



# THE SOCIAL ENTREPRENEURSHIP ECOSYSTEM IN UKRAINE: CHALLENGES AND OPPORTUNITIES



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## ABBREVIATIONS AND ACRONYMS

<b>APEA</b>	Applied Political Economy Analysis
<b>ATO</b>	Anti-Terrorist Operation
<b>CF</b>	charitable foundation
<b>CO</b>	charitable organization
<b>CSO</b>	civil society organization
<b>CSR</b>	corporate social responsibility
<b>FGD</b>	focus group discussion
<b>IDI</b>	in-depth interview
<b>IDP</b>	internally displaced person
<b>IT</b>	information technology
<b>Ltd</b>	private limited company
<b>NGO</b>	non-governmental organization
<b>PE</b>	private entrepreneur
<b>PWD</b>	people with disabilities
<b>SROI</b>	social return on investment
<b>UPF</b>	Ukrainian Philanthropists Forum
<b>UNDP</b>	United Nations Development Program
<b>USAID</b>	United States Agency for International Development
<b>WNISEF</b>	Western NIS Enterprise Fund
<b>€</b>	Euro(s)
<b>₴</b>	Hryvnia
<b>%</b>	percent
<b>\$</b>	United States dollar(s)

## KEY TERMS

Term	Definition
Accelerator	An organization that aims to support social startups and to prepare them to receive investments in the growth and scaling phase.
Anti-terrorist operation (ATO)	In the Ukrainian context, a complex of military and special organizational legal measures taken by the Ukrainian security agencies to counteract the activities of illegal Russian and pro-Russian armed units in the war in eastern Ukraine. ATO lasted from April 14, 2014 to April 30, 2018. Following ATO, the Joint Forces Operation was launched in eastern Ukraine.
Applied Political Economy Analysis (APEA)	A methodology that assesses key dynamic characteristics and social, political, and economic motives in a selected sector or locality. An analysis of the current situation in a specific sector, place, and time. Information obtained from this assessment is used to make decisions around program implementation.
Charitable foundation (CF)	A charitable organization acting according to its statute, having participants, and being managed by the participants who are not obliged to transfer any assets to the organization to achieve charitable goals.
Charitable organization (CO)	A legal entity under private law whose articles of association define charitable activities as the primary goal of its operation.
Cooperative	A legal entity established by a private individual or legal entities that united on a voluntary membership basis to undertake joint economic and other activities in order to meet their economic, social, and other needs on self-governance principles.
Crowdsourcing	A method of collective financing based on voluntary contributions.
Donor	An entity that provides official development assistance to other organizations.
Focus group discussion (FGD)	A qualitative survey method consisting of a group interview arranged as a conversation of several (usually 6–12) respondents on a topic specified by an interviewing moderator. FGDs help reveal people’s motivations and perceptions/attitudes to a problem.
Grant	Monetary or other means transferred to individuals and legal persons to undertake an activity clearly specified by a donor.
Impact investing	Investments made into companies, organizations, and funds with the intention of generating a measurable, beneficial social or environmental impact alongside a financial return.
Impact investor	The state, commercial, and other organizations and/or persons that invest material, technological, managerial, or other resources and financial means into solving any social problems, primarily to improve quality of life and to develop human potential.
Incubator	An organization that provides social enterprises with the necessary knowledge, skills, and tools to transform an idea into a business model.
In-depth interview (IDI)	A method of qualitative analysis of information that consists of conducting a non-structured interview on a certain issue and reveals behavior and attitude to various phenomena.

## Term                      Definition

<b>Internally displaced persons (IDPs)</b>	Individuals forced to leave their place of residence because of or to avoid negative consequences of armed conflict, temporary occupation, general manifestations of violence, human rights violations, and/or natural or man-caused emergencies.
<b>Investments</b>	Monetary funds, securities, and other assets, including property or other rights with monetary value, that are allocated into enterprises to obtain an additional income or profit.
<b>Investor</b>	A person who commits capital to an enterprise or activity with the expectation of financial returns.
<b>Loan</b>	Funds and material values granted by a lender to a borrower for use for a specified period of time and at a specified interest rate.
<b>Ltd company</b>	A limited company (LC) is a form of incorporation that limits the amount of liability undertaken by the company's shareholders. It refers to a legal structure that ensures that the liability of company members or subscribers is limited to their stake in the company by way of investments or commitments.
<b>Non-governmental organization (NGO)</b>	A non-governmental organization (NGO) is a non-profit, citizen-based group that functions independently of government. NGOs, sometimes called civil societies, are organized on community, national and international levels to serve specific social or political purposes, and are cooperative, rather than commercial, in nature.
<b>Non-refundable investments</b>	A sum of funds obtained by an economic entity for use under an agreement that usually provides for implementation of social projects and stipulates that the fund do not need to be repaid.
<b>Outsourcing</b>	Delegation (based on an agreement) of certain industrial business activities or functions to another company.
<b>Paternalism</b>	A system of relations under which government provides for citizen and in exchange for government control over both citizen's public and private behavior patterns.
<b>Private entrepreneur (PE)</b>	A business that is owned and run by a private person and in which there is no legal distinction between the owner and the business entity.
<b>Refundable investments</b>	A sum of funds, subject to repayment, obtained by an economic entity for use under an agreement that does not provide for accrual of interest or other compensations in exchange for using such funds.
<b>Social enterprise</b>	A business designed to address social and/or environmental problems in communities and focused on attaining economic and social goals. Social entrepreneurs combine societal goals with an entrepreneurial spirit.
<b>Socially vulnerable population groups</b>	Members of vulnerable or disadvantaged population. Individuals or social groups that are more likely than others to suffer adverse impacts of social or environmental factors or disease. Examples of such groups are drug users, IDPs, women and girls, and people living with HIV.
<b>Venture philanthropy</b>	Combines venture capital concepts and methods with philanthropic goals. Using financial resources and non-material support, builds strong social organizations and projects, particularly those that aim to change people's life for better.



## EXECUTIVE SUMMARY

### Background

Still emerging from the Soviet era, Ukraine is pivoting from a paternalist country with state regulation of economy into a market-driven economy. An unstable political situation, armed conflict, economic decline, and large-scale forced internal migration slow Ukraine's development; doing business, especially that which is social in nature, is challenging under such conditions. Nevertheless, there are positive trends in Ukraine: civil society is becoming stronger, new community initiatives are emerging, and new kinds of businesses focused on sustainable development and social responsibility are taking hold.

The development of social entrepreneurship in Ukraine attracted attention and started to receive support from the international community in the early 2000s. International donor support increased in 2015 as an immediate response to the new challenges connected with the conflict in eastern Ukraine and deterioration of the socioeconomic situation. Today, social entrepreneurship is more widespread due to its capacity to solve social and economic problems; however, this phenomenon is quite nascent and the ecosystem has still not been wholly formed.

### Assessment of the social entrepreneurship ecosystem

The social entrepreneurship ecosystem generally includes entrepreneurs, business associations, corporations, donors, foundations, impact investors, incubators and accelerators, higher educational institutions, intermediary organizations, research institutions, local government, media, and community. In Ukraine, key ecosystem actors still only include social enterprises, incubators/accelerators, and financial institutions (donors, investors, venture philanthropists).

In many cases, establishment and development of social enterprises is related to the recognized need for addressing problems of unemployment, social protection, and inclusion of vulnerable populations that the state is not able to tackle at the moment for various reasons. Non-governmental organizations (NGOs) are motivated to create social enterprises in order to diversify funding, reduce their dependence on donor funds, and attain more flexibility in how the funds are used.

Incubators/accelerators focusing on social enterprises emerged in Ukraine after 2010 as supporting infrastructure in the framework of international donor projects; most acceleration programs for social entrepreneurs still operate within the framework of technical assistance projects, which does not ensure sustainability nor promote systemic solutions. The capacity of higher education institutions as potential social enterprise incubators is not fully realized. In Ukraine, incubator and accelerator functions are very similar and the services they deliver do not differ from one other.

Funders currently demonstrate an increasing interest in supporting social businesses. Financial support for social enterprises in Ukraine is mainly provided by international donor organizations through implementation of technical assistance projects, but the overall funding pool also includes investment funds, philanthropists, and, most recently, regional public funds. Crowdsourcing is becoming a wider-spread phenomenon in Ukraine.

Despite willingness and motivation from entrepreneurs to create and develop social enterprises, there are a number of barriers that prevent this sector from developing in a strategic and standardized manner. Among them are an imperfect legal framework; lack of transparency and corrupt practices; market saturation by donor funds that are often restricted and limited to seed funding; and insufficient access to loans, investment, and private companies' funds. Funders cite a lack of strong teams, lack of social entrepreneurs' soft skills and financial literacy, unwillingness on the part of managers to invest in their teams' business skills development, and the absence of systems for measurement of results and social impact.

## Conclusion and next steps

Since the social entrepreneurship ecosystem in Ukraine is nascent, it is hard to assess how effectively it is functioning at this moment. But, it is evident that the country's social entrepreneurship ecosystem continues to grow and develop. A wealth of opportunities exists for new and existing actors to engage in and improve collaboration within the ecosystem.

Key gaps identified are lack of systemic interaction and communication among the actors and little knowledge of each other. The ecosystem will be more effective if it is supported by a platform designed to ensure regular interactive in-person communication and networking, continuous peer-to-peer training, experience-sharing, and meetings between donors/investors and social entrepreneurs. Also, it is necessary to establish interaction with the business community, which can mentor social enterprises to promote their growth and scale up.

Another important gap that must be addressed is the lack of impact metrics tracking and regular measurement. Both social enterprises and funders must be able to assess the achieved results through the business model lenses and measure the social return on investment (SROI) if they want to attract and justify further investment in the sector.

Lastly, popularization of social entrepreneurship will help overcome a paternalist perception of social problems; involve individuals and businesses in more actively addressing them; achieve more intentional interaction between government, civil society and business; and shape "for-purpose businesses".



