



International Comparative Social Enterprise Models

## Social Enterprise in Ukraine

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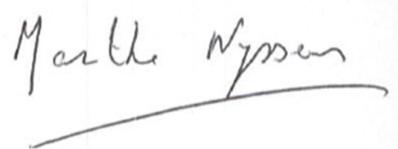
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## INTRODUCTION

Reorientation of the Ukrainian economy, coupled with the expansion of globalization and European integration processes, has caused gradual changes in the social and labor domains within the country for the last twenty years. Such transformation has often been accompanied by negative consequences, including an increase in unemployment rates and forced underemployment, a low level of labor remuneration, the rise of the load per worker, etc. Consequently, it hinders an effective development of the economy, leads to deterioration in quality of life and to social tensions, and requires the introduction of new efficient tools to overcome existing problems. One example of such tools that has proved its effectiveness in many developed countries is social entrepreneurship, which is an emerging field in Ukraine.

This paper consists of three parts. Part A is devoted to the antecedents of social entrepreneurship's development in Ukraine. The main described areas are historical traditions of citizens' coalitions, the organizational and normative base of social entrepreneurship, and its importance in modern Ukraine. Part B is the author's attempt to define existing models of social enterprises in Ukraine on the basis of the analysis of various scholars' approaches. The key characteristics of each model are also examined. The purpose of Part C is to describe in more details the institutional and legal background of each of the proposed models of social enterprise.

## PART A: UNDERSTANDING CONCEPTS AND CONTEXT

The concept of social enterprise is quite new and it remains insufficiently explored in Ukraine. However, traditions of civic grouping into different unions with a view to lobbying for certain interests and to solve definite problems have been relatively strong in the country for a long time.

### 1. Historical antecedents of the social enterprise concept's development in Ukraine before 1991

In Kievan Rus', the People's Veche—an association of clergy, local community and nobility members—discussed and made decisions on specific public problems. Later on, in the 16<sup>th</sup> century, the tradition of union organization was prolonged by the Ukrainian Cossacks, who organized the "Band Assembly" (Cossack Rada), which dealt *inter alia* with economic problems of the settlement. One should also mention another type of Ukrainian associations, named "brotherhoods" (for example, the Lviv Dormition Brotherhood or the Cyril and Methodius Brotherhood), which were significantly strong from the 15<sup>th</sup> to the 19<sup>th</sup> centuries. Those brotherhoods mainly aimed to support their poor and disabled members, ran hospitals' foundations, and provided interest-free loans for their members. The expansion of the brotherhoods led to the enactment of the main rules of the Orthodox brotherhoods foundation,<sup>1</sup> which proclaimed *inter alia* Christian philanthropy and promoted ecclesiastical enlightenment. By the end of 1916, there were 2,643 various associations in Ukraine, which played an important role in the socio-cultural life (Borzaga *et al.* 2008).

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<sup>1</sup> Most brotherhoods were supported by local churches and, consequently, took the name of Orthodox church brotherhoods.

Charitable foundations were also common among rich Ukrainians in different periods of history. The most prominent among them were the free hospital of St. Efrosin'ja and the orphanage organized in Gluhov (1879) by the Tereshchenko brothers in order to supplement the existing welfare system. The brothers also formed *pro bono* hospital for unskilled workers.

During the Communist times, the state and its bodies and structures played the main role in social welfare. Nevertheless, the USSR Constitution encouraged cooperatives and other non-governmental organizations within all areas of public service (Constitution of the USSR 1977). The Communist ideology was tolerant towards different civic organizations, such as Komsomol, groups of people, trade unions, unions of citizens, and cooperatives (including collective farms, or *kolkhoz*). These organizations, however, were strongly controlled by the government, which compelled them to follow the state-party policy. Such a state strategy protected and supported different types of people's associations, ensuring their unclouded functioning. However, on the other side, the limitation imposed on non-governmental organizations prevented their fully-fledged and versatile development. Overall, this led to a lag in the evolution of the social enterprise concept in all post-soviet countries in general and in Ukraine in particular. Thus, whereas in some European countries, by the 1980s, special supportive programs and decrees reinforced social entrepreneurship, in Ukraine, by this time, the first auspicious conditions for social entrepreneurship development had just emerged.

## 2. Development of the social enterprise concept in Ukraine after 1991

The independence of Ukraine, in 1991, accompanied by a reorientation of its economics towards market principles and a democratization of the political system, resulted in a reduction of the state's role in the regulation of social processes. During a first stage (the 1990s), the inexperienced market economy and the gap in democratic institutions' development contributed to the appearance of unemployment (in 1998, there were 30 unemployed for each vacant workplace<sup>2</sup>); informal employment (about 40% of the workforce was engaged in the informal labor market in 1998); and drop in living standards, *inter alia* because of the delays in the payment of salaries and inflation processes (according to the IMF, inflation rates were 2,000% in 1992; see Kovpak 2012). Consequently, under such conditions, people began to unite into different associations in order to resist any welfare drawbacks and to lobby for their interests.

The Law on Unions of Citizens was adopted in 1992; it gave public associations more autonomy for activities in different fields, and non-governmental organizations began to grow rapidly. Article 36 of the Constitution of Ukraine (1996) subsequently strengthened the position of civil unions, claiming that Ukrainians were allowed to unite into political parties and public organizations to defend their rights, freedoms and interests (be they political, economic, social, cultural or others). By 2003, over 350 laws, decrees, edicts, instructions and letters, forming the normative base for non-governmental non-profit organization functioning in Ukraine (Martynenko 2003), had been adopted.

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<sup>2</sup> State Statistics Service of Ukraine.

The number of third sector organizations that form a background for social enterprises development has been increasing each year. In the period from 1996 to 2012, the number of cooperatives and associations increased by 68%<sup>3</sup> (from 20,094 to 33,664 for cooperatives and from 1,902 to 3,194 for associations)<sup>4</sup>.

Impetuous development of the third sector, together with the promotion of the role of international foundations dealing with the problems of civil society, led to the diffusion of the social enterprise concept in Ukraine, both in academic and practitioner circles. From the end of the 2000s, a gradual shift towards research on social entrepreneurship and social enterprises could be observed among scholars, who sought to understand the background, role and prospects of development of these enterprises within the Ukrainian economy.

**Table 1: Main research streams among Ukrainian scholars in the field of social entrepreneurship**

| <i>Research stream</i>  | <i>Scholars working within the stream</i>  |
|---|--|
| Concept of social enterprise (definition of the term, key features of social enterprises, advantages and development level of these enterprises all over the world, etc.) | Andryushchenko & Ryabets` (2010), Kirieieva (2011), Synchronuk (2012), Udodova and Shapoval (2013), etc. |
| Prominent features, main problems and ways to overcome them, state regulation of social enterprises' development in Ukraine   | Galushka (2013), Kaminnik (2010), Kovalenko (2010), Nabatova (2012), Sotula (2013), etc.                 |

Practical projects on the social enterprise sector were mainly launched and supported by foreign donors (for instance, the US Agency for International Development or the UK Department for International Development):

- The "Social Enterprise Development Program" (2010-2013), introduced by the British Council in Ukraine and East Europe Foundation in consortium with other partners, assisted Ukrainian social entrepreneurs to set up and develop their enterprises through consulting; provision of funds (grants and donations); training; editing of specialized literature (such as the Social Enterprise Planning Toolkit [2011] or the Catalog of Social Enterprises in Ukraine [2013]); establishing a suitable institutional (Social Enterprise Support Centre, Platform of Social Networks) and legislative base, etc.;
- The Ukraine Citizen Action Network (UCAN) Program was launched and funded by the US Agency for International Development as a five-year project for civil society development, which promoted social entrepreneurship as part of its activity and awarded Ukrainian social entrepreneurs with grants during the period 2004-2006;
- The Counterpart Alliance for Partnership (CAP) Social Enterprise Program of the US Agency for International Development was carried out from 1997 to 2002. It provided training, loans and technical assistance for NGOs that wanted to start up new business venture or develop existing ones;
- The "Action Donbass" Project and a community development project in Donetsk were organized by the UK Department for International Development. They created favorable conditions for social enterprise development through supporting small businesses (through loans and expert help) in Ukrainian regions. At the same time, the association of NGOs (Socio-Economic Strategies and Partnerships) was founded; it launched the Social Enterprise Support Centre in 2010.

<sup>3</sup> Some scholars affirm that not all registered third sector organizations in Ukraine are active (Bekeshkina 2012).

<sup>4</sup> State Statistics Service of Ukraine.

