demands and expectations.

Over the last decade, the international-donor community gave an enormous amount of money to support the emerging NGO sector in these countries. Meanwhile,

frustration mounted within the NGOs over the prospect that the entire sector might collapse when these donors withdrew support. Attempts to enlist governmental support, which proved somewhat successful in Central and Eastern Europe, failed in the Balkans and the former Soviet Republics because authorities had no previous experience with contracting out services to the third sector and a very limited notion of providing grants for services. While some local Ukrainian authorities appear to have realized value of contracting with NGOs to run specific services, this approach is still very unusual, and government officials remain largely unresponsive to NGO attempts to collaborate. Corruption has posed another serious obstacle to collaboration. In past instances, whenever an opportunity for a state/local budget contract arose, local government officials created government-operated NGOs (GONGOs)<sup>1</sup> in order to control the money flow. In addition, many fund-raising techniques used successfully in Western countries have proven to be ineffectual in Albania, Armenia and Ukraine, due to the lack of a tradition of charitable giving.

Thus, entrepreneurial activities have become one of the most attractive alternatives for community-based NGOs seeking to secure diversified, sustainable income sources, and an increasing number of NGOs are starting to establish social enterprises.

The United Kingdom (UK) Department of Trade & Industry defines a social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.” Social enterprises are diverse. They span the full range of legal structures, including companies limited by guarantee, industrial and provident societies, companies limited by shares, and unincorporated and registered charities.

Social enterprises are sometimes founded by existing NGOs or owned by the community. Selling products or services is a strategy used by many NGOs to expand their organizational capacity and to ensure their financial sustainability. Social enterprises can be established independently, but even in such cases, they are designed to respond to a social need or to create positive social change. Their focus is not on generating private profits but on promoting social good, such as creating jobs for less employable people. Social enterprises also may have other goals, such as challenging social stigma. Overall, a social enterprise is a business with a double-bottom line — it is assessed both on its capacity to create profit and to drive social change.

### **Social enterprises as a response to poverty**

Poverty has appeared recently as a problem in post-communist societies, and it largely affects disadvantaged groups of the population. The economic infrastructure of these societies remains weak and despite government reports of double-digit

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<sup>1</sup> GONGO - Governmental NGO, NGO established by governmental apparatchiks

economic growth, the vast majority of people fail to feel any positive effects in their daily lives. Many are living in abject poverty while a small number are phenomenally rich. Financial institutions are not well-developed. Although some international companies are introducing the idea of corporate social responsibility to their national subsidiaries and partners, this phenomenon is developing slowly. Community NGOs still seem to be the only entities offering support structures for large groups of the population. In this respect, social enterprises can become a locomotive for social change and provide a stable, diversified, sustainable financial base for community NGOs, helping to make them more independent. Furthermore, the development of social enterprises can be used as an “exit strategy” for the international-donor community in post-Soviet countries. Finally, social enterprises can fill another niche by supporting the development of the small and medium-size enterprise sector, which has languished over the last few years despite the efforts of the donor community.

### **Facing the market<sup>2</sup>**

Many non-governmental organizations in Albania, Armenia and Ukraine live in a world of short-term project funding, where they attempt to develop programs that are creative, worthwhile and fundable. Developing a business plan or entrepreneurial idea is an unfamiliar process for NGOs. One of the biggest hurdles they face is making the transition from running a social service to operating a business enterprise where attention must be focused on markets and customers rather than rehabilitation and therapy. Many third-sector leaders have spent considerable time and effort developing the skills necessary to run their NGOs effectively, and they are reluctant to learn and adopt the additional set of new skills required to develop and grow businesses. Further, many are simply opposed to adopting the mindset and some of the values necessary to be successful business leaders. Given the mildly anti-business culture, this is not surprising.

Many jokes that are currently fashionable in these countries come at the expense of new businessmen, and the punch lines are always about astonishing extravagance. There is real reluctance to join business groups or even involve them in the development of ideas. The concept that individuals from the private sector might be interested in serving on a board and contributing to an NGO is still novel. Unlike in Western countries, there is no history of business leaders wanting to give back to their community. The common expectation, often born out in reality, is that business people are interested only in the bottom line, and that their concerns for their extended families do not apply to the community. There are exceptions to this rule, however. For example, some colleagues in Albania have developed a useful relationship with a local company and are jointly developing ideas for producing and bottling soap. This success might be explained, in part, by the fact that the businessman involved has a physical disability himself.

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<sup>2</sup> Geof Cox, Economic Partnerships

## **Stigma as a basis for social exclusion**

The successful, sustainable social enterprise challenges social exclusions and stereotypes. Although stigma is still alive and well in the West despite antidiscrimination legislation, there is a basic understanding that people should not be excluded because of a label. In post-socialist countries, stigma also persists. In recent history, people with disabilities were typically placed in institutions, and the idea that the disabled can and should work is still received with scepticism. Under the Soviet welfare system, citizens were categorized into a number of groups, some of which were not allowed to work.

Even now, the social-benefit system provides a disincentive for many to work, despite the fact most of the benefits are set at levels below the poverty line. After 10 years of social and economic development, this system fails to provide a sufficient level of income to cover daily living requirements, often forcing people to make difficult choices among basics such as food, accommodation, utilities and medication.