## INTRODUCTION

Since 2008, Pact has been implementing United States Agency for International Development (USAID)-funded programs in Ukraine that aim to develop democracy and to strengthen capacity of the civil society. Together with national and local partners, Pact has supported reform implementation, and enhanced civic engagement, improved sectoral and cross sectoral collaboration and dialogue. From 2012–2017, Pact implemented USAID/Ukraine’s flagship HIV project aimed at reducing HIV transmission among key populations through sustainable country-led programs that strengthened the capacity of government and civil society organizations (CSOs) to deliver quality services. In 2015, using this project’s framework, Pact launched a pilot initiative to support HIV services organizations to develop social enterprises to diversify their funding sources and increase service sustainability. For two years, Pact provided technical assistance, mentorship support, and networking opportunities in the format of community of practice meetings to six participating organizations. The effort resulted in the launch of six social enterprises, increased funding channels, and boosted impact.

Building on Pact’s existing initiatives in Ukraine and to explore further the country’s social entrepreneurship ecosystem in order to support its further development, Pact’s expert team conducted an Applied Political Economy Analysis (APEA) from February to June 2018 to understand formal and informal incentives and barriers as they are seen by the country’s key ecosystem actors: social entrepreneurs, incubators/accelerators, and funders. The research included desk review, individual interviews, and focus groups.



## METHODOLOGY

### Applied political economy analysis

Pact used the methodology of APEA to conduct this research during the assessment period of February through June 2018. APEA analyzes key power dynamics and the social, political, and economic incentives operating within a given sector or locality. It analyzes why things are the way they are in a specific place or sector at a given point in time. APEA is applied in the sense that it aims to practically inform project decision-making and investments. Figure 1 shows the five main steps in conducting APEA.



Figure 1. Key Steps in Conducting APEA

Pact Ukraine chose the methodology of APEA because it is well suited to analyzing a wide range of stakeholders in a short time period to uncover broad themes that could inform project decisions and could identify key issues and knowledge gaps for further work and assessment.

### Study purpose and goals

The purpose of this study was to assess the social entrepreneurship ecosystem in Ukraine. The results provide information on existing barriers, challenges, incentives, and opportunities from the perspective of impact investors, incubators/accelerators, and local social entrepreneurs.

This APEA was structured around five primary guiding questions aimed at understanding the key barriers to and opportunities for developing a social entrepreneurship ecosystem in Ukraine.

1. What are existing formal and informal barriers, opportunities and other incentives for funders in Ukraine?
2. What are existing barriers for social entrepreneurs for receiving funds from funders?
3. Which markets/sectors are funders most interested in and why?
4. Which funders (traditional donors, charities, businesses) are supporting the development of social enterprises/ entrepreneurship in Ukraine? Why are they engaging in this space? What challenges do they face?

5. Are funders and investees interested in use of intermediary services to connect with each other for business opportunities?

## Methods of data collection

### Desk research

The Pact team's process had four components: desk research, mapping of main stakeholders in the Ukrainian ecosystem, in-depth interviews (IDIs), and focus group discussion (FGD).

**Desk research** included analysis of existing social enterprises, the spectrum of funders, and incubators/accelerators and the results of previous research in the field of social entrepreneurship. Pact specifically reviewed:

- *Annual Impact Investor Survey*, Global Impact Investing Network (GIIN), 2018
- Synthesis report *Social Economy in Eastern Neighborhood and in the Western Balkans*, European Union, 2018
- Policy report *Cross-sector collaboration for better social outcomes*, European Venture Philanthropy Association, 2018
- *Blockchain for social impact*, Stanford Graduate School of Business, 2018
- *Dealbook of Ukraine*, AVentures, 2018
- Ukraine 2017 annual report, USAID, 2018
- 2017 annual impact report, Mercy Corps, 2018
- *Why business Angels do not invest*, European Business Angel Network, 2017
- The final report on the results of the study *Social enterprises in Ukraine*, Western NIS Enterprise Fund, 2017
- Social Entrepreneurship in Ukraine study, Pact and Western NIS Enterprise Fund, 2016
- *A typology of social entrepreneurs: motives, search processes and ethical challenges*, article in Journal of Business Venturing, 2009
- *Social Enterprise in Ukraine*, International Comparative Social Enterprise Models project, 2013
- *Amplify*<sup>ii</sup>, NGO Impact Investing Network, 2006

Pact conducting mapping of main stakeholders in Ukrainian ecosystem, e.g. social enterprises, funders and incubators/accelerators in order to identify key ecosystem actors.

### In-depth interview

Pact conducted **in-depth interviews (IDIs) with key informants**, including social entrepreneurs, donors/investors, and incubators/accelerators, to identify their motivations, principles of the work of each player in the social entrepreneurship ecosystem, forms for interaction, growth barriers, and needs (Table 1). The interviews were conducted face-to-face by Pact Ukraine staff, or via Skype if in-person meeting was not possible. Members of each group of key informants were asked the same questions as other members of the same group, which are available in Annex 1.

### FGD

Pact also held a mixed **focus group discussion (FGD)** with representatives of social enterprises, donors/investors, and incubators/accelerators to analyze the interaction of all players in the

social entrepreneurship ecosystem, identify barriers of growth and needs, and discuss possible ideas for social enterprise development in Ukraine (Table 1). Annex 2 provides the FGD questions. Pact selected FGD participants based on the recommendations of in-depth interviewees.

## Key informant selection process

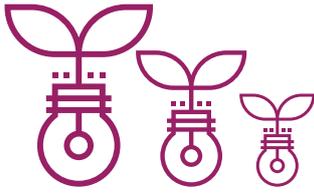
Table 1 lists all key informants consulted in this study. Pact randomly selected 11 social enterprises from the Directory of Social Enterprises of Ukraine using the criteria of legislative form of social enterprise, geographical area of functioning, date of foundation, and sector. Funders were selected based on the type of funding: grant providers (international donor organizations and charitable foundations [CFs]) and investors. Incubators/accelerators were selected based on their target audiences and focus themes.

Table 1. Key Informants

Type	Location	Name of key informant
Social enterprises	Cherkasy	<ul style="list-style-type: none"> <li>▪ <i>Soft Profit</i> furniture production</li> </ul>
	Ivano-Frankivsk	<ul style="list-style-type: none"> <li>▪ <i>Urban space 100</i> public restaurant</li> </ul>
	Kramatorsk, Donetsk region	<ul style="list-style-type: none"> <li>▪ Design and printing studio <i>Gorlyvi</i></li> </ul>
	Kyiv	<ul style="list-style-type: none"> <li>▪ Professional Development Foundation</li> </ul>
	Kyiv	<ul style="list-style-type: none"> <li>▪ <i>Murahi</i> (Ants) charity platform</li> <li>▪ <i>Laska</i> charity store</li> <li>▪ <i>Dobroslon</i> charity store</li> <li>▪ Studio of educational and commercial animation <i>Need</i></li> </ul>
	Lviv	<ul style="list-style-type: none"> <li>▪ <i>Gorhoviiv dim</i> (Walnut House) social bakery</li> <li>▪ Social enterprise <i>Rukomysly</i></li> </ul>
	Nizhny Syrohozy, Kherson region	<ul style="list-style-type: none"> <li>▪ <i>Simeinyi dobrobut</i> (Family Welfare)</li> </ul>
	Funders	Brussels, Belgium
Kyiv		<ul style="list-style-type: none"> <li>▪ American private non-profit venture capital investment fund <i>Omidyar Network</i></li> <li>▪ Regional Direct Investment Fund Western NIS Enterprise Fund</li> <li>▪ International Renaissance Foundation</li> <li>▪ <i>Olena Pinchuk</i> Charity Fund</li> <li>▪ Charity Foundation of the Nechytailo family</li> <li>▪ Charitable Foundation <i>Pomogator</i></li> <li>▪ <i>Astarta – Kyiv</i></li> </ul>
Incubators/accelerators	Kyiv	<ul style="list-style-type: none"> <li>▪ 1991 Open Data Incubator</li> <li>▪ Ukrainian Social Academy</li> <li>▪ International School of Social Entrepreneurship SELab</li> <li>▪ NGO <i>Greencubator</i></li> </ul>
	Odessa	<ul style="list-style-type: none"> <li>▪ Impact HUB Odessa</li> </ul>

## APEA limitations

The main limitation of this kind of assessment is the lack of quantitative information about the ecosystem. The survey is not representative because only qualitative methods were used, which reduced the reliability of collected data needed for the general ecosystem.



## SOCIAL ENTREPRENEURSHIP ECOSYSTEM ACTOR: SOCIAL ENTERPRISES

### Definition and overview

Social enterprises are businesses designed to address social and/or environmental problems in communities, focused on achieving both economic and social impacts. Social enterprise is often denoted with “three Ps”—profit (business), people (society), and planet (environment)—to indicate sustainability where profits are used both for reinvesting in business development and for social impact. International and domestic experience shows that social enterprise approaches are highly effective because of their dual effect: income generation improves lives and ensures sustainability of organizations by reducing the need for continuous financial assistance.

A social enterprise differs from other businesses in that a social impact is a direct purposeful result of operations rather than a byproduct. Social goals are typically enshrined in the organization’s statute or other binding documents approved by its founders. Another difference between social enterprise and business as usual is profit distribution; in a social enterprise, profit from commercial activities is distributed according to social goals.

In Ukraine, corporate social responsibility (CSR) is often confused with social entrepreneurship. Though these two phenomena are different. The goal of socially responsible business is to produce a good or a service and generate profit, while social effect is additional aspect, a byproduct. And it’s upon management team decision whether to create it or not. Social effect for social enterprise is an intentional result and the one that is its core characteristic.