By contrast, the level of concern of Ukrainian legislators for the development of social enterprises is low, which results in the absence of the necessary legislative base. First attempts to allow and support social entrepreneurship at the national level were made by the deputies of the Ukrainian Parliament (*Verkhovna Rada*) in 2012-2013: they introduced the draft of the Law on Social Enterprises in Ukraine<sup>5</sup>. The law, which introduces the social enterprise concept by defining the term “social enterprise”, its legal forms and measures of governmental support, has not been enacted yet (as of 2015) due to the bureaucratic procedures. Indeed, in April 2013, a commission organized by the Committee on Economic Policy of the Verkhovna Rada of Ukraine and the Central Scientific Experts Office of the Verkhovna Rada of Ukraine Secretariat recommended that deputies reject this law, due to some weaknesses. The draft of the law defines a social enterprise as a subject of economic activity, organized by a legal entity or an individual entrepreneur, whose priority is to achieve social results in public health, education, science, culture, environment, social services and support of vulnerable groups (the unemployed, low-income people, the elderly, the disabled, etc.). The experts mentioned that it was better to avoid the use of the term “social enterprise” because, according to them, the word “social” referred to an entity’s interaction with society, which is something that every enterprise possesses. The commission also underlined that the main trait of social enterprise such as it was defined by the draft—namely to achieve social goals in the fields of public health, social services and others—was too wide and that it did not allow to distinguish social enterprises from other entities (Sheshurjak 2013).

At the regional level, local authorities are reluctant to encourage social enterprise development. Virtually no region has implemented any program or local act connected with social entrepreneurship (the only exception is the Lviv region, which has adopted a Conception on Social Entrepreneurship Development within the Regional Program on Entrepreneurship Development for 2013). Certain attempts to enhance the development of social entrepreneurship through local agencies or organizations (for instance the “Sokal Agency for Regional Development in Lviv”) are an exception rather than the rule, and they do not change the situation in general and do not always meet with interest on the part of local authorities.

Considering the lack of legislative definition, there is still a conceptual “black hole” around the notion of social enterprise in Ukraine.

The term “social enterprise” was first introduced into the Ukrainian context by Counterpart International in the late 1990s, when it launched its Social Enterprise Program. According to this organization, social enterprise is “a generic term for a non-profit business venture or revenue-generating activity founded to create positive social impact while operating with reference to a financial bottom line”. Since then other international organizations and research projects introduced their understanding of the social enterprise concept. For example, according to the approach of the “Socio-economic Strategies and Partnerships”<sup>6</sup> (SESP) Association, social enterprise is defined as a component of the social economy that is set up exclusively to pursue social aims (such as they are defined in the enterprise’s statutes) and to implement a commercial or non-commercial activity of production of goods/services. A social enterprise should also direct (all or part of) its profit to the social development of the local community. Meanwhile, the

<sup>5</sup> The first draft of the Law on Social Enterprises in Ukraine was registered in Verkhovna Rada of Ukraine on the 14<sup>th</sup> of June 2012. However, due to the subsequent parliamentary elections, in October 2012, the law could not be enacted. Consequently, the draft of the law was re-introduced by the same deputies in Verkhovna Rada of Ukraine, without any essential changes, in March 2013.

<sup>6</sup> The organization was set up in 2002 and brings together 25 non-governmental organizations from five regions of Ukraine (Donetsk, Lugansk, Dnepropetrovsk, Zhitomir and Volyn`).

monitoring and control of its activity are implemented by the community within the territory in which the enterprise is active. In addition to this definition, SESP also developed its own criteria to identify social enterprises in Ukraine. They include the following elements:

- Status of legal person (legal entity);
- Precise social aim, which is declared in the charter. Profitability is not a goal of such entity;
- Systematic reinvestment of all or most of the profits obtained from the economic activity in the community;
- Governed by the community; in other words, mechanisms should be created and implemented to ensure that the social enterprise is controlled and monitored by its founders or members.

The National Resource Centre for Social Entrepreneurship Development "Social Initiatives" depicted four criteria which an entity should meet in order to be considered as a social enterprise:

- Profitable business activity: whatever the kind of activity pursued by the entity (either traditional or innovative, production or services provision, etc.), it should be profitable;
- Clear social goals, embedded into the organization's charter;
- Reinvestment of profits into the further expansion and/or into the social mission;
- Democratic style of management: the general assembly of shareholders is responsible for the distribution of profits between the reinvestment and the social mission<sup>7</sup>.

Most definitions described above share common features, and most underline the importance of social goals together with democratic and participatory governance<sup>8</sup>. These aspects are in line with some of the key EMES indicators of the "ideal-type" of social enterprise (such as an explicit social aim or limited profit distribution). However, Ukrainian statements do not emphasize economic aspects in the same way as EMES indicators do. From the Ukrainian perspective, it does not matter whether social enterprises use paid or volunteer work, whether they bear any economic risk, and whether they have a continuous production activity. Besides, there are no requirements as to the status and number of people launching such kind of enterprises.

While the public interest for the social enterprise concept is increasing in the Ukrainian society, the legislative framework remains loose and legislators do not demonstrate any interest in this field. Among other barriers on the way to a better recognition of the social enterprise concept and to its implementation in the Ukrainian context are the following factors:

- *The Ukrainian society demonstrates a low readiness for the emergence of social enterprise.* This can be explained by the lack of commonly accepted definitions of the "social economy", "social entrepreneurship", "social enterprise" and "social entrepreneur" concepts. Besides, common ideas are that, when it comes to solving social problems, the key role has to be played by the state (as it was during the USSR times). For some Ukrainians, it is difficult even to imagine that non-profit organizations may provide funding for themselves;
- *Financial resources to launch and operate social enterprises are lacking.* Almost all enterprises that name themselves "social" are unable to operate systematically without financial support. Such support can be obtained either from local donations and public funding or foreign foundations' grants, but given the limited level of

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<sup>7</sup> The distribution of the voting power among the shareholders is not itemized within the definition.

<sup>8</sup> It has to be underlined, though, that the understanding of the notion of "democratic governance" by the Ukrainian groups may be differ from that of the European tradition, as exemplified by the criteria of the National Resource Centre for Social Entrepreneurship Development "Social Initiatives". In particular, Ukrainian authors consider governance by the shareholders to be democratic. The role of other stakeholders is not mentioned in the definition of social enterprise.

government's financial capacity and support, the most valuable source of financial support is still represented by international grant-givers. However, the requirements of some competitions, together with the shortage of entrepreneurial skills and information on the part of social entrepreneurs, sometimes prevent them from applying for donations from these sources;

- *The business environment—for enterprises in general and for social enterprises, as a new business form, in particular—is unsuitable.* In other words, unstable economic and political situation, high level of corruption and bureaucracy, weakness of the law, lack of transparency in the grant-providing process and high tax burden are essential obstacles on the path to business (including social business) survival in Ukraine. Most Ukrainian businessmen often undergo great pressure under unstable conditions.

Besides these realities, there is a real necessity for social enterprises in Ukraine. Strong arguments include the following:

- *Social orientation of the Ukrainian economy*, which requires that any economic activity be submitted to the needs of personal development and contribute to solving social problems that prevent such progress;
- *Great disproportions in living standards and income levels of Ukrainians*, which makes it necessary to find out new solutions to disparities;
- *Deficit of welfare services provided by government, and reduction of businesses' social infrastructure*<sup>9</sup>. Economic instability does not allow authorities to strengthen the system of public services, which has been quite weak since the period of the USSR collapse, and to make it more accessible for people of different social status, age and standards of life. As regards commercial enterprises, which had a well-developed social infrastructure during the USSR period, they have been reducing their provision of social services and concentrating their attention on their operational activity. This is a result of market competition, which requires the concentration of each entity's limited resources on its main domains of vital activities;
- *Possibility to use social enterprises in different spheres of human activities, implementing the best foreign practices*, which have proved their effectiveness in developed countries as efficient tools to solve social and labor problems.

## PART B: IDENTIFICATION OF SOCIAL ENTERPRISE MODELS

As it was mentioned before, from a legal point of view, social enterprises do not exist in Ukraine, because of the absence of a legislative base. This lack of legal framework and the scarcity of empirical research (including sociological surveys and statistical monitoring) on social enterprises, the sector's scale and its key features within the whole country cause real difficulties when it comes to identifying social enterprise (SE) models in Ukraine.

Scholars do not agree on a single typology of social enterprise models and often classify them in different ways.

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<sup>9</sup> During the communist times, a lot of enterprises had their own social infrastructure, such as kindergartens, children's camps, sanatoriums, carrier's undertakings, ambulances, hospitals, etc. Besides, enterprises in many cases provided housing for their employees.

## 1. Sotula's forms of social entrepreneurship

Ukrainian researcher Sotula (2013) defines three forms (models) of social entrepreneurship in the country:

- non-profit organization operating in the sector of its main activity;
- non-profit organization launching a commercial entity in order to finance the organization's programs through the gained income;
- entity for disabled people, which becomes tax-free if more than 50 % of its employees are people with limited physical or mental potential.

However, this classification cannot be applied to the definition of the social enterprise models due to the following reasons: First, not all social enterprises are non-for-profit organizations (NPOs), because NPOs are prohibited to distribute any revenues to their members, whereas social enterprises allow it in some cases. For instance, cooperatives, which turn up to be a common form of civic unions in Ukraine, and mutual-aid societies are able to redistribute part of their profit to their members, which is incompatible with the concept of NPO. Secondly, Sotula's classification does not take into account commercial enterprises organized by an individual (limited liability companies, private enterprises), which also represent a part of the social enterprise sector in Ukraine. Thirdly, not all non-profit organizations (including those that launch their own commercial projects) and entities for disabled people can be classified into one of these three models. For example, the medical-improvement centre "Elbrus" Ltd. is organized without the support of any NPO and it does not employ any disabled people; consequently, it cannot be classified into any of those three models.