Given the current high levels of unemployment (still a relatively new phenomenon since everybody had a job under the old Soviet system) and the fact that individuals who could not contribute to the workers state were “looked after” in a closed institution, even suggesting that employment be provided for disabled citizens seems almost heretical to some. Employers struggling to sustain viable businesses under a system of punitive and ever-changing taxation, mafia control of many market sectors and insidious corruption, simply do not feel they have the capacity to make their workplaces accessible to people with disabilities or to hire them.

## **Projects or enterprises**

For more than 10 years, the team at Alternativa<sup>3</sup>, a grassroots NGO in Albania, has been running several innovative projects. These have created an excellent environment where people with disabilities can get involved in activities, such as candle making, bike repair, bike sales and candle-holder fabrication, and also take computer and language classes and participate in social events. The work-oriented activities were designed to create meaningful skills and generate some income, but were never meant to become a sustainable business. After analyzing the situation, Alternativa decided to develop a completely new plan to create a sustainable social

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<sup>3</sup> Alternativa was founded in 1995 and since then it has operated the first community-based mental health day center. The center serves a wide range of people from all over Tirana and supports self-help and family groups as well as program activities. The center is aiding the development of several new enterprises as well as sustaining existing projects.

enterprise rather than to try to transform its existing programs into something more commercially viable. While the existing programs provide the benefits of income generation and therapeutic activity, these activities do not hold potential for creating a sustainable business plan.

The Friends Union, established in 1997 as the first-self help group in Kyiv, Ukraine, created the Social Development Support Agency (SDSA) to implement a wider sphere of activities and to generate financial support for the Union. The SDSA and Friends Union have established a number of early-stage programs and social enterprises in Kyiv. They have been operating a day center for disabled citizens for several years and recently have acquired and renovated their own facility. The team also supports the development of other self-help groups across Ukraine. Faced with a dilemma similar to that of Alternativa in Albania, some individuals have broken off from the larger group in order to experiment with developing their own small enterprises, such as creating and selling candles and dried flowers. While it is unlikely these business will develop into large enterprises, their owners are earning additional income for themselves and have broken the cycle of dependency on others.

A carpet workshop in Armenia was created as an opportunity for people from a psychiatric hospital to create beautiful Armenian rugs. The Mental Health Foundation of Armenia opened the carpet-making workshop in 1999, as one of several activities including a day center and job-creation program for social workers “in training.” Despite numerous obstacles including a lack of space (which was finally resolved when a factory owner donated space he no longer used), the project was launched with the help of a small grant. The project team realized fairly quickly that the enterprise would never become a sustainable business. However, the initiative did succeed in creating an atmosphere where disabled persons could obtain skills and realize their self-worth. The project leaders revised the business plan slightly to make it more economically feasible by asking people to do work at home. However, the participants did not want to cooperate because working at home eliminated many of the psychological and social benefits of the project. It became clear that money was not the primary motivator.

These examples illustrate two critical questions that must be resolved. First, what should be the primary function of the social enterprise, and second, what should be the relationship between the social enterprise and the parent NGO? Is the purpose of the social enterprise to create an income stream for the parent NGO or to create sustainable employment opportunities for people from the NGO-target group? Much of the international funding for social enterprises assumes that they function as a mechanism for creating a sustainable income stream for NGOs, which otherwise are completely dependent on international donors for grants.

### **The need for a champion**

At a recent social-enterprises workshop attended by people from eight Central and Eastern European countries, many participants agreed that a successful social firm needs a founder who is a charismatic individual and possesses the skills needed to start a new business and the tenacity to make the start-up work. Without an individual who is willing to take risks and to commit personal time and energy to an idea, no enterprise will ever get off the ground, regardless of whether it has a social aim. In cultures where people have little experience with creating new businesses and are exhausted from their efforts to redress social injustices, finding a champion is even more critical.

The ideal social entrepreneur is a practical visionary who is open to new opportunities yet seeks to empower others rather than to self-promote. Social entrepreneurs in any walk of life are the people who drive change. They know a good idea when they see one and can bring together the people and the resources needed to make it happen. They are able to balance social, technical, economic and political understanding and to maintain a strong-minded belief in the worth of social-enterprise activities. Social entrepreneurs serve as catalysts. They identify gaps in the social fabric and then use their creativity and enterprise talents to bridge those weak spots in sustainable ways. Social entrepreneurs strive to improve people's lives by making better use of under-utilized resources. They have the imagination to see how things could be changed for the better, and the persistence and courage to achieve that vision. The real difference between an entrepreneur and a social entrepreneur is in his or her motivation – the former works to earn profits while the latter works to promote change.

All of the NGOs mentioned above, and dozens more in other countries, were established by individuals with insight, vision and determination. However, these champions carried out their organizational development in the world of social welfare, which they understood. The business world is quite different, however, so there is a great need to familiarize NGO leaders with the advantages of creating social enterprises, which can serve as innovative, commercially sustainable solutions for making the NGO sector self-sufficient.

## **Conclusion**

Many leaders in the non-governmental sector are interested in creating real work opportunities. Others prefer to maintain their traditional models and continue to seek funding using conventional methods. The task at hand is to find innovative solutions and to support local community NGOs in their efforts to create social enterprises that can provide parent NGOs with sustainable, independent income bases. As this paper illustrates, a small number of groups already have established their own small enterprises and are becoming self-sufficient. This is a major advance in countries where people who depend on benefits for survival have had to choose between purchasing either food or medication. However, this process requires continued and increased international support.



## **ABOUT THE AUTHOR**

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