The development of social entrepreneurship in Ukraine attracted attention and started to receive support from the international community in the early 2000s.<sup>1</sup> Since 2015, social entrepreneurship in Ukraine has expanded because of donor support specifically targeting new challenges connected with the conflict in eastern Ukraine and deterioration of the socioeconomic situation. The number of social enterprises actively doing business has risen, from 41 in 2013 to 150 in 2017<sup>2</sup>. Nevertheless, and despite the above standard explanation of social enterprises, there is still no single clear definition of social entrepreneurship in either the country’s legal or professional framework. For example, the Directory of Social Enterprises<sup>3</sup> defines a social enterprise as an organization (regardless of its organizational and legal form) that solves social and/or environmental problems. For an organization to be considered a social enterprise, it might:

<sup>1</sup> [http://pactukraine.org.ua/designed\\_by\\_pact/](http://pactukraine.org.ua/designed_by_pact/).

<sup>2</sup> According to comparisons between the Directory of Social Enterprises from 2013 and 2016–2017.

<sup>3</sup> Directory of Social Enterprises of Ukraine 2016–2017. Available at <http://www.socialbusiness.in.ua/index.php/sotsialni-pidpriemstva/katalog>.

- employ vulnerable population groups, such as Anti-Terrorist Operation (ATO) veterans, internally displaced persons (IDPs), people with disabilities (PWD), or rural residents
- use profits from its activities to support NGO, CO, or CF statutory activities
- use profits to finance services for socially vulnerable population groups

These criteria match the primarily social motivations of the founders that established their ventures initially as COs or NGOs. In particular, social entrepreneurs emphasized their values and desire to improve society, their life experience of tackling their own and societal problems, and their compelling need for self-fulfillment in the social domain. However, these characteristics are confined to the social realm and fail to adequately recognize that a social enterprise is at its core a business, i.e., an independent economic entity established according to legislation to manufacture goods or provide services while meeting societal needs and generating profit. This is a key distinction because investors need proof of viable business models alongside achievable social impact in order to consider financing a social enterprise.

Considering all the above-mentioned approaches and characteristics, a social enterprise can be defined as a business with primarily social objectives whose profits are principally reinvested back into the business or into the community to solve social problems.<sup>4</sup> Shaping a shared understanding of the notion of social entrepreneurship in Ukraine will open new opportunities both to entrepreneurs and to donors/investors and will enable all ecosystem actors to cooperate effectively to enable “for-purpose business” and impact.

## Operational context for social enterprises

Desk review findings indicate that Ukraine’s business environment is still heavily regulated by the government. Still emerging from the Soviet era, Ukraine is pivoting from a paternalist country with state regulation of economy into a market-driven economy. An unstable political situation, armed conflict, economic decline, and a large-scale forced internal migration slow Ukraine’s development.

New vulnerable groups emerged as a result of war and instability, e.g. IDPs and ATO veterans. Displaced women, widows, and women veterans are particularly affected. Social entrepreneurs focus on closing service gaps and providing jobs to vulnerable population groups. Moreover, increased attention to women’s rights in Ukraine and ratification of a number of international treaties and conventions has resulted in revision of gender policies and strengthening the role of women in social and economic spheres; in particular, it gave a boost to the development of female social enterprises.

Ukrainian legislation does not formally recognize such an organizational and legal form as a social enterprise. Existing Ukrainian legislation contains a number of regulatory instruments that partially regulate operations of social enterprises. Article 62 of the Economic Code of Ukraine, Article 16 of the Law of Ukraine on Charitable Activities and Charitable Organizations in Ukraine, Article 21 of the Law of Ukraine

<sup>4</sup> British Council in Ukraine. 2011. *Social Enterprise Planning Toolkit*. Available at [http://www.britishcouncil.org.ua/sites/default/files/posibnik\\_z\\_planuvannya\\_socialnogo\\_pidpriemstva.pdf](http://www.britishcouncil.org.ua/sites/default/files/posibnik_z_planuvannya_socialnogo_pidpriemstva.pdf).

on Public Associations, the Law of Ukraine on Cooperation, the Law of Ukraine on Agricultural Cooperation, and Article 14 of the Law of Ukraine on the Fundamentals of Social Protection of Persons with Disabilities in Ukraine provide some opportunities for the development of social entrepreneurship. Namely, a social enterprise can choose from an existing wide spectrum of organizational and legal forms for its operations, including a simplified registration procedure, setting up a social enterprise within a CSO or charitable organization (CO), or an efficient support mechanism for the enterprises founded by public associations of persons with disabilities.

Even with these existing legal provisions, there are still a number of unresolved issues, including lack of preferential taxation and the risk of losing non-for-profit status. There already has been several attempts of submitting draft laws to the Verkhovna Rada of Ukraine (in 2013 and 2015) that aim to define the social enterprise status and provide certain preferences to such business category. But, the parliament committees have not supported them due to a number of objections to main provisions of the draft laws.

Due to stereotypes and lack of understanding, social entrepreneurs do not find necessary public recognition or support from government for example in the form of tax preferences. Social business is viewed as charity and a model of inclusion, mainly for persons with disabilities.

## Characteristics of social enterprises in Ukraine

### Sectoral affiliation

Social enterprises can be broken down by sectoral affiliation. According to the Directory of Social Enterprises, the most common activity areas for social enterprises in Ukraine in 2017 were occupational, medical and social rehabilitation of vulnerable population groups (particularly PWD, IDPs, and ATO veterans), production of agricultural products, manufacturing and sale of handmade products, and online and brick and mortar retail charity shops (Figure 2). In many cases, social enterprises are not limited to one sector, but work as multifaceted or combined purpose enterprises.

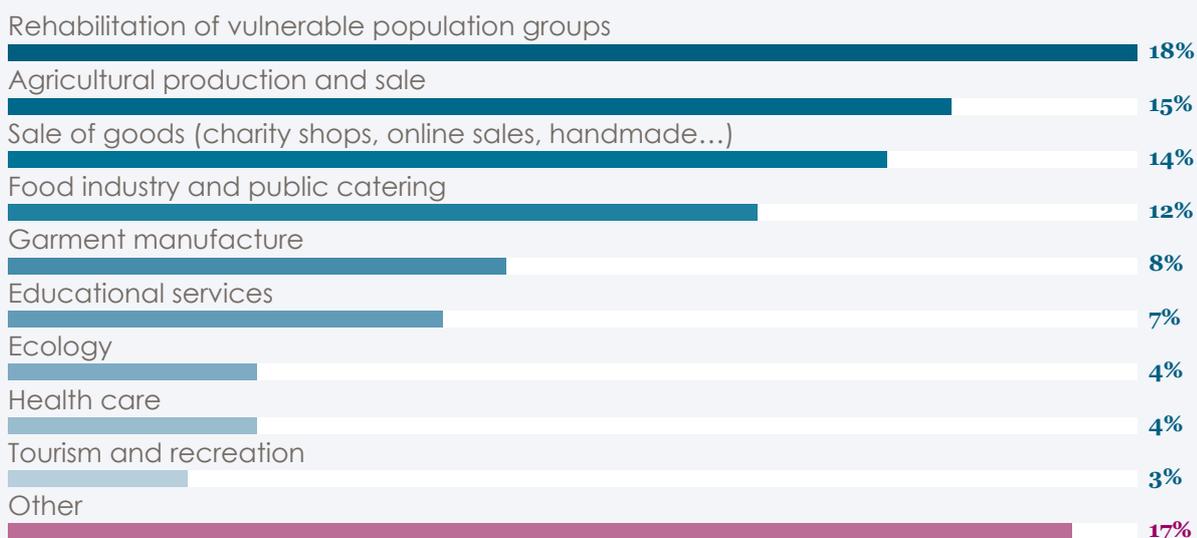


Figure 2. Types of social enterprises by sector<sup>5</sup>, %\*

\*The sum exceeds 100% because social enterprises can belong to more than one sector at once.

<sup>5</sup> Directory of Social Enterprises of Ukraine 2016–2017. Available at <http://www.socialbusiness.in.ua/index.php/sotsialni-pidpriemstva/katalog>.

According to key informants, social enterprises develop their business lines based on trends. As one of key informant shared, “In the beginning, everyone was sewing, then brewing coffee, and now bakeries have become popular.” However, the respondents also say that choice of sector or activity depends on current needs and maturity of the business environment in general. For example, due to decentralization of government services, local communities will soon need to procure their own social services. Therefore, social enterprises aimed at meeting social service needs will be in demand. On the other hand, the number of social businesses engaged in the information technology (IT) sector considerably grows as the demand for IT solutions grows, particularly in the public sector and for public service delivery.

## Social purpose

Social purpose is an important criterion for classifying social enterprises because it distinguishes them from profit-seeking enterprises. For the most part, social enterprises in Ukraine tackle multiple social issues simultaneously, though most focus on employment of socially vulnerable population groups (61%) and profit generation to support the organization (53%) (Figure 3).



Figure 3. Types of social enterprises by social purpose<sup>6</sup>, %\*

\*The sum exceeds 100% because social enterprises can perform a few social functions at once.

## Form of profit distribution

The social enterprise’s chosen activity sector and social purpose often affect which profit distribution form it selects. Ukrainian social enterprises most frequently take on the following forms.

- **100% reinvestment:** All profit is reinvested into expansion of entrepreneurial activities. This approach is typical of the social enterprises created by socially vulnerable persons for self-assistance and job placement and of the cooperatives designed to support economic empowerment at the community level.
- **Partial reinvestment:** Some part of the profit is reinvested and other parts are spent on social objectives. Such distribution is common to the social enterprises established by NGOs and COs. In this case, the part of the profit intended for social purposes is transferred to an NGO or CO, which promotes both development of a commercial component and achievement of a greater social impact.
- **100% redistribution:** The entire profit is used to achieve a social effect. Such an approach is used by social enterprises

<sup>6</sup> Directory of Social Enterprises of Ukraine 2016–2017. Available at, <http://www.socialbusiness.in.ua/index.php/sotsialni-pidpriemstva/katalog>.

mainly established by an NGO/private entrepreneur (PE) tandem, where an NGO provides certain means of production (space) for commercial activities to a PE, but the entire profit is transferred back to the NGO. This type includes almost all charity shops that have different organizational and legal forms and transfer their profits to social projects (their own or other organizations' projects).