## 2. Typology of the Action Donbass Project

The Action Donbass Project (launched by the UK Department for International Development in 2002) has defined four future viable social enterprises' models in Ukraine, depending on the subject of entrepreneurial initiative:

- Model 1 – A commercial enterprise established by members of a partnership in the form of an economic union.
- Model 2 – A commercial enterprise set up by a non-governmental organization, and whose profit is used to fulfil the goals of the NGO such as they are defined in its charter.
- Model 3 – A commercial enterprise, set up by an entrepreneur, and whose main goals are social (work integration opportunities). The enterprise's charter must clearly specify which share of the profits gained will be reinvested and for which social purposes. Profit redistribution is monitored by community representatives.
- Model 4 – A communal (i.e. belonging to the communities) non-commercial enterprise set up to achieve social, ecological and ethical goals.

Nevertheless, this classification does not take into account one powerful group of social enterprises in Ukraine—namely non-governmental and charity organizations that act without creating a commercial enterprise on the basis of private (not communal) property. Although these entities, as it will be illustrated below, cannot be seen as fully-fledged social enterprises, their role should not be underestimated in social entrepreneurship development.

### 3. Typologies based on organizational or legal forms

Some scholars use social enterprises' organizational and legal form as classification criteria to define different social enterprise models. On such basis, two major groups of social enterprises can be distinguished: models from the times of the communist regime, and models that emerged after the transition to a market economy.

#### 3.1. Models from the times of the communist regime

These models include associations, cooperatives and communal enterprises. During the communist times, associations and cooperatives were seen as a tool making it possible to improve the service sector and to defend people's rights and interests. The collapse of the USSR and the reorientation of the economic structure did not lead to the disappearance of this category of citizens' unions. In 2012 the total number of different types of cooperatives and associations in Ukraine represented about 3% of the total number of organizations (whatever their legal form) in the country.

**Table 2: Number of cooperatives and associations in Ukraine<sup>10</sup>**  
(at the beginning of the year)

| <b>Legal forms</b>    | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Associations          | 2,751       | 2,841       | 2,953       | 3,057       | 3,125       | 3,180       | 3,222       | 3,194       |
| Cooperatives          | 30,790      | 31,429      | 33,257      | 34,324      | 35,063      | 34,772      | 34,164      | 33,664      |
| <i>Including</i>      |             |             |             |             |             |             |             |             |
| Producer cooperatives | 2,556       | 2,653       | 2,602       | 2,539       | 2,461       | 2,469       | 2,492       | 2,459       |
| Service cooperatives  | 16,645      | 17,872      | 20,270      | 21,814      | 22,620      | 21,797      | 21,050      | 20,619      |
| Consumer cooperatives | 215         | 323         | 424         | 531         | 591         | 660         | 732         | 771         |

At the present time, cooperatives in Ukraine can be set up by individual entrepreneurs and/or any legal entity, which voluntarily unite into one group for common economic activities or other types of activities in order to satisfy their social, economic and other needs and organize themselves along self-governance principles. They do not reinvest their profits but they redistribute them, mainly among their members. Ukrainian cooperatives are divided into three types according to their objectives and nature:

- producer cooperatives are created by individuals to carry out common production or economic activities in order to achieve profit. They are organized along the principles of compulsory labor participation; ownership ratio; participation in the management of the production; and distribution of income among the members according to their participation in the activities of the cooperative. They may carry out economic, processing, procurement, sale, supplying, service and any other entrepreneurial activity, but the most popular type of activities is agricultural. These unions provide work places for their members;
- service cooperatives are created by natural persons and/or legal entities who come together to provide services, primarily to the cooperative's members but also to other

<sup>10</sup> State Statistics Service of Ukraine.

- people (though the amount of transactions with non-members cannot exceed 20% of the cooperative's total turnover) for their economic activity;
- consumer cooperatives are created by natural persons and/or legal entities who come together with a purpose of commercial services organization, procurement of agricultural products, raw stores, production and other services in order to satisfy the consumption needs of their members.

In terms of types of activity, Ukrainian cooperatives can be garage, transport, educational, tourist and medical organizations. Sometimes they are connected with other fields, such as building or gardening.

*Associations*, as voluntary unions, are founded for the coordination of economic activities of enterprises in order to satisfy primarily economic needs of their members, to develop specialization and cooperation, and to pool financial and material resources.

Another type of citizens' unions that date back to this period of time is the *communal (utility) enterprise*, which operates on the basis of communal property of the territorial community. It is founded and controlled by the local government's bodies and aims to satisfy certain needs of the local community in a disinterested way; indeed, the goods are often provided at a price below their "normal" price, which would usually exceed the economic capacities of that community.

None of these three types of organizations—cooperatives, associations and communal enterprises—demonstrates the economic behavior of fully-fledged social enterprises, though. Several reasons can account for this. First, in most cases, cooperatives and associations do not have a continuous production activity (producer cooperatives constitute an exception in this regard). Participation in organizations of this kind is voluntary and not necessary associated with work payment. Moreover, as was claimed earlier, cooperatives are able to redistribute their profits to their members. Besides, all these types of citizens' unions have a relatively low degree of autonomy, because they depend on donations, member fees, grants, government support, etc., and these funders can in some cases directly or indirectly influence the entity's activity (including its governance). Finally, a deeper observation of these organizations shows that, in most cases, they only develop activities within their statutory objectives; as a result, their economic activity is often quite limited. In other words, they cannot be considered as key categories of the social enterprise sector.

### ***3.2. Models that emerged after the transition to a market economy***

Other models of social enterprises emerged after the transition of the Ukrainian economy towards a market economy, in the 1990s. Among the forms that a SE might take are following:

- the individual entrepreneur;
- the non-governmental organization;
- the individual entrepreneur attached to an NGO;
- the charity fund;
- the limited liability company;
- the citizens' union enterprise.

The *individual entrepreneur* is defined by the State Classifier of Ukraine ("Classification of the Organizational and Legal Forms of Management 002:2004") as a citizen of Ukraine, a foreign citizen or a person without citizenship who carries out an entrepreneurial activity with the necessary state registration as entrepreneur but without the status of a legal entity. As of January

2013, there were 2,507,083 individual entrepreneurs in Ukraine, which means that nearly one person in eighteen was registered as an individual entrepreneur.

A *non-governmental organization* (NGO) with a social orientation and experience in social services is an association of people established on a voluntary basis, created to protect public rights and freedoms and to satisfy all kinds (economic, social, cultural, etc.) of public interests according to the Law on Non-governmental Associations (2012). On the one hand, this kind of organizations has a large degree of autonomy, protected by the law, which prohibits the government or its structures to interfere in the activities of NGOs, although the state supports NGO financially. On the other hand, the economic activity of NGOs is significantly restricted.

In the case of an *individual entrepreneur (sole trader) attached to a non-governmental organization*, the NGO appears as the founder of the social enterprise, while the individual entrepreneur carries out the economic operations. The aim of such economic operations is either to grant part of the income to the parent organization, which uses it to finance social programs, or to solve certain problem through the income generated. The emergence of such kind of partnership between an NGO and an individual entrepreneur is determined by the features of the Ukrainian legislation, which restricts the possibilities for NGOs to carry out commercial activities and attract outer financing. In such context, setting up a social enterprise through the action of an individual entrepreneur constitutes a way for organizations to open up (financial, legal, etc.) opportunities to interact with a large audience.

Most organizations listed in the Catalog of Social Enterprises in Ukraine (2013) have one of these three legal forms. This raises a legal problem, though. Indeed, according to the Law on Non-governmental Associations, NGOs are public unions, the founders and members of which are natural persons. The creation of an NGO does not require the creation of a legal entity. But on the other hand, according to the Economic Code of Ukraine, an enterprise is a legal entity with its own property, independent balance, bank accounts, seal with its code and name. That is why identifying non-governmental organizations and individual entrepreneurs (whether attached to an NGO or not) as enterprises is in some cases in contradiction with the current Ukrainian legislation (Reference book of social entrepreneur 2013). However, in spite of this legal antagonism, these three forms should be taken into account as initial forms of Ukrainian social enterprises.

The activity of *charity funds* is regulated by the Law on Charity and Charity Organizations (2012). Charity funds cannot aim to generate revenues and distribute them among the founders, members of the governance body or employees of the fund. The highest governance body of the fund is the organization's general board. But the economic activity of charity funds is the object of limitations. Besides, they aim to benefit their beneficiaries (support and defense of their rights) but they do not seek to meet the needs of the whole community.

SEs with the form of *limited liability companies* emerge when non-governmental non-profit organizations (or other legal entities) and/or initiative groups of people found a commercial entity. These companies unite the founders' capital (property) with the aim of generating an income. Those business structures possess a statutory fund divided into parts regulated by the statutory documents. The key feature of the limited company's governance is the distribution of voting power according to the participants' share in total capital. The "social" part of this enterprise in most cases is limited to the fact that part of the entity's profit is used to fund the statutory tasks of the parent company.

The *citizens' union enterprise* is the organizational form that is closest to a social enterprise in the Ukrainian context. This enterprise is an independent commercial entity created by one founder and based on the property of the citizens' union (usually an NGO) for the purposes of carrying out an economic activity, which aims itself in turn to enable the citizens' union to carry out its statutory tasks.

Examples of Ukrainian social enterprises belonging to the six organizational models described above are presented in Appendix 1.

Summarizing the information mentioned above, we can distinguish two groups of approaches to classify social enterprise models in Ukraine:

- basic classifications, based on the respective approaches of the Ukrainian researcher Sotula (2013) and of the Action Donbass Project;
- a classification based on the organizational and legal forms (both traditional and new—market-oriented—ones).

Inasmuch as none of the approaches described above does fully reflect the whole range of socially-oriented enterprises in Ukraine, it is necessary to look at one more typology, proposed by the Ukrainian researcher Kirieieva (2011).

#### 4. SE typology based on Kirieieva and on the Conception on Social Entrepreneurship Development in Lviv Region

Basing her analysis on the specific characteristics of enterprises' activities, Kirieieva (2011) identified five main models of social enterprises: the entrepreneur support model, the market intermediary model, the market linkage model, the employment model, and the service subsidization model. However, Kirieieva did not carry out any attempt to describe these models within the specific context of Ukrainian realities.

The draft of the Conception on Social Entrepreneurship Development in Lviv Region adds two more models to the five models described by Kirieieva, namely the fee-for-service and organizational support models. Hence, the classification of socially-oriented enterprises in that document is represented by seven models.

From the author's perspective, this approach to the identification of social enterprise models is the most appropriate inasmuch as it is based on the peculiarities of the entity's activities. A social enterprise being an entity that seeks to reconcile both social and economic ambitions (Borzaga *et al.* 2008), it seems logical to assume that social enterprises will be characterized by the ways in which they combine their commercial activity and the priority of their social goals. Consequently, social enterprises operating in a same field or dealing with the same social problems can be expected to use more or less the same methods to achieve their social goals, and to constitute one model of social enterprises.

In favor of this approach, it has to be acknowledged that classifying social enterprise on the basis of their organizational and legal forms does not always yield satisfactory results, and that the enterprises grouped in one model on the basis of such approach have sometimes very little in common—which also makes it impossible to determine the particular features and development trajectory of each model.

An attempt to adapt the general models mentioned above to the specific Ukrainian realities revealed strong evidence that there is a definite need for a consolidation of some models. Thus, the entrepreneur support model, the market intermediary model and the market linkage model, from the author's perspective, should be united into one group named "entrepreneur support model", because all of them provide mediatory services to other entities, ensuring the latter's access to the market. Five basic models of social enterprises are thus distinguished, based on the peculiarities of enterprises' activities; these five models manage to describe fully the whole variety of social enterprises in Ukraine.

#### *4.1. The entrepreneur support model*

Enterprises belonging to this model provide their target audience—i.e. potential entrepreneurs—with the services required to successfully launch and operate their own business:

- consulting services (for instance legal services, business and management consulting);
- microfinance;
- accounting services;
- marketing services;
- training, workshops, master classes for the professional development of employees;
- investigation of the market;
- assistance in the production and in the sale of products.

Services provided by enterprises of this model usually constitute the social program of the enterprise. However, they can also aim to attract resources to be used for the pursuit of social purposes.

Consumers of social enterprises of this model are legal entities and individuals working on the creation of or seeking to improve their own business.

Although there are many financial and consulting institutions in Ukraine, the model of entrepreneur support is one of the least developed social enterprise models, primarily because of the low living standards, which in turn limit the amount of available financial resources, which are essential for providing loans. In addition, the level of "financial literacy" in the general public is not high and there is an uncertainty about the legality of loans by non-bank institutions.

Thus, only two of the 54 social enterprises considered in the present analysis<sup>11</sup> engaged in microfinance and can be considered as belonging to this model. It should moreover be underlined that the specialization in microfinance of one of them (the NGO "Economic Development Agency", in Voznesensk) is very relative; in addition to this activity (providing short-term loans to local owners associations and housing cooperatives at a 5-percent annual interest rate), it is engaged in a separate waste collection activity and in accounting services.

This model also includes credit unions, none of which was listed in the analyzed observed resources on social enterprises in Ukraine. These are non-profit organizations based on cooperative principles which seek to meet the needs of their members through the provision of mutual lending and financial services based on the financial contributions of the members. These organizations can provide loans to private enterprises and farms as well, when the owners of

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<sup>11</sup> The enterprises were listed on the basis of the Catalog of Social Enterprises in Ukraine (2013), the Information Bulletin of Social Enterprises and Socially-Oriented Businesses in the Donetsk and Lugansk Regions of Ukraine (2011) and some other resources.

these farms and enterprises are union members. Credit unions can also finance other similar unions and conduct charitable activities.

The number of credit unions in Ukraine increases each year. According to the State Statistics Service of Ukraine, between 2006 and 2013, their number increased by about 57% (from 737 credit unions on the beginning of 2006 to 1,154 at the same period in 2013). It can be seen as a positive tendency in terms of overcoming the main problem of social enterprises in Ukraine, which seems to be the lack of financial resources.

An example of credit union is the Zaporizhia Oblast Credit Union "Dovira" (ZOCU "Dovira"), which brings together more than 18,000 inhabitants of the city and region of Zaporizhia. ZOCU "Dovira" provides cash and tied credits to its members (whose characteristics in terms of age and material prosperity are varied), who are at the same time the owners and the union's clients. Its sole objective is to make the cheapest service available to its members, using the financial resources that they have accumulated.

The governance of the organization is carried out on a democratic basis, according to the principle of "one member, one vote", and regardless of the size of the member's contribution. The main governing body of the credit union is the General Meeting, which convenes at least once a year and selects the statutory authorities responsible for the operation of the union between the General Meetings: the Supervisory Board (which represents the interests of the credit union between meetings), the Auditing Commission (which has the function of controlling the financial and economic activity of the union and governmental bodies), the Board (the executive body of the credit union, which guides its current activity), and the Credit Committee (which implements the credit policy).

A credit union's revenue consists of the interests that it charges for its loans; such revenue is directed to fund training and to the payment of interests on the term deposits of the members.

ZOCU "Dovira" can also carry out charitable activities and social projects for vulnerable groups if it is determined by the General Meeting or governance bodies' decision.

Other examples of enterprises belonging to the model under consideration are the NGO "Economic Development Agency" in Voznesensk and the finance company "Nadiya Ukrainy" Ltd.

Among the strong points of these enterprises, one should mention their ability to increase the prosperity of their employees (and, in some cases, of their members) and customers by increasing their market share and profitability. The development of this model also reflects the information-oriented-society concept, according to which the role of service provision is increasing. Unfortunately, the processes that have been taking place in the country since 2014 compel Ukrainian enterprises to concentrate their attention on the most important and profitable parts of their activities. This, together with the growth of capital cost and the decrease in capital availability, allows to predict that the development of this social enterprise model will remain low in the near future.

## ***4.2. The employment (work integration) model***

Enterprises belonging to this model provide employment opportunities and vocational training to vulnerable groups of people (the disabled, rural workers, homeless people, former prisoners, women in difficult situations, drug and alcohol addicts).

The main goal of these enterprises is to offer training for jobs that do not require high qualifications and for which there is an existing demand on the market in order to create employment opportunities.

Among these companies, an important group is that of enterprises launched by organizations for the disabled, some of which were created during the Soviet period (for example, the Donetsk enterprise "Electromagnet" was founded by the Ukrainian Society of the Deaf in 1944).

A significant share of enterprises belonging to this model are engaged in the production of goods: tailoring, production of goods from plastic and wire, provision of electricity, production of goods from paper and cardboard. However, a number of companies also provide services for their target audience (for instance, retail, furniture repair, etc.).

Enterprises in this group (especially organizations of disabled people) rely very little or do not rely at all on volunteering; practically all employees are paid.

Many of the enterprises in this model have reached a stage of sustainable development and are able to maintain their business independently, through the sale of products and/or services. Enterprises for the disabled in which at least half of the workers are invalids have a constant state support in the form of preferential taxation, loans, financial aid or grants<sup>12</sup>.

The social mission of enterprises belonging to this model is implemented through employment of and training for people with high barriers to entry into the traditional labor market. The consumers of the goods and/or services are often the general population, including a wide range of businesses and individuals, and no special group is targeted as consumers.

Profits are distributed between reinvestment and social objectives; the percentage depends on the internal rules of the organization.

The founders of these enterprises are usually public organizations and associations (for example, public organizations for the disabled).

Some examples of enterprises belonging to this model are the enterprise for the disabled "Zlahoda" (set up by of the nationwide organization of invalids "Union of Organizations of Invalids of Ukraine"), the repair shop "Community of mutual aid Oselya" (set up by the NGO Lviv), the citizens' union enterprise "Artemivsk Training and Production Enterprise Zorya" (launched by the Ukrainian Association of the Blind), and the "Lot" enterprise (launched by the Ukrainian Society of the Deaf).