### Organizational and legal form

There are various types of organizational and legal forms that social enterprises are using, i.e. NGO, PE, Ltd agricultural cooperatives etc. Ltd (25%) and PE (15%) are the most common forms used in Ukraine. 13% of social enterprises are NGOs and 14% are established by an NGO/Ltd or NGO/PE tandem (Figure 4).

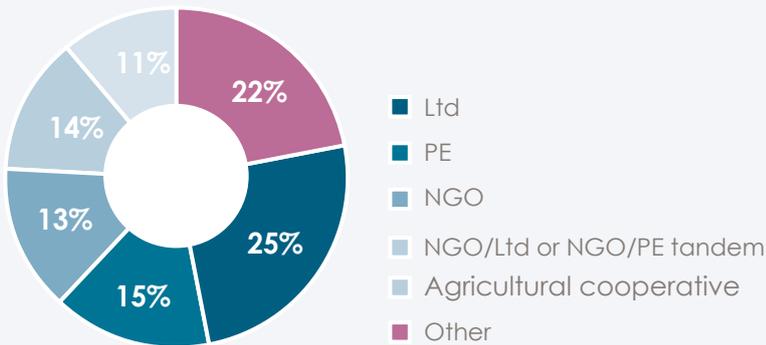


Figure 4. Types of social enterprises by organizational and legal form<sup>7</sup>, %

### Size and duration of operation

In terms of duration of operation (Figure 5) and size (Figure 6), social enterprises in Ukraine are predominantly small, only employing up to five persons and having been formed in the past three years.

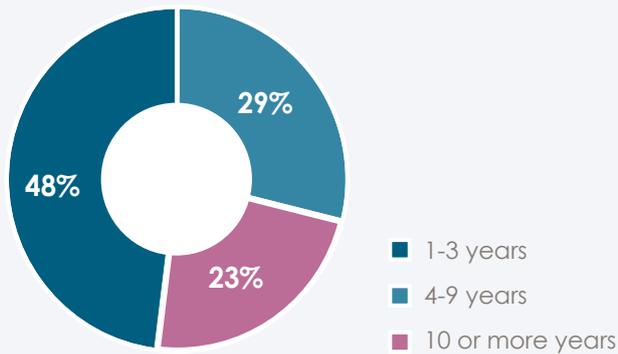


Figure 5. Types of social enterprises, by duration of operation<sup>8</sup>

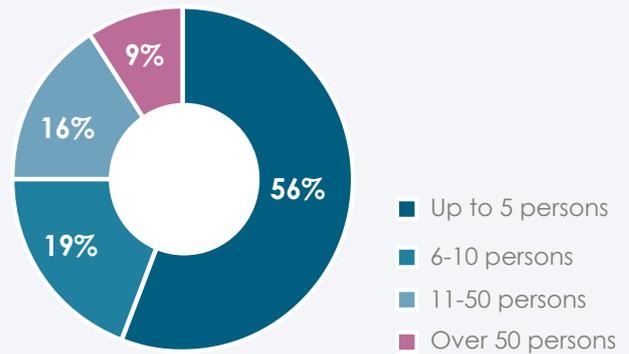


Figure 6. Types of social enterprises, by size<sup>9</sup>

<sup>7</sup> Directory of Social Enterprises of Ukraine 2016–2017. Available at <http://www.socialbusiness.in.ua/index.php/sotsialni-pidpriemstva/katalog>.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

## Geographic location

The greatest number of Ukraine's social enterprises are based in the country's northern regions (43%), particularly Kyiv city (20%), and western regions (27%). According to the Directory of Social Enterprises of Ukraine, the only region where no social enterprises exist is Rivne oblast (Figure 7).

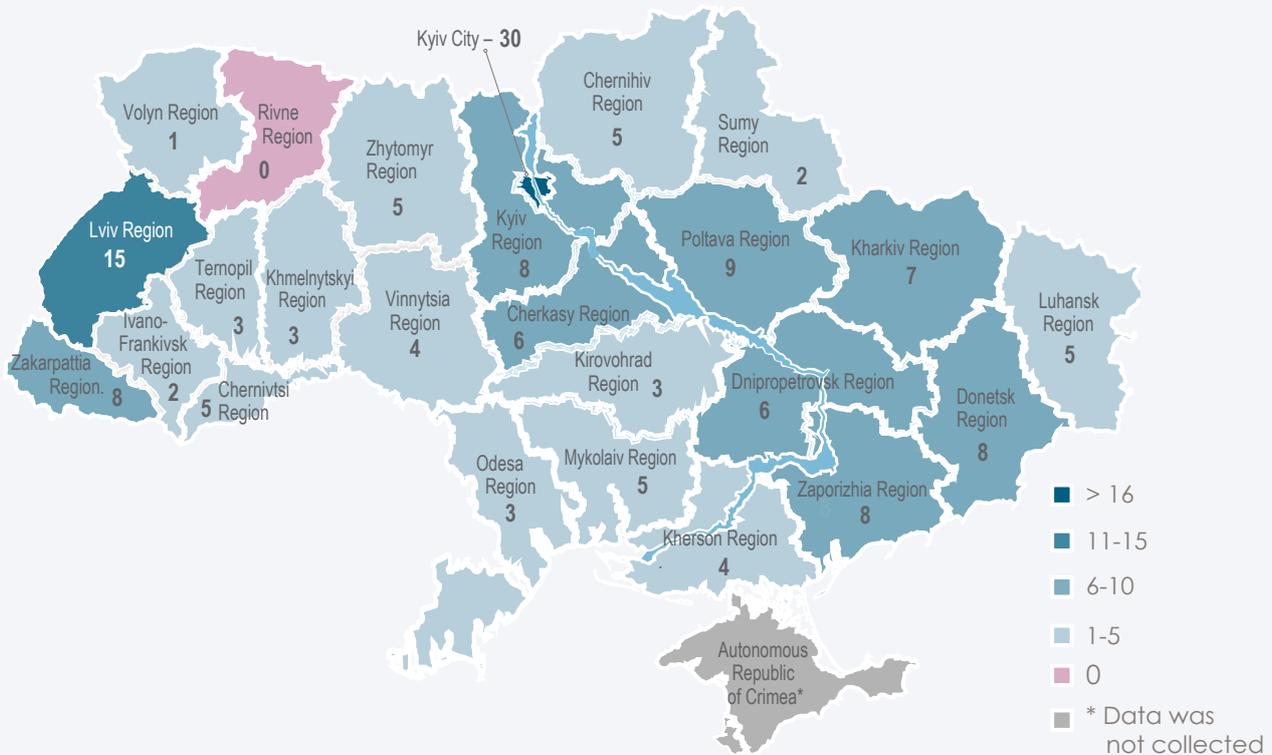


Figure 7. Locations of social enterprises in Ukraine's regions<sup>10</sup>

## Motivations of social entrepreneurs

In most cases, key informants connected the establishment and development of social enterprises to the recognized need for addressing social problems and challenges faced by a community or society in general, where the state is unable to intervene. For example, most recently established social enterprises emerged in response to IDPs and ATO participants needing jobs. These social enterprises provide social services to the population categories left behind by the state and develop new solutions that enhance interaction between government, civil society, and citizens (i.e., IT solutions). NGOs create social enterprise to diversify funding, reduce their dependence on donors, and increase their flexibility in deploying funds.

Overall, the social entrepreneurs listed their beliefs, values, life experience, and sense of social responsibility as their greatest motivations. For example, some social entrepreneurs specifically cited a strong belief in the need to reduce the use of unsustainable textiles and other materials, to ensure professional development and job creation for vulnerable population groups, and to support development of new technology in the civic tech field as aspects of concern that became missions of newly established social enterprises. Worth mentioning is the influence foreign trends from Europe or the

<sup>10</sup> Directory of Social Enterprises of Ukraine 2016–2017. Available at <http://www.socialbusiness.in.ua/index.php/sotsialni-pidpriemstva/katalog>.

United States have on Ukrainian social enterprise development. These foreign social enterprise models tend to be demonstrably successful. For example, the informants reported learning from the experience of their Slovak, United States, and Dutch counterparts, which compelled them to launch their own business ideas.

## Social entrepreneurship development opportunities and limitations

### The Ukrainian legal framework

Almost all surveyed social enterprise representatives stated that a substantial barrier is insufficient legal framework, particularly the lack of specific organizational and legal forms for social enterprise activities,<sup>11</sup> which limits governmental support either as direct funding or tax preferences and causes misunderstandings with fiscal authorities that are not willing to recognize social enterprises established by NGOs and COs. On the other hand, some key informants mentioned that Ukrainian legislation offers NGOs and COs sufficient opportunities to establish enterprises to achieve their statutory goals and that the legal uncertainty enables social entrepreneurs to choose from the wide spectrum of organizational and legal forms the one most advantageous to them.

### Funding access and opportunities

Access to funds required to create and develop social enterprises remains a key concern. The market is rather saturated with donor funds channeled to social entrepreneurship development. However, in reality, such funding amounts to €500 to €10,000 per entrepreneur or enterprise, which is not sufficient capital investment for a sustainable business. Besides, donors very often confine themselves to financing only the startup stage, but fail to allocate funds for further development and scale up. In addition, grant money frequently has certain restrictions on use and fails to meet the entrepreneurs' real and often unpredictable business development needs.

In addition, Ukrainian social entrepreneurs have limited access to loans, investment, and private funds. The key informants reported social entrepreneurs' fear of taking loans, inability to manage equity or debt obligations, a habit of working with grants, ignorance of the wider business ecosystem, and a disconnect with the business community. Overall, non-governmental sector actors, including social enterprises, often close themselves off from the business community and are not willing to establish relations with Ukrainian and foreign business entities, which hinders their integration into a wider ecosystem.

However, there are some examples<sup>12</sup> indicating that loans and investments are efficient mechanism for ensuring the growth of social enterprises. Further, increasing numbers of entrepreneurs are thinking about taking on investments.