Due to the high level of unemployment in Ukraine, which can be seen as a result of political and economic crises combined with social instability, the development of this model of social enterprise should be considered as one of the most important. From the author's point of view, the growth (both qualitative and quantitative) of this model of enterprises will allow to ease social tensions within the Ukrainian society by reducing inequality levels. Nevertheless, the low level of innovativeness of enterprises belonging to this model (as a result of lack of access to educational services for vulnerable groups of people, lack of financial resources, and "stickiness" of the system, which leads entrepreneurs to fear developing new business processes because of the probability to loose state support) causes real problems for the future of this model.

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<sup>12</sup> For an enterprise to be entitled to such benefits, it must obtain a special permit issued by the Ministry of Social Policy of Ukraine and local authorities.

### ***4.3. The service subsidization model***

The social mission and commercial activity of enterprises in this category are not related (unlike what is the case for enterprises belonging to the next model). Thus, the commercial activity is oriented solely to profit generation; profit is then used to finance the social programs. In other words, those entities are “mission-unrelated”. Besides, this model is characterized by the fact that both the economic activity and the social program are carried out by the organization itself, without any additional subsidiaries emerging.

Common types of goods and/or services sold by these enterprises are outfits, vehicular maintenance and educational services.

Volunteer labor is actively used within this model (for example, the youth NGO “Art-Selo”, which works in the field of training and personal development through art, has only three full-time employees, while the remaining duties are delegated to volunteers).

The audience targeted by the social programs includes children with special needs, socially unprotected citizens, the youth and elderly people.

Most of the profit (as a rule at least 50% of the company’s income) is spent on social needs. However, some entities reinvest the main part of their profits: for instance, the Tire Fitting Shop Service (in Chervonoarmyske, in the Zhitomir region) reinvests 70% of its income; only 30% is directed to fund the social programs.

The most common legal forms of such enterprises are the limited liability company and the individual entrepreneur supported by an NGO.

Examples of enterprises in this category are the “Laska” charity store, “Upiter” Ltd., Tire Fitting Shop Service and the youth NGO “Art-Selo”.

It can be considered that the weak side of the entities belonging to this model is the fact that the commercial activity and the social mission are isolated from each other. First, it is difficult to be successful while operating several unrelated initiatives that simultaneously require significant concentration of huge efforts and resources. Secondly, there is a probability that, sooner or later, one of the activities might become prevalent over the other, which would result either in a lack of autonomy or in a lack of social orientation. Conversely, one should mention that enterprises of this type have good chances to be developed within the Ukrainian economy because the types of activities that they might carry out are not limited.

### ***4.4. The fee-for-service model***

Ukrainian entities belonging to this model provide their target group (children, the disabled, the unemployed, young people, etc.) with services that are a source of income for the organization and simultaneously constitute its social program. Businesses maintain their customers with all services available (certain groups may obtain any necessary service for free or at a price below the market one). In other words, these entities are “mission-centric” or “mission-related”.

The most common legal form for these enterprises is that of business entities created at the initiative of public organizations (associations of citizens) or cooperatives operating in the service sector. Along with the services provided, the company sometimes produces some goods.

Among the most common services provided by enterprises of the “fee-for-service model”, one should note: active rest, sports, educational and developmental services for children with special needs, medical care, informal education, rehabilitation through therapeutic riding, telecommunication services, arts and crafts.

The main consumers of the services offered by these enterprises are mainly the youth (including students), children (including kids with special needs), the unemployed, low-income families, residents of a particular territory, the disabled, and creative people (artists, painters, etc.). Enterprises of this group widely use the labor of volunteers. In some cases, when there is a lack of financial resources and the enterprise cannot pay them any salary, employees become volunteers.

The distribution of profits between the members is prohibited for these organizations. All gained profits are reinvested or used to pursue the enterprise’s social purposes. The share of profits which are reinvested ranges from zero to 90%, while 10 to 100% of profits are used for social purposes.

One should mention that this type of SE model is one of the most innovative in Ukraine. Indeed, the products or services provided must be competitive enough on the market to generate sufficient financial resources not only to ensure the enterprise’s survival but also to cover the expenses linked to the provision of the same goods to the target audience for free or at a price inferior to their normal price. Moreover, these enterprises look for effective methods of service delivery in order to involve as many beneficiaries as possible. Both factors act as catalysts for innovations.

For example, the medical-improvement centre “Elbrus”, which offers medical services for people with different diseases, has created a special innovative technology (the so-called “Improvement of the health with the help of normobaric hypoxic therapy with hyperoxic and hypercapnic effect”). This invention helps people to prevent and treat illnesses, supporting an evolution towards life processes normalization and stimulation of the hidden reserves of the organism. The enterprise was awarded several prizes for this innovation: the Certificate for contribution to the highest achievements in sports medicine (1999), under the auspices of Juan Antonio Samaranch, President of the International Olympic Committee; international prizes for quality and technology, respectively at the XXVII International Convention Frankfurt 2001, at the International Arch of Europe in Gold nomination, and at the XXVIII International Convention in Paris; and the World Quality Commitment Star Award in the Gold nomination (2001). In 2005, a founder of “Elbrus” was also awarded the title of “Social Entrepreneur 2005 in Ukraine” of the Schwab Foundation.

Another example of this model is the youth NGO “Vulyk Idey”, which was launched by a group of citizens in 2010. It aims to provide access to education for children. The services are provided mainly at the market price (covering the production costs) for the population at large, but some children receive services free of charge. Twelve employees and eight volunteers (19 of whom are women) work in the enterprise. The General Assembly has the ultimate decision-making power and is responsible for the governance of the NGO; it consists of 50 members, including workers, customers, volunteers, citizens and representatives from the private business sector. The power is distributed according to the principle of “one member, one vote”. The distribution of profits is fully prohibited in “Vulik Idey” by the inner rules of the organization.

Other examples of enterprises in this category are “Ma-a-Ma Club” (Severodonetsk), the creative circle “7 Colours of Rainbow”, “Green Tours Ukraine”, etc.

From the author's point of view, social enterprises belonging to this model are among the best adapted to the Ukrainian realities. They are the most innovative, creative and flexible ones. Moreover, they usually do not need huge resources (be it in terms of human resources, starting capital, or legislative procedures) for their foundation. Consequently, enterprises in this category can be considered as having the greatest chances to develop significantly and become the core of Ukrainian social entrepreneurship. However, in case this model would become significantly prevalent over the other models, Ukraine may face the challenge of the passive position of vulnerable groups of people within society; indeed, the weak side of this model is that it simply gives people in need a fish, but it does not teach them how to catch it.

#### ***4.5. The organizational support model***

The key feature of enterprises in this group lies in the fact that they use the income gained from their commercial activities to support their parent organization. Entities belonging to this model may be subsidiaries of the non-governmental organizations, associations, individual entrepreneurs, or enterprises of citizen's unions established by NGOs in order to achieve financial independence and a high degree of autonomy.

The presence or absence of volunteers depends on the way in which each organization functions, but overall, voluntary labor is widely used.

The types and domains of activities of those entities may vary from manufacturing to services. Examples include enterprises active in the field of light industry, trade, repair, construction, funeral, packaging and educational services, sports, events organization, livestock, etc.

The target audience of the companies' commercial products are usually individuals or businesses.

The main document defining the social objectives of the company is a charter or a cooperation agreement with an individual entrepreneur.

As a rule, all profits are distributed between reinvestment and social objectives. No general trend can be distinguished in this group regarding the distribution of profits between those two aspects. For example, the "Blagodar" charity store, which supports the NGO "Civil Society", uses all its proceeds (100%) to finance the pursuit of its social purposes, whereas the children development studio "Okoshechko" reinvests 70% of the profits, and only 30% are used to fund the various social programs. At the same time, some companies may distribute part of their income to their owners.

Some examples of enterprises belonging to this model are the embroidery workhouse "Barvysta", the "Blagodar" charity store, the social enterprise "SpektrPlus" Ltd., the "Arena" sport club, the children development studio "Okoshechko", and the studio of Belgian chocolate "Pan-Chocolatier".

The disadvantage of this model of social enterprise is (as for entities of the service subsidization model) the fact that the business activity and the social mission are isolated from each other. In addition, due to the fact that the created commercial entities may take any organizational form, this model may be considered as being somehow similar to corporate social responsibility practices—even though these enterprises reinvest (donate) almost all or at least the main part of their profit in their parent company. However, it should be mentioned that this model has quite

high chances to be developed in Ukraine, due to its flexibility in terms of choice of legal forms and types of commercial activities.

It is worth noting that not all social enterprises could be directly classified into one of the five models described above on the basis of the nature of their activities. For example, the social bakery “Walnut House”, which produces bakery products and sells them, uses its profits to support the non-profit projects of a social organization, and simultaneously creates jobs for women experiencing periods of hardship; this social enterprise could thus be considered as belonging to both the employment model and the organizational support model.

The medical rehabilitation centre “Zdorovya” Ltd. (one of the founders of which is the Novoazovsk regional NGO of invalids “EkoSvet”) provides financial support to sport facilities within the founding organization. At the same time, this entity has created four work places for disabled workers, and it caters for children with disabilities on a preferential basis. In other words, this company could be considered as simultaneously belonging to three categories of social enterprise: the employment (work integration) model, the fee-for-service model and the organizational support model.

The enterprise of citizens’ union “Leader” (launched by the Makeevka city association of invalids “Nadezhda”) was created at the initiative of the association of disabled in order to provide legal assistance to business entities (companies and individual entrepreneurs) and employment to disabled people (more than 50% of employees are people with disabilities). At the same time, the range of services provided by “Leader” could also justify its classification in the entrepreneur support category.

The production enterprise “Svitanok”, in Enakievo, and the “Artemivsk Training and Production Enterprise” of the Ukrainian Society of the Deaf both follow two main objectives: education, employment and rehabilitation of people with disabilities, on the one hand, and attraction of the material resources necessary to fund the activities of their parent NGO, on the other hand. On the basis of these goals, the entities could be seen as belonging both to the employment model and to the organizational support model.

Almost all enterprises in Ukraine that call themselves social or at least are described as social in specific publications operate in a traditional third sector legal environment. On the one hand, the third sector is generally accepted to be a good base for social enterprise development. However, on the other hand, in Ukraine, the third sector environment is either not fully adapted or it does not meet at all the needs of this emerging field of entities. That is why it seems fair to say that social enterprise models in Ukraine are still in the first stages of their formation and cannot always be seen as fully-fledged social enterprises.

## PART C: INSTITUTIONAL TRAJECTORIES OF THE MAIN SE MODELS

The functioning of the entities belonging to one or another SE model in Ukraine is regulated by different institutions, which greatly influence the features of social enterprises’ activities and their effectiveness, competitiveness and possibilities for further development. Two types of institutions affecting social enterprises in Ukraine can be distinguished: The first one includes institutions exerting a “general” influence, over all social enterprises, regardless of their model. The second type embraces institutions having an impact on certain SE models only.

The first group of institutions includes a large variety of laws, programs, public and foreign structures that form the environment for social entrepreneurship development; it includes *inter alia* the legal environment, organizational environment, financial resources, informational environment and public programs. Both these institutions and those of the second group are listed in Appendix 2.

In this section, we will present the institutional environment that influences the tendencies, possibilities and trajectories of development of each SE model.

## 1. Institutional environment of the entrepreneur support model

There are no specific institutions focusing on the support to social enterprises belonging to this model. Social enterprises in this category operate within the same legal framework, organizational programs and financial environment as those in which all entrepreneur support businesses (be they social or commercial) operate.

On the one hand, the institutional space for social enterprise activity is quite developed, due to the wide range of different regulators. On the other hand, there is a lack of special programs influencing the behavior of entities belonging to this model. Besides, some laws and standards in Ukraine contradict each other (and contradictions can also be observed between some national laws and their international counterparts), and some laws and programs are outdated. Consequently, it would prove difficult for the advantages of social enterprises of this type to be concretized within the existing context.

## 2. Institutional environment of the employment (work integration) model

The institutional security of this model of social enterprises is well developed and better organized than that of other models (this is primarily true for the enterprises for the disabled; support for other business structures within the “employment model” is much more limited). However, this favorable institutional background is not always mirrored in practice. Some social enterprises for the disabled for example mention that, during the two years that preceded the present study, state financial support was quite limited or outright inexistent. Besides, the government does not stimulate actively the introduction of innovations. The institutional environment of this SE model could thus be improved in many ways.

## 3. Institutional environment of the fee-for-service model

Since most enterprises belonging to this model are cooperatives or non-governmental organizations, the institutional framework of the fee-for-service model can be viewed through the prism of these legal forms. It is claimed that there is a favorable environment for cooperative and NGO development, which allows SEs in this category to carry out their commercial activity while simultaneously realizing their social program. However, existing institutional support does not aim to specifically support social businesses; it targets all cooperatives and NGOs. As a result, some specific needs, interests and problems of these social enterprises remain beyond the attention of public bodies, local authorities and international donors.

#### 4. Institutional environment of the service subsidization model

The analysis of the institutional environment of social enterprises belonging to the “service subsidization model” indicates that they function on the same terms as—and do not have any advantage in comparison to—ordinary enterprises with the same legal forms.

Competition with other companies and the lack of governmental support, especially at the inception stage, before the company has achieved a certain level of sustainability, significantly hinder the development of this SE model and hamper these enterprises’ innovation activity. These factors also influence negatively those entities’ social mission, because when social enterprises have to compete with ordinary enterprises without benefiting from any specific support, they are compelled to reinvest a bigger part of their income, which reduces the amount of funds available for the realization of their social programs.

#### 5. Institutional environment of the organizational support model

The institutional environment in which social enterprises of this type are functioning is characterized by the absence of specific support policies and programs; consequently, it cannot be considered as a driver of their activity (including their innovation activity) and does not have positive effects on the target groups.

### CONCLUSION: MAPPING OF THE VARIOUS SOCIAL ENTERPRISE MODELS IN THE WHOLE ECONOMY

Due to some peculiarities in the functioning of the different SE models, it is obvious that each model has its own location within the overall economy. In order to apprehend their respective positioning, it seems useful to recall the key features of each SE model.

As a rule, ***social enterprises belonging to the entrepreneur support model*** are set up and owned by individuals or groups of people. Their activities and functioning are regulated by certain public structures, laws and programs. Therefore, there is an institutionalized and formal interaction between social enterprises and public bodies. The non-profit character of enterprises in this group is either fixed in the organization’s charter or registered by the law. Entities of this model can thus be located within the “third sector triangle”. To the extent that they are non-commercial and founded by people for the satisfaction of their needs, and that the level of governmental support is limited, it seems expedient to locate them closer to the “community” and not very close to the “state”.

As was shown earlier, some of the ***social enterprises belonging to the employment model*** benefit from a high level of public support; this leads us to locate them closer to the “state”, inside the welfare triangle, than business structures of the first model. Most enterprises in the employment model category are not-for-profit. However, there are also some for-profit companies. This is why SE of this model can be located at the intersection line between the for-profit and the not-for-profit sectors.

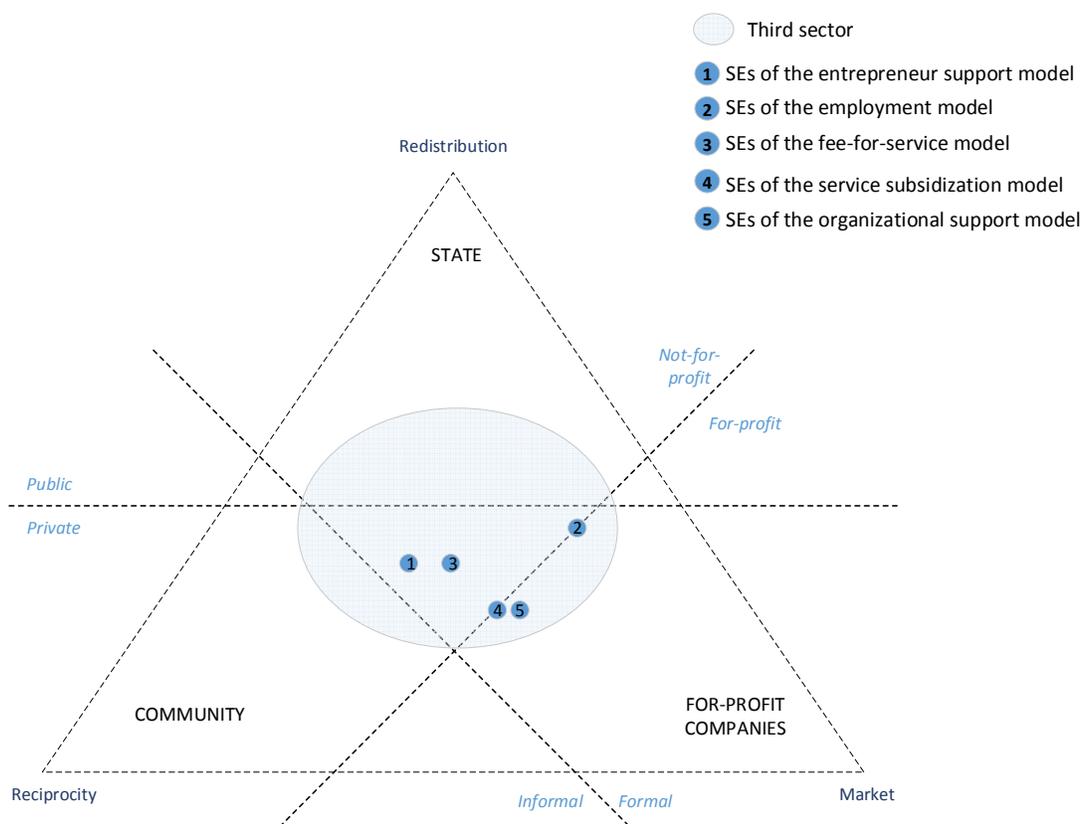
***Social enterprises belonging to the fee-for-service model*** are primarily organized by citizens’ unions and have not-for-profit legal forms, which are recognized by the law (formal rules). To the extent that the generation of profits and the realization of their social mission are equally important for these enterprises (because the greater the profit they generate, the more social

projects can be realized), they should be located at an equal distance from the “community” and “for-profit companies” within the welfare triangle. Moreover, the level of institutional regulation of social enterprises of the fee-for-service model can be compared with that of enterprises in the first category; they should thus be located at the same distance from the “state” as entrepreneur support SEs.