### Lack of skills and human capital

Despite the available expertise, knowledge, technologies, and innovations brought in by international donor organizations, incubators, and accelerators, social enterprises are not always ready to deepen their knowledge of the fundamentals of business, marketing, management, and finance, which results in a significant barrier to effectively developing their businesses. Most social enterprises admit to having no strategic development, financial, and communications plans.

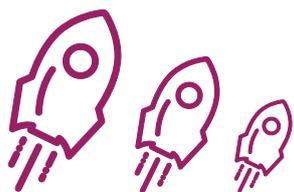
<sup>11</sup> Except for social enterprises founded by NGOs for PWD.

<sup>12</sup> <http://wnisef.org/uk/media/impact-investing>.

Social entrepreneurs, donors/investors, and incubation/acceleration programs confirmed this, consistently pointing to the lack of strong teams in social enterprise startups, owing at least in part to a lack of social enterprise managers' willingness to invest into creating robust teams through training, mentoring and expert support. At least partly to blame is the mentality that social components of the enterprise come before the business components, which causes the business activities to suffer.

### An ultimately upward trajectory

Despite the above challenges and barriers, there are positive trends in Ukraine: civil society is becoming stronger, new community initiatives are emerging, and new kinds of businesses focused on sustainable development and social responsibility are taking hold. And, the number of successful social enterprises is growing. Stories about successful social enterprises change attitudes about this sector and motivate an increasingly greater number of people to support and even establish social enterprises.



## SOCIAL ENTREPRENEURSHIP ECOSYSTEM ACTOR: INCUBATORS/ACCELERATORS

### Overview of incubators/ accelerators in Ukraine

Supporting social enterprises both at the business idea stage and at the startup stage is quite important for their successful development; incubators/accelerators provide this support. Incubators'/accelerators' focus on social enterprises began to emerge in Ukraine after 2010 as part of the supporting infrastructure within international donor projects.

An incubator is an organization designed to boost the growth and success of entrepreneurial companies through an array of business support resources and services, including physical space, capital, coaching, common services, and networking connections. According to international practice, the incubation period lasts 2–3 years on average.

Accelerators advance the growth of existing companies that have an idea and business model in place. These programs build on startups' foundations to catapult them toward direct investment. Accelerators use a more traditional and formal model for entry into their program, whereby participants must apply for a select number of slots. These programs are competitive because the accelerator selects the top startups that are scalable, investable, and show an ability to grow rapidly within months.

In Ukraine, incubator and accelerator functions are very similar and the services they deliver do not differ from one other. Key services offered include business skills training, mentoring support, and networking. Some incubators/accelerators that run within international technical assistance projects provide seed capital in a form of mini-grants. Some incubators/accelerators provide access to loans/investment funds; those who do this often only connect enterprises with local Ukrainian investors who are their personal contacts.

### Types and examples of incubators/ accelerators

Among actors offering incubation and acceleration programs for social entrepreneurs in Ukraine are:<sup>13</sup>

- *Impact HUB Odessa*, which offers incubation programs and consulting services and provided a platform for educational activities and networking<sup>14</sup>
- *Ukrainian Social Academy*, which offers programs for future leaders and social entrepreneurs<sup>15</sup>
- *1991 Open Data Incubator*, Ukraine's first nonprofit incubator, which helps transform open state data into real startups that provide services to Ukrainian citizens, enterprises, and public authorities<sup>16</sup>

<sup>13</sup> The authors of this document did not intend to provide a full list of existing incubation/acceleration programs.

<sup>14</sup> <https://impacthub.odessa.ua/>.

<sup>15</sup> <http://social-academy.com.ua/>.

<sup>16</sup> <http://1991.vc/about/>.

- *Greencubator*, which develops an ecosystem of sustainable entrepreneurship, low-carbon innovations, and green economy in Ukraine and Eastern Europe<sup>17</sup>
- *SILab*, a social entrepreneurship school<sup>18</sup>
- *YEP*, a network of academic business incubators providing business education to young people<sup>19</sup>
- *YEI*, an incubator for youth entrepreneurship<sup>20</sup>

Most Ukrainian incubation/acceleration programs for social entrepreneurs operate within the framework of technical assistance projects funded by international donors. This does not ensure program sustainability or promote systemic solutions because such programs must operate within the parameters of the project and eventually project funding ends. Some examples of these are:

- *Social entrepreneurship: achieving social changes upon the grassroots initiative* project, implemented by the Ukrainian Forum of Charity Providers and funded by the European Union
- *New Countdown* project, funded by the International Renaissance Foundation
- Projects that were implemented by the East Europe Foundation with support from the British and German governments and involving business sector actors, such as Erste Bank in Ukraine

Corporate business incubators have started in Ukraine, as well. Through these entities, big business acquires access to innovations, outsourcing of research and development costs to solve technical tasks, and potential purchase of innovative companies and technology. Startups get access to the market and large customers and have the opportunity to test their products, engage expertise, receive feedback and advice from sectoral experts and mentors, and commercially launch their product in partnership with a sector's key player. Examples of these types of incubators are:

- *Radar Tech*,<sup>21</sup> a technology cluster that unites sectoral corporate accelerators, such as Agro, Telecom, Fintech, and Energotech
- *Agrohub*,<sup>22</sup> which positions itself as a collective impact organization and supports implementation of innovations in agrobusiness through “idea garages” and “hackatons” that result in short-term pre-acceleration and long-term corporate acceleration programs to introduce more technological solutions in agricultural companies

Many incubators/accelerators across the world are run by universities to harness youth-generated innovations. However, in Ukraine, the potential of higher education institutions is not fully realized. At present, a few incubation programs are run by several universities.

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<sup>17</sup> <http://greencubator.info/>.

<sup>18</sup> <http://selab.chasopys.ua/>.

<sup>19</sup> <http://www.yepworld.org/ua/>.

<sup>20</sup> <http://yei.org.ua/>.

<sup>21</sup> <http://radartech.com.ua/>.

<sup>22</sup> <https://agrohub.org/>.

- Ukrainian Catholic University’s Sheptytsky Center established the *UCU Center for Entrepreneurship*.<sup>23</sup>
- *Polyteco* is a youth IT business incubator run by Kyiv Polytechnical Institute.<sup>24</sup>
- *Start-up Business Incubator KNU* is a youth business platform based at Taras Shevchenko Kyiv National University.<sup>25</sup>

Currently some incubators/accelerators operate as separate NGOs or CFs. This allows them to keep using donor and charity funds to function. To enable additional revenue generation, they establish separate PEs or IEs.

## Additional funding streams available to incubators/accelerators

Some incubation/acceleration programs established within the framework of technical assistance projects find opportunities to obtain additional funding, for example from progressive companies searching for innovative solutions, from paid programs or related paid services, through acquiring a share in the created business, or by having the business pay back some part of the invested funds in case of their successful scale-up. Some incubation/acceleration program managers think that participation in the programs must be fee-based; participation fees are currently quite nominal, in most cases at \$100–800.

Most sustainable incubators/accelerators (hubs) receive seed capital from individual investors who see this work as both philanthropy and investment in real estate and equipment. If a hub closes, the money returns to the investor in full. Meanwhile, such an investment allows investors to assert themselves as impact investors and gain credibility instead of immediate financial return on investment.

## The incubator/accelerator program life cycle

Incubation/acceleration program participants are mainly recruited via announcement of a competition posted on official websites and social media. According to key informants, key criteria for program participation include an innovative idea, motivation to develop and scale it, availability of a team, professionalism (technical skills), and commitment to make a social impact. Almost all the key informants said that lack of a strong team is one of the limitations that often prevent social entrepreneurs from realizing their idea and creating a competitive product or service. They also mentioned that most Ukrainian start-ups are excited about their innovative idea, citing “euphoria and enthusiasm,” but are ignorant about market promotion. Having prior experience in business was mentioned as an important but not decisive component, while understanding and problem-solving skills were regarded as more important.

Programs generally last 2–6 months, which includes 1–3 months of intense training and 1–3 months of support. Express programs implemented as part of donor-funded projects exist; they are usually 1–2 days long and result in a business plan that, in reality, is a grant application requesting seed funding. Incubators/accelerators try to follow up with their graduates to analyze how the businesses are achieving financial targets and social impact.

<sup>23</sup> <https://ucucfe.lvbs.com.ua/>.

<sup>24</sup> <http://www.polyteco.com/ua>.

<sup>25</sup> <https://scp.knu.ua/ua/pro-korporatsiui>.

## Incubator/ accelerator needs and gaps in service provision

Incubators/accelerators often complain about the lack of measurement tools. Most incubators/accelerators use sets of indicators (e.g., number of employees, number of products and services produced) to demonstrate social impact and performance across their portfolios. The informants believed that mastering of social impact measurement tools and methods should become part of training programs for entrepreneurs because they will be able to use measurement results to attract additional resources and for advocacy purposes.

Incubators'/accelerators' interaction with each other is not sufficient. There is no platform to exchange learning and best practices. Established cooperation and experience-sharing will enable incubators/accelerators to develop programs that could better meet expectations of beginner entrepreneurs and offer higher-quality training and support.

Incubators/accelerators are an important part of the social entrepreneurship ecosystem in Ukraine; their further development will improve the quality and quantity of the country's social enterprises.