The group of **social enterprises belonging to the service subsidization model** includes both commercial and non-profit organizations, either with individual or collective property. There are no specific support and development programs for these organizations. In other words, their environment is less institutionalized than that of other models. That is why this model should be located further from the “state” than others.

**Social enterprises belonging to the organizational support model** are often set up on the initiative of NGOs, associations or foundations with the purpose of gaining income; they are private and either not-for-profit or for-profit. Public regulation of these entities is approximately the same as for social enterprises of the “service subsidization” model, which leads us to position them at an equal distance from the “state”. Taking into account the legal and economic independence of social enterprises in this category from the organizations that they support, it seems expedient to assume that there are more for-profit organizations within this model than among entities of the “service subsidization model”. Therefore, this model of enterprises will be located closer to the for-profit sector.

**Figure 1: Position of Ukrainian SE models in the welfare triangle**



The field of social enterprise in Ukraine is still in its inception stage and it remains under-researched. A lack of organizational, institutional and regulatory frameworks in this domain, as well as a lack of interest for the subject on the part of public authorities can be observed. This leads to some models being better known than others. Besides, there is a lack of practical information about social enterprises in Ukraine, which makes it difficult to analyze their compliance with some of the basic SE criteria defined by the EMES Network. In this regard, there is a need for further study of the detected models on the basis of a wide system of indicators.

## APPENDIX 1: DISTRIBUTION OF SOCIAL ENTERPRISES IN UKRAINE AMONG DIFFERENT ORGANIZATIONAL (LEGAL) MODELS

| <i>Nº</i> | <i>Organizational model of SE</i>          | <i>Examples of Ukrainian social enterprises</i>   |
|-----------|--|---|
| 1         | Individual entrepreneur                    | Informational and tourist centre "Green Kreminna", individual entrepreneur Mykola Kovalchuk, "Laska" charity store, studio of Belgian chocolate "Pan-Chocolatier"   |
| 2         | NGO  | Youth NGO "Sport Club Skimen", social newspaper "Svet mayaka", youth NGO "Art-Selo", "Blagodar" charity store (launched by NGO "Civil Society"), youth NGO "Vulyk Idey", NGO "Zhitomir Regional Association of Scientists and Business Consultants"   |
| 3         | Individual entrepreneur attached to an NGO | NGO "Economic Development Agency" (Voznesensk), active rest club "Adrenalin", "Arena" sport club, embroidery workhouse "Barvysta", social bakery "Walnut House", "Green Tours Ukraine", repair shop of Lviv NGO "Community of mutual aid Oselya", creative workshop "7 Colours of Rainbow", social training labour centre for drug and alcohol addicts located in Vyhoda, Tire Fitting Shop Service, children development studio "Okoshechko" |
| 4         | Charity fund                               | Charity fund "Children of the Rainbow", Odessa charity fund "The Way Home", charity fund "Caritas Kolomyia and Chernivtsi Diocese"  |
| 5         | Limited liability company                  | Medical-improvement centre "Elbrus", medical rehabilitation centre "Zdorovya", "Social Enterprise SpektrPlus", "Mangust" social enterprise, "Upiter"  |
| 6         | Enterprise of citizens' union              | Enterprise of citizens' union "Kolosok" (launched by the regional public association "Assembly of Cherkassy Disabled"), enterprise of citizens' union "Notis", social enterprise "Social and Investment Group", enterprise of citizens' union "Infoklas", enterprise of citizens' union "User" (launched by the Ukrainian NGO of the disabled users of psychiatric help "User")   |

## APPENDIX 2: INSTITUTIONAL BACKGROUND OF SE MODELS IN UKRAINE

### 1. Institutions exerting a general influence

The *legal environment* within which social enterprises operate includes:

- the Economic Code of Ukraine (2003), which defines basic forms of entrepreneurship and state support for the latter, guarantees of observance of entrepreneurs' rights, activities of enterprises of different legal forms and patterns of ownership, etc.;
- the Internal Revenue Code of Ukraine (2010), which regulates relations connected with taxes and fees payments;
- the Law on Development and State Support for Small and Medium Enterprises in Ukraine (2012), which concretizes kinds and measures of governmental support for enterprises;
- the draft of the Law on Social Enterprises in Ukraine, which focuses on the main questions related to social enterprise activities.

The *organizational environment* of social enterprises *inter alia* consists of:

- the Ministry of Economic Development and Trade of Ukraine;
- the Committee on Entrepreneurship, Regulatory and Antimonopoly Policy of Verkhovna Rada of Ukraine;
- the State Service of Ukraine for Regulatory Policy and Entrepreneurship;
- the Ukrainian Fund for Entrepreneurship Support, which, on behalf of the state, provides different kinds of financial support for entrepreneurs, implements regional policy for small entrepreneurship development, etc.;
- the Social Enterprise Support Centre of Association "Socio-economic Strategies and Partnerships", which supports social entrepreneurs and their businesses within the Donetsk and Lugansk Regions;
- the National Resource Centre for Social Entrepreneurship Development "Social Initiatives", which promotes social entrepreneurship, provides trainings for social entrepreneurs and so on;
- the Sokal Agency for Regional Development in Lviv, which provides educational, consulting, informational and accounting services for businesses, including social ones;
- the Donetsk Regional Coordination Centre of Business Support, which is launched to develop new forms of small and medium entrepreneurship support;
- the Zhitomir Regional Resource Centre on Social Entrepreneurship Development, which implements mechanisms for social entrepreneurs support within the region;
- the State Innovative Non-bank Financial Institution "Fund of Support for Small Innovation Business" (2011), which supports the strengthening of the innovative activity of small Ukrainian entities.

The *main sources for financial support* obtained by small and medium businesses in Ukraine are:

- the Ukrainian Fund for Entrepreneurship Support;
- the German-Ukrainian Fund;
- special credit lines in commercial banks of Ukraine;
- state support, in the form of preferential taxation and credits.

The *informational environment* consists of web-portals devoted to entrepreneurship (including social one), both within some regions and in the whole country. Particularly worth mentioning are the website of the small business and innovations development association “Uzhgorod – XXI century”, and the “Information portal for entrepreneurs - Business Resource”.

*Public programs supporting the development of entrepreneurship in Ukraine* include the National Program to Promote Small Entrepreneurship Development in Ukraine (which has been in operation since 2000) and regional programs dealing with small and medium business development (all regions have their own regional programs and strategies).

## 2. Institutions having an impact on certain SE models

### 2.1. Institutional environment of the entrepreneur support model

The legal environment of enterprises belonging to the entrepreneur support model includes the Law on Financial Services and State Regulation of Financial Markets (2001), the Law on the Credit Unions (2001), the Law on Licensing of Certain Types of Economic Activity (2000), National Accounting Regulations (Standards) (2013), and the Law on Auditing Activity (1993). Since, among the enterprises of this model, there are limited companies, one should also mention the Law on Economic Societies (1991).

Among the key public institutions that influence the behavior of the organizations in this category are:

- the National Commission for the State Regulation of Financial Services Markets of Ukraine, which is responsible *inter alia* for the state regulation and supervision of financial service provision and implementation of the international standards of financial service markets' development;
- the Committee on Finance and Banking of Verkhovna Rada of Ukraine, which *inter alia* regulates activities of non-banking financial organizations and protects the rights of financial services consumers.

In order to achieve better results and to protect certain business interests, enterprises of this model unite into different associations. The largest ones are:

- the nationwide professional NGO “Union of Auditors of Ukraine” (1992), whose main goal is to support auditors and to promote their role. It has 26 subsidiaries in all regional centres of Ukraine and approximately 1,000 members;
- the Ukrainian Association of Certified Accountants and Auditors (2004), which gathers more than 2,500 specialists in accounting, taxation and auditing, and which focuses on the professional development of its members and the promotion of the activities under consideration;
- the international public organization “Council of Independent Accountants and Auditors” (2009), which facilitates reformation processes and accounting and auditing development in Ukraine with their orientation into the European integration processes;
- the Ukrainian National Association of Credit Unions (1994), which brings together 150 credit unions with almost 500,000 members from all regions to develop the credit movement in the country;
- the alliance of credit unions “Deposit Protection Program” (2007), which includes over 45 credit unions and aims to boost their financial stability, transparency and efficiency;

- the Nationwide Association of Credit Unions (2003), which gathers 156 Ukrainian credit unions, i.e. about 24% of the total number of credit unions in the state, with approximately 600,000 members (about 40% of the total number of credit unions' members in Ukraine) with the purpose of coordinating their activities, mutual aid, common interests defense, etc.

There are also various alliances of credit unions in some regions (for example, the Kharkov Association of Credit Unions), which constitute the background for local (regional) consolidated credit unions founding, as a prototype of future cooperative banks. Besides, also worth mentioning is the collaboration of Ukrainian associations of entities belonging to this model with international organizations such as the World Council of Credit Unions, the Canadian Co-operative Association and the Australian Credit Union Network.

Both the government and private organizations have supported business structures of this model through various programs and policies since the early time of Ukrainian independence and up to this point. One of the best-known public initiatives operating today is the Concept on the development of non-bank financial services market in Ukraine for 2013-2014 (introduced by the National Commission for the State Regulation of Financial Service Markets of Ukraine).

## ***2.2. Institutional environment of the employment (work integration) model***

Various laws and programs constitute the legal and political environment for the activities of the enterprises of this model. Among the main national acts are the Law on Principles of the Social Protection of Disabled People in Ukraine (1991), the Law on Collection and Accounting of the Single Fee on Obligatory National Social Insurance (2010), the Law on Rehabilitation of Invalids in Ukraine (2005) and the Law on the Fundamentals of Social Protection of the Homeless Citizens and Street Children (2005).

In addition, a wide network of public bodies and institutes influence the activities of social enterprises of the employment model. The most influential are:

- the Ministry of Social Policy of Ukraine, the main body of executive power, which is responsible for adoption, vocational training and employment opportunities for vulnerable groups of people;
- the Board on Disability Issues, attached to the Cabinet of Ministers of Ukraine, which deals with solving urgent issues of state policy in the field of disabled people's rights and social protection;
- the Committee on Social Policy and Labor of Verkhovna Rada of Ukraine, which provides legislative regulation of the employment sphere and state policy on the social protection of citizens;
- the Invalids' Social Protection Fund, which implements measures to support the employment of disabled people within their competence.

As for the financial support, it is mainly directed to enterprises set up by organizations of disabled people. In 2007 the procedure for granting the right to preferential tax treatment for enterprises and organizations of NGOs of disabled was enacted. The preferential tax treatment concerns income tax, value-added tax, fee for trading activities, land use fees, etc. These enterprises also receive direct financial support within regional and local programs on financial support for NGOs of disabled people.

More than 30 nationwide NGOs bring together disabled people. Examples include:

- the nationwide organization of invalids “Union of Organizations of Invalids of Ukraine” (1990), which aims to protect the legal, social, economic, and other common interests of its members;
- the nationwide union of NGOs “Confederation of NGOs of People with Disabilities of Ukraine” (2004), which was founded to support the efforts of disabled people’s organizations to satisfy and protect their rights;
- the Ukrainian Society of the Deaf (1992), which supports the professional, labor and social rehabilitation and integration of deaf people into traditional life and protects their rights and interests;
- the Ukrainian Association of the Blind (1933), which protects its members’ interests, promotes their integration, and supports their medical, social and labor rehabilitation.

The operational activity of the “employment model” entities is under the influence of national, regional and international programs ratified by Ukraine:

- the National Drug Strategy of Ukraine for the period through 2020 (2013), which *inter alia* provides support to the employment and reintegration of drug addicts under rehabilitation;
- the regional and local programs providing financial support to NGOs of disabled, which provide NGOs of people with disabilities and non-profit entities belonging to those NGOs with funding;
- the UN Convention on the Rights of Persons with Disabilities (CRPD) (ratified by the Ukrainian Parliament in 2009), which contains obligations assumed by Ukraine, including adaptation, rehabilitation and employment of disabled people, etc.

### ***2.3. Institutional environment of the fee-for-service model***

The legislative background within which fee-for-service social enterprises operate is constituted *inter alia* by the Law on Cooperation (2003), the Law on Agricultural Cooperation (1997), the Law on Consumers’ Cooperation (1992), the Civil Code of Ukraine (2003), the Law on Non-governmental Associations (2012) and the Law on Youth and Children’s Public Organizations (1998).

The financial support of the state is mainly directed to non-for-profit organizations and some kinds of not-profit cooperatives (building, gardening and garage), which, according to the Internal Revenue Code of Ukraine, are free from the revenue-based levy under certain conditions. Besides, in 2011, the Cabinet of Ministers of Ukraine approved a Decree on Ratification of the Competition Providing Procedure in Order to Define Programs (projects, actions) elaborated by the Institutes of Civil Society supported financially. Regarding this Procedure, some initiatives of civil society organizations can be financially supported by means of state or local budgets.

Enterprises of the fee-for-service model are grouped into specialized organizations to increase their competitiveness. At the national level, the most important among these associations are:

- the Central Union of Consumer Societies of Ukraine (Ukrcoopspilka) (1920), which gathers 23 regional consumer societies, 197 district unions of consumer societies, 211 district consumer societies, 1,736 rural consumer societies and 217 city consumer societies in order to promote cooperative ideas, manage the actions of its members and represent their interests in certain national and international organizations.

Ukrcoopspilka is a member of the International Co-operative Alliance, of the “League of National (Republican) Co-operative Organizations of Consumer Cooperation of CIS States” and of the “European Community of Consumer Cooperatives”;

- the Consumer Cooperation Trade Union of Ukraine (1991), which advances the interests of its members in relationships with employers and the state;
- the National Agricultural Cooperative Union of Ukraine (1998), which supports the revival and development of the cooperative movement in the Ukrainian agricultural sector.

Besides, there are many regional and local alliances of businesses belonging to this SE model (for example, the Zhitomir regional union of cooperatives and enterprises of other forms of free entrepreneurship, or the Dnepropetrovsk regional union of agricultural service cooperatives “Gospodar”).

The state supports social enterprises in this category through the implementation of several programs for the activation of their development. In 2009, the Cabinet of Ministers of Ukraine approved the Conception of the State Target Program for Agricultural Service Cooperatives Development Support for the period until 2015. This program envisages the implementation of measures aiming to improve the organizational, legal and economic conditions for the creation of agricultural service cooperatives.

Different educational programs have a significant impact on the entities of the fee-for-service model. However, as a rule, they are developed at the microeconomic level, i.e. the level of the enterprise (cooperative, NGO) or their associations. Typical examples of training programs in this field are the “Development of the cooperative movement”, “The role of the board in cooperative’s activity”, “Economy and Law”, and the “Creation of the team of leaders”.

Also worth noting are cooperative institutes that contribute to the development of cooperatives and provide cooperative education (Vinnitsa Co-operative Institute, Khmelnytskyi Co-operative Commercial and Economics Institute, Kyiv Cooperative Institute of Business and Law, etc.).

## ***2.4. Institutional environment of the service subsidization model***

Entities belonging to the service subsidization model primarily operate within the institutional framework for limited liability companies, individual entrepreneurs and NGOs. Service subsidization SEs are affected by institutes affecting social business in general, but no specific institute influences only social enterprises of this group. Their legal environment is constituted by the Law on Economic Societies (1991), the Civil Code of Ukraine (2003), the Economic Code of Ukraine (2003), the Law on State Registration of Legal Entities and Individual Entrepreneurs (2003), the Law on Licensing of Certain Types of Economic Activity (2000), the Decree on Approval of the Model Charter of the Company with Limited Liability (2011), and the Law on Non-governmental Associations (2012). In 2013, the Cabinet of Ministers of Ukraine approved a Conception of the draft of the Law of Ukraine on Limited and Double Liability Companies, according to which it is planned to enact such an act in the near future.

The Ministry of Economic Development and Trade of Ukraine and the State Service of Ukraine for Regulatory Policy and Entrepreneurship are key public bodies that exert an influence on SEs of the service subsidization model.

The government may provide financial support for some individual entrepreneurs in the form of a simplified tax system (in case these entrepreneurs fulfil certain criteria defined by the Internal Revenue Code of Ukraine): those entrepreneurs are able to pay a single tax, and they can receive assistance in the form of investments, privileged credits and other kinds of sponsorship by the Ukrainian Fund for Entrepreneurship Support and regional funds for entrepreneurial support.

NGOs, limited liability companies and individual entrepreneurs all create different associations to join forces to face the main problems they encounter in their activities. Given the large number of entities (at the beginning of 2013, there were over 488,000 limited companies and more than 74,000 NGOs)<sup>13</sup> and the necessity for associations to be really efficient, these associations have very often either a local character or a branch character (an example hereof is the Association of Individual Entrepreneurs, founded in Ivano-Frankivsk in 2000).

## ***2.5. Institutional environment of the organizational support model***

The group of organizational support SEs includes entities with different legal forms, which can either operate separately from the organizations which they support or be created on the initiative of those organizations. Therefore, the legal framework for this model consists of the Law on Economic Societies (1991), the Economic Code of Ukraine (2003), the Civil Code of Ukraine (2003), the Law on Entrepreneurship (1991), the Law on Non-governmental Associations (2012) and the Law on Charity and Charity Organizations (2012).

Public management of this type of enterprises is carried out, generally speaking, by the public authorities and bodies of local self-government.

There are no special programs or policies supporting (financially or otherwise) the subsidiaries of social enterprises (and of commercial enterprises), the individual entrepreneurs or the companies that donate part of their profit to another organization. These enterprises can only be supported through the support programs described in the previous models.

They can gather into alliances based on their field of activity, their organizational or legal form, a common owner, etc.

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<sup>13</sup> State Statistics Service of Ukraine.

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