## SOCIAL ENTREPRENEURSHIP ECOSYSTEM ACTOR: FUNDERS

### Investment industry snapshot

Ukraine is gaining more attention from global investors, but still remains an undercapitalized market compared to other European countries. Following a dip in 2016, the data for 2017 indicates that the total amount of venture capital investment in Ukrainian companies has reached its peak at \$259 million, tripling the previous year's investments.<sup>26</sup> 2017 was an exceptional year for private equity investments in Ukraine, with 14 investments at a value of \$126.7 million, compared to the previous three years, when the average number of deals did not exceed four; the largest share was invested in software and online services. Crowdfunding platforms and grant programs grew in popularity among Ukrainian startups; for example, in 2017:

- \$2.1 million were raised by technology and internet sector startups over 16 crowdfunding campaigns
- \$429,000 were received by the main grant programs: Vernadsky Challenge<sup>27</sup> (4 grants) and Horizon 2020<sup>28</sup> (6 grants)

At the same time, while impact investing is growing globally, it has not reached the Ukrainian market yet. The 2018 Annual Impact Investment Survey<sup>29</sup> conducted by GIIN provides data on 229 organizations that collectively manage \$228 billion in impact investing assets and demonstrate a robust growth rate of 13% per annum. Impact investing assets have grown in part by expanding into new regions, sectors, and asset classes. Over half of total assets under management is allocated into emerging markets (56%), but Ukraine remains outside the reach of impact investing community. Currently, Ukraine lacks high quality impact investment opportunities, experiences a deficit of professionals with relevant skills, does not have impact measurement systems in place, and has little government support for the market.

### Sources of funding for social enterprises in Ukraine

#### International donor agencies

Financial support for social enterprises in Ukraine is provided, first and foremost, by international donor agencies through implementation of technical assistance projects. The donors that have provided substantial support to development of social entrepreneurship in Ukraine over the last decade include USAID, the United Nations Development Program (UNDP), and the governments of Germany and Great Britain. These donors channel their resources to help resolve socio-economic challenges and to build the capacity at the individual, institutional, and country levels. Their programs mainly train

<sup>26</sup> Deloitte. 2017. *Ukrainian Venture Capital and Private Equity Overview*.  
[://www.slideshare.net/UVCA/ukrainian-venture-capital-and-private-equity-overview-2017-97295516](https://www.slideshare.net/UVCA/ukrainian-venture-capital-and-private-equity-overview-2017-97295516).

<sup>27</sup> <https://vernadskychallenge.com>.

<sup>28</sup> <http://h2020.com.ua/en/>.

<sup>29</sup> <https://thegiin.org/research/publication/annualsurvey2018>.

persons wishing to establish a social enterprise and other trainers and mentors who can provide further support, design and print resource materials, carry out activities to promote the social entrepreneurship idea, and may provide seed funding or access to loans, usually in the form of non-repayable financial aid between \$500 and \$10,000 or loans between \$10,000 and \$100,000 that need to be repaid over three years at most.

Given the political-economic situation in the country and considering new social challenges caused by the armed conflict in the country's east, most donor resources aim to develop social entrepreneurship and creation of new jobs for IDPs, with a focus on women affected by the conflict and on ATO veterans. Examples of such programs are listed below.

- The *International Organization for Migration*, with financial support from the German government and operating via the German Development Bank, provides monetary grants of €650–5,000 for self-employment and micro-entrepreneurship to IDPs and hosting community members to launch new businesses or expanding existing ones.<sup>30</sup>
- Under the USAID project *Economic Opportunities for People Affected by Conflict*, the *Ukrainian Women's Fund* provided grants of up to \$1,500 for small business establishment/relocation/expansion during 2016–2018.<sup>31</sup>
- The *Renaissance Foundation* provided grants of \$500–3,500 within the framework of the *New Countdown* project that aimed to support launch, development, or renewal of entrepreneurial activities for IDPs, ATO participants, and their family members.
- Under the project *Promoting Social Entrepreneurship in 2010–2013*, the *East Europe Foundation* provided grants of \$7,000–15,000 for development of social enterprises established by NGOs.
- The *East Europe Foundation* provided grants of \$7,000–15,000 for development of social enterprises established by NGOs within the framework of the project *Promoting Social Entrepreneurship in 2010–2013*. The project *Social Entrepreneurship as an Innovative Tool of Addressing Social Development Issues*, implemented jointly with *ChildFund* is aimed at training and peer-exchange among early-stage social entrepreneurs, and popularization of social entrepreneurship overall.<sup>32</sup>
- *UNDP* provided grants to startups of \$2,000–8,500 for development of self-employment and small business among IDPs under the project *Rapid Response to the Social and Economic Issues of Internally Displaced Persons in Ukraine* during 2014–2016.<sup>33</sup>

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<sup>30</sup> <http://www.iom.org.ua/ua/mom-nabyraye-uchasnykiv-novogo-proektu-zi-zmicnennya-ekonomichnogo-potencialu-shcho-finansuyetsya>.

<sup>31</sup> [https://www.uwf.org.ua/grant\\_program/about](https://www.uwf.org.ua/grant_program/about).

<sup>32</sup> <http://eef.org.ua/programi/mistsevij-ekonomichnij-rozvitok/rozvitok-sotsialnogo-pidpriyemnistva/>.

<sup>33</sup> <http://www.ua.undp.org/content/ukraine/uk/home/projects.html>.

**Omidyar Network**,<sup>34</sup> a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives.

Omidyar Network was established in 2004 by eBay founder Pierre Omidyar and his wife Pam. The organization invests in and helps scale innovative organizations to catalyze economic and social change. Omidyar Network has committed more than \$1 billion to for-profit companies and non-profit organizations that foster economic advancement and encourage individual participation across multiple initiatives, including Education, Emerging Tech, Financial Inclusion, Governance & Citizen Engagement, and Property Rights. Since 2013, Omidyar Network has been investing in Ukrainian market-based efforts that catalyze economic and social change. Omidyar Network invests in both for-profit businesses and nonprofit organizations, whose complementary roles can advance entire sectors. In Ukraine, Omidyar Network funds initiatives to strengthen governance and citizen engagement in the sectors of civic tech, open data, artificial intelligence, independent media, and regional priorities for Central and Eastern Europe.

**Western NIS Enterprise Fund** (WNISEF) is a \$150 million regional investment fund, a pioneer in Ukraine and Moldova with more than two decades of successful experience in investing in small and medium-sized companies. Since its inception, WNISEF's cumulative investments total over \$172 million to 127 companies employing around 25 000 people and made it possible to unlock \$1.5 billion for companies in Ukraine and Moldova. In 2015 WNISEF has launched a \$35 million legacy program focused on export promotion, local economic development, impact investing and economic leadership. In Ukraine, WNISEF program being implemented in cooperation with Oschadbank and Kredobank aims to support early-stage and expansion of private enterprises whose primary objective is to achieve social and environmental impact in by providing accessible capital, coaching and mentoring. To fulfill its purpose, this program's strategy is to provide low interest loans for sustainable social business startups and expansion and to mentor social businesses in the process of business plan development and implementation. The Social Enterprise gets a loan between \$10,000 and \$100,000 in UAH for a period of 36 months at the rate of 5% to 10% per annum. Social loans are provided to the small-sized enterprises and self-employed entrepreneurs, who ensure the implementation of social projects and initiatives or solve some social problems of the disadvantaged groups. Preference is given to those projects that support primarily the citizens of Ukraine who suffered from the conflict in the East, including IDPs from southern and eastern regions, people with disabilities, low-income women and members of other disadvantaged social groups<sup>35</sup>.

Funding to support social enterprises is also provided by charitable foundations, such as the Nechytailo Family's Charitable Foundation, Pomogator Charitable Foundation, and Olena Pinchuk's Foundation. In addition, there are some private persons who invest in social enterprises due to personal contacts with entrepreneurs or being enthusiastic about an idea.

<sup>34</sup> <https://www.omidyar.com/>.

<sup>35</sup> <http://wnisef.org/uk/impact-investing/>.

## Ukrainian government support

Recently, the Ukrainian government began providing support to social enterprises. A striking example is presented by the Ukrainyskiy Donetskyy Kurkul, an oblast-level program of support for small and medium-size business launched by the Donetsk oblast state administration in 2017. It gives Donetsk oblast entrepreneurs a chance to develop their businesses and create new market niches and provides grants of up to €500 thousand for their projects. Currently, implementation of one project creates four jobs on average. Overall during 2017:

- 136 projects were implemented, amounting to €31.9 million
- 25% of projects were implemented by ATO participants and IDPs
- 50% of the funding was provided from the oblast budget and 50% from the local budget

The program plans to allocate €340 million in funding in 2018, including €140 million from the oblast budget and €200 million from the State Employment Fund. Local budgets will be required to provide their share of funding, 30% of the total grant amount.<sup>36</sup>

## Crowdsourcing

Another phenomenon of social investments in Ukraine is crowdfunding platforms, both Ukrainian (e.g., Spilnocosht based on the Great Idea platform, Ukrainian Charity Exchange) and foreign (e.g., Kickstarter, GlobalGiving, Firstgiving). Many interesting projects were backed through the philanthropy infrastructure launched by such platforms, wherein a person makes small contributions and becomes a nonrefundable investor; some examples are the SolarGaps project supported via Kickstarter and a multitude of Ukrainian startups in education, tourism, or environmental protection, such as ZELENEW, WOWkids, EdEra books, Mobilna Tekhnostudiya, and WordArt supported via Spilnocosht.

An interesting example of crowd investing is Urban Space 100 community restaurant in Ivano-Frankivsk created by 100 individual investors, each of whom contributed \$1,000 and became a co-owner. Having opened on 27 December 2014, the restaurant is working and generating profit, 80% of which is used solely for implementation of community initiatives and projects. The decision on which projects should be supported is made by the restaurant's founders. The restaurant idea belongs to the Teple Misto platform that engaged in search for founders and launch of the restaurant. At present, Teple Misto is working on the Urban Space Global program that provides for opening of similar restaurants in other cities on the social franchise terms. Urban Space 500 in Kyiv, to be opened in autumn of 2018, will become the first of this type of franchised restaurant.

## Why funders might provide financial support to social enterprises

Investors and donors currently demonstrate an increasing interest in support for social business. Impact investors mainly believe that all people can improve their lives if they are given opportunities for that, so they target their efforts on the creation of such opportunities. Key motives for most donors and investors include ensuring greater organizational independence and program sustainability. According to donors, they like the organizations that “don't need money for one good deed but they need an investment that will eventually help do many good deeds.”

<sup>36</sup> <http://dn.gov.ua/category/potochna-diyalnist/ukrayinskyj-donetskyj-kurkul/>.

Some funders support only clearly defined target groups, such as IDPs or ATO veterans. Others say that their main goal is not to exercise any discrimination (even positive), either on a geographic basis or on the grounds of sector affiliation, population group, or any other criteria. The activity sector generally does not matter to donors/investors, although preference is given to creative and innovative businesses. Some funders are interested in and provide purposeful support to technology solutions in a distinct field. Others do not work on solving specific problems, but work with entrepreneurs whose actions aim to solve social or environmental problems.

A social enterprise's scale-up capacity and sustainability are very important to funders. Even if funding is granted to a nonprofit organization, a sustainability strategy is still one of the conditions to obtain the funds. According to investors, grant money should result in the creation of a profitable business. Otherwise, it is a nonprofit organization, not a social enterprise. All informants agreed that a professional, coherent, and efficient team is one of the most important criteria for getting financial resources.

Traditional donors generally select business projects via open calls for proposals, while investors often search for potential business projects by themselves or offer an opportunity to receive funds without time limitation of a specific competition. In addition to funding, both donors and investors provide technical assistance in some form: training, mentoring support, or so-called "core support" to build capacity of an organization or company, not limiting support to a concrete business project. The key motive for impact investors is a more rational approach to social problem-solving and greater impact for less money.

## Barriers from the funders' perspectives

Donors and investors note legal system barriers, legislative aspects, and ownership issues, among other barriers.

Due to non-transparency and corrupt practices, neither investors nor enterprises are protected. Quite often entrepreneurs refuse to proceed with business concept development due to legal registration limitations (e.g., high taxation rate, limitations with hiring employees) and heavy accounting and bookkeeping system requirements. The Ukrainian diaspora shows interest in impact investments in Ukraine, but is afraid of risks and has low confidence in the system.

Capacity of Ukrainian social organizations and enterprises is another considerable barrier. As informants emphasized, organizations and entrepreneurs often forget that they are business; they do not understand business approaches, lack soft skills, often are not financially literate enough, have no system for measurement of results and social impact, prefer grant funds, and are often donor-driven. Investors are interested in the breakeven operation and scale-up capacity of social projects, so the entrepreneurs' ability of turning financed projects into profitable business models is important to them. Informants want to invest funds in effective enterprises with strong teams able to implement their business ideas.

## Funders' interest in using an intermediary service

Some IDI questions (see Annex 1) dealt with determining whether the funders are interested in using intermediary agency services, such as incubation/acceleration programs, offline and online platforms. Some informants directly financed creation of incubators/accelerators through grants for equipment or core funding to enhance sustainable operations. However, some informants were skeptical about quality of the incubation/acceleration programs currently available in Ukraine and about the intermediary system in general. Some believed that intermediaries could play a role in improving entrepreneurs' soft skills, a key element in investment readiness. The market of impact investments will develop if competitive proposals are offered. The informants thought that such services could be partially paid for by the entrepreneurs and partially covered by investors.

## Measuring social impact

With regards measurement of a social impact, the informants were of mixed opinions. For the most part, funders monitor agreed-upon project indicators. Not all informants were willing to pay for the cost of expensive methodologies, such as SROI.



## INTERACTION WITHIN THE ECOSYSTEM: GAPS, CHALLENGES, AND OPPORTUNITIES FOR DEVELOPMENT

Social entrepreneurship ecosystem has still not been wholly formed. Traditionally the social entrepreneurship ecosystem generally includes entrepreneurs, business associations, corporations, donors, foundations, impact investors, incubators/accelerators, higher educational institutions, intermediary organizations, research institutions, local government, media, and community. In Ukraine, key ecosystem actors still only include social enterprises, financial institutions (donors, investors), and incubators/accelerators.

Since the social entrepreneurship ecosystem in Ukraine is only beginning to develop, it is hard to assess so far how effectively it is functioning. As estimated by the key ecosystem actors, interaction is managed on case by case basis via personal contacts. Social enterprises are still not included in the traditional business supply chain and often cannot be contracted because of their low capacity or scale.

### Communication between ecosystem actors and with the public

A key gap is lack of systemic interaction and communication among the actors. Social entrepreneurs need to look for new funders, while funders need to learn about existing business ideas and to understand a business model. The study participants believe that social entrepreneurs need trainings on possible ways of obtaining funds, differences between grants and investments, the essence of non-refundable and refundable investments, fundamentals of loans, and other areas. There is an evident need for regular in person meetings of all the ecosystem actors at thematic conferences and events, demo days, meet-up sessions with real social entrepreneurs, and forums for real-life communication of social entrepreneurs with each other and with investors. Some key informants wanted to involve in these activities:

- foreign social entrepreneurs to understand how they attract funding and generate profits
- foreign impact investors to promote attraction of investments in Ukraine
- traditional media

Other important communication activities that informants suggested include:

- producing social video clips to promote popularization of the social entrepreneurship sector
- carrying out awareness-raising activities among the general public to explain the meaning of social entrepreneurship and build trust
- holding learning activities and disseminating information about successful social businesses to mobilize the social entrepreneur community and attract new investments

## Measuring social impact

According to the ecosystem actors, creation of a platform for effective systematic interaction and communication would lead to greater trust among the actors and foster development of the ecosystem. However, such an activity should be intentional and systemic, rather than intuitive.

Some social entrepreneurs believed that it would be interesting to create an interactive online resource where all ecosystem actors would be represented. Such an online resource would be a useful starting point for exchange of ideas, knowledge, and best practices. The online resource erases the boundaries of the unknown and allows everyone to know where to find information and potential partners. Meanwhile, donors and investors thought that online resources are not always credible and would fail to promote development of interaction among the ecosystem actors.

There is an information online resource on social entrepreneurship in Ukraine<sup>37</sup>. It was created in 2013 and has been financed with grant support from a number of donors. It will be updated in the near future within the framework of the Social entrepreneurship: achieving social changes upon the grassroots initiative project implemented by the Ukrainian Philanthropists Forum (UPF) with the European Union's financial support.

All the informants underlined the need for real-life and informal communication and for in-person meetings to build social relations. The informants stressed that online resources do not help build trust.

Lack of social impact measurement is another gap. The social entrepreneurship ecosystem in Ukraine has no systematic monitoring and evaluation; social impact is mainly documented in terms of individual cases rather than as the overall impact of social enterprises at the national level. The social enterprises supported under certain grants report to their donors against prescribed indicators with no real measurement of their impact upon the society as a whole. At the enterprise level, only the number of persons who received assistance and financial results are recorded. Further, the ecosystem has no adopted tools to assess enterprise efficiency both in terms of economic and social impacts.

In the opinion of some investors, many people do not believe in business that will be social and the faster they obtain tools to measure and understand that, the better. Social enterprises are interested in having impact metrics to be able to attract investors. Funders need a measurement tool to identify high impact enterprises that are bringing both financial and social returns on investment.

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<sup>37</sup> <http://www.socialbusiness.in.ua/>.



## CONCLUSIONS AND FUTURE DEVELOPMENT PROSPECTS

### Defining social entrepreneurship in Ukraine

The subject of social entrepreneurship in Ukraine is becoming increasingly widespread. Despite dynamic development of social enterprises that address the issues of employment, social protection, and social inclusion, there is still no legal definition of a social enterprise. It would be reasonable to use the definition adopted by the European Union, according to which social enterprises combine societal goals with an entrepreneurial spirit. Such organizations concentrate on achieving wider social, environmental, or community objectives. Their main goal is to strengthen a social impact rather than just make a profit for their owners and shareholders. Such enterprises often employ socially vulnerable population sections, thereby promoting their inclusion, employment, societal unity, and reduced inequality. Social enterprises operate by means of producing goods and services and use their profits primarily to achieve social objectives. They function in an open and responsible manner, particularly involving employees, consumers and stakeholders affected by their commercial activities. In other words, a social enterprise, regardless of its legal form, is part of business the key task whereof is to make positive social or community impacts.<sup>38</sup>

Most social enterprises in Ukraine are NGOs that know and meet the needs of the community in which they work. They address the problems of the entire community rather than of the vulnerable population groups they are established for. At the local level, public authorities and individuals benefit from the innovative approaches applied by social enterprises to close the gaps that cannot be closed otherwise. Social enterprises focus on achieving wider social, environmental, or community objects, not on maximizing their profits. This considered, their funding needs differ from those of traditional business and they are not a part of a traditional investment community.

### Characteristics of investors

The impact investment market in Ukraine develops spontaneously, and traditional investors are not willing to invest funds in social enterprises. As a result, donors act as a key source of funding for social enterprises. Donor resources are quite important to support enterprises in the start-up stage, promote the social entrepreneurship idea, and quickly respond to social challenges related to the need for job creation and providing services to vulnerable populations. The grants provided by these donors provide for establishing a social enterprise, obtaining seed capital, and teaching the team the basic skills of doing business. However, due to availability and accessibility of donor resources, social enterprises that have received support ignore the need for scale-up, oppose themselves to the business community, fail to achieve sustainability, and terminate their operation after the grant has been exhausted.

<sup>38</sup> [http://ec.europa.eu/growth/sectors/social-economy/enterprises\\_en](http://ec.europa.eu/growth/sectors/social-economy/enterprises_en).

In general, the impact investment sector in Ukraine is quite underdeveloped. There is no network of investment funds that would systematically engage in this activity; there are individual social investors but investing occurs chaotically. International investors are not interested in coming to Ukraine because they see no strong teams or attractive business ideas able to compete in international markets. Besides, some matters of ownership are still unsettled in the Ukrainian legislation and the judicial system is weak, so investors cannot protect their legitimate rights in Ukrainian courts.

Impact investing, similar to loans, requires entrepreneurs to meet certain criteria. Therefore, many social entrepreneurs disqualify themselves from applying for funding. The issues they face include insufficient knowledge of the fundamentals of business, marketing, management, and accounting and, for many, a lack of integration with the business community. From an impact investor's point of view, a social enterprise must be successful, sustainable, and competitive in the impact investment market, which enables it to function and scale up. Investors are interested in the breakeven operation and growth capacity of social projects, hence entrepreneurs' ability to turn financed projects into profitable business models is important to them. Investors want to invest funds in effective enterprises with strong teams able to implement their business ideas.

One way of enhancing the development of social entrepreneurship could be by introducing hybrid funding, a combination of grants and investments within the framework of implementing one project.

All the above considered, the key informants shared the opinion that it is necessary to introduce stricter conditions and criteria for selection of organizations to obtain grant aid from donors and foundations, including requirements for an enterprise to achieve self-sufficiency within the timeframe set by the business project and to support those entrepreneurs who will be successful and effective managers.

## Utilizing existing resources effectively

It is necessary to establish interaction with the business community, which can provide mentoring support to promote the growth and scaling up of social enterprises.

The capacity of higher education institutions as potential social enterprise incubators is not efficiently used in Ukraine. International best practice demonstrates active involvement of the student community in the development of innovative solutions in response to social challenges. Drafting and introducing training programs on social entrepreneurship at higher educational institutions would promote development of young people's entrepreneurial skills and social responsibility.

## Promoting entrepreneurship to the public and among ecosystem actors

The context of distrust toward social entrepreneurship in society shapes a perverse attitude; some people perceive it simply as a charitable activity, others treat it as a public relations exercise and self-enrichment, while some others believe that if something is free of charge or cheap then it is of bad quality. Popularization of social entrepreneurship will help overcome a paternalist perception of social problems, involve individuals and businesses in addressing them more actively, achieve more intentional interaction in the government–civil society–business triangle, and shape meaningful business.

Since the social entrepreneurship phenomenon is just starting to gain popularity, the ecosystem has obviously still not been wholly formed, its actors have little knowledge of and cannot build interaction with each other. The formation of an effective ecosystem can be enhanced by a platform designed to ensure regular interactive in person communication and networking, continuous peer-to-peer training, experience-sharing, and meetings of donors/investors with social entrepreneurs. Such a platform should involve not only the social entrepreneurship ecosystem key actors, but also members of the business community, successful startups, and representatives of authorities and media. Involving representatives of partners from foreign countries in such regular meetings would promote understanding of peculiarities of international ecosystems and would attract external investments in Ukraine.

Such a platform also would ensure systematic monitoring and evaluation of the ecosystem and of social enterprises' success as competitive businesses and in implementing social objectives. The SROI method is an appropriate tool for such measurement. Assessment of a social effect and measurement of SROI can become additional motivators for the development of the social entrepreneurship ecosystem and for involvement of new actors both from the donor community and investors.

# ANNEX 1. IN-DEPTH INTERVIEW GUIDES

## 1. Social entrepreneurs

- 1.1. What social problem is your social enterprise addressing? What does your social enterprise do, what products or services does it sell? When and why did you decide to set up a social enterprise? What were your first steps? What challenges did you face? Did you receive any training? If yes, tell us more (who, how long, what was the most helpful?). Where did you get the seed funding (grant, loan, investment)? How did you find it? When did you breakeven and begin making profit?
- 1.2. For those who receive grants: Did you receive one or multiple grants? Was it a competitive process? What did the grant cover (e.g., training, equipment, salaries)? How flexible was/is the donor? Did/do you feel any constraints? Are you ready to take a loan or receive an investment? Why yes, or why not? Do you know where to look for a loan or an investment? What non-financial support would help you to receive an investment? Are you ready to pay for this support?
- 1.3. For those who receive investment: Why did you decide to take an investment? Can you describe for me the process and challenges of obtaining those funds? Where did you find it? What was the prep process? On what stage are you in the return process? Are you receiving a non-financial support from the investor to manage and grow your business? Do you know why the investor was interested in investing into your enterprise? What capacities did you have and lack to receive an investment? What additional non-financial support would you benefit from?
- 1.4. Do you have growth strategy of your social enterprise? If not, why? Did you think about further development of your enterprise? Did you think about extension to new markets? If yes, what is your strategy? What assets do you have for growth strategy implementation? What barriers do you see for growing of your enterprise? Do you see how to overcome them?
- 1.5. To what extent do you know of and are in touch with other social enterprises? What kind of interaction do you have with others in the social enterprise space? (Do you know other social enterprises? Do you keep in touch? Are you part of any network?) Do you think there is a need in networking and peer to peer support? How would you use it for your development? What causes others within the social sector from engaging in social entrepreneurship? From your point of view, social enterprises are more open to grants or investments? What are the reasons? What instruments\tools\strategies do you use to find funders?
- 1.6. From your standpoint, is Ukraine attractive to impact investors? Why or why not? What are the spheres? Would you use the services of an intermediary to connect you to investors?
- 1.7. Would social enterprisers be interested to have access to registry of donors/investors with available search on different parameters on payment basis? Why? What amount of money would you pay for access? Why not? What other resources would be interesting for you?
- 1.8. As a social enterprise, are you measuring social impact? What tools and methodologies do you use? Are you interested in social impact measurements? Are you ready to pay for it?
- 1.9. Do you know other social entrepreneurs who would be interested to take part in our study? Could you share their contact details with us?
- 1.10. Would you like to add something to our interview?

## 2. Incubators/accelerators

- 2.1. How long your incubator/accelerator has been operating? Do you provide funding for startups? What services do you provide for your program participants? What are the components and duration of the program?
- 2.2. Who funds you? How do you find funders for your incubator/accelerator? What are their incentives? What are conditions from funders' side to provide funding for you? What are the barriers to provide funding for you (if any, legislative, structural, financial, cultural, etc.)? Do funders drive your decision to support startups in certain sphere?
- 2.3. How did you select your program participants? What are the terms of selection program participants? Shall participants have certain assets to become your program member? From your experience, what are the strengths and weaknesses of your program participants?
- 2.4. Are you measuring social impact of startups you support? What tools and methodologies do you use? Are you interested in the measurements? Are you ready to pay for it?
- 2.5. Do you know representatives of other incubators/accelerators who would be interested to take part in our study? Could you share their contact details with us?
- 2.6. Would you like to add something to our interview?

## 3. Funders

- 3.1. How long have you been funding enterprisers with social impact? In what markets do you provide funding and what drives your decisions around which markets to invest in? Do you do impact investments (with financial return) or you do grantmaking as venture philanthropist? If you do both, what drives your decision? What are your incentives? Tell a story of your funding cases? How did you select the investees? How did you make a decision to fund\invest? If it was an investment, did you receive a return?
- 3.2. What do you think are the other spheres attractive for funding? Do you consider them? What are the barriers for funding (legislative, structural, financial, cultural, etc.)? Are there markets where you would like to be able to address (or you think others would like to invest) but haven't been able to? What would enable you or others to be able to operate in those spaces?
- 3.3. What do you think of potential capabilities of Ukrainian for-purpose organizations receive and manage investments\grants? Do you use any assessment criteria? From your experience, which are the strengths and weaknesses of for-purpose organizations? Within this frame, do you provide any non-financial support to for-purpose organizations?
- 3.4. Do you collaborate with any local incubator\accelerator? If yes, what are spheres of your interest? What are conditions to provide funding?
- 3.5. Would you use the services of an intermediary to connect you to for-purpose organizations? Why? Why not? What would you expect from the intermediary? What is ideal intermediary package of services for you? Are you ready to pay for it? If yes, what amount of money would you pay?
- 3.6. Would funders be interested to have access to interactive platform provides access to information on prospective social projects and for-purpose organizations with available search on different parameters on payment basis? Why? What are other resources you would be interested in?
- 3.7. As a funder, are you measuring social impact? What tools and methodologies do you use? Are you interested in social impact measurements? Are you ready to pay for it?
- 3.8. Do you know other funders who would be interested to take part in our study? Could you share their contact details with us?
- 3.9. Would you like to add something to our interview?

# ANNEX 2. FOCUS GROUP DISCUSSION GUIDE

## 1. Social enterprises

- 1.1. What are the incentives, opportunities in the sphere of social entrepreneurship? What are existing formal and informal barriers for social enterprises?
- 1.2. From your point of view, are social enterprises more open to grants or investments? What are the reasons? What are existing barriers for social entrepreneurs for receiving funds?
- 1.3. From your point of view, are social enterprises sustainable? How social enterprises can become stronger, more efficient and sustainable? Can social enterprises work independently without grants and investments?

## 2. Funders

- 2.1. Which funders (traditional donors, charities, businesses) are supporting the development of social enterprises/entrepreneurship in Ukraine? Why are they engaging in this space?
- 2.2. From your standpoint, is Ukraine attractive to impact investors? Why or why not? What are the spheres?
- 2.3. What challenges do donors/investors face? What are the barriers for funding (legislative, structural, financial, cultural, etc.)?
- 2.4. From your experience, what are the strengths and weaknesses of social enterprises in forming and realization of business model?
- 2.5. What steps should be done (on national, local and private level) in order to attract investors to Ukraine?

## 3. Incubators/accelerators

- 3.1. What services do incubators/accelerators provide? Do they provide funding for startups?
- 3.2. Who are the participants of incubators programs? What are their strengths and weaknesses?
- 3.3. Who funds incubators/accelerators? What are the barriers to provide funding for incubators/accelerators (if any, legislative, structural, financial, cultural, etc.)?
- 3.4. What are the barriers, incentives, opportunities in the sphere of incubation/acceleration?

## 4. Ecosystem

- 4.1. What kind of interaction do you have with others in social entrepreneurship sphere? Are you part of any network? How often occurs formal or informal meetings with different players? Are there enough of means of interaction in the ecosystem? Do you think there is a need in networking and peer to peer support?
- 4.2. Is there a need for expert support? If yes, what kind of support?
- 4.3. Are you measuring social impact? What tools and methodologies do you use? Are you interested in social impact measurements? Are you ready to pay for it?
- 4.4. What are other needs of social enterprises, donors, investors, incubators/accelerators do you see?



