Economic Consequences of Changes in the Civic Society Institutions in Poland

Krystyna Kietlińska
Krystyna Piotrowska – Marczak
Bożena Mikołajczyk

1. Civil society – the non-profit sector– social economy

It is not easy to identify relationships connecting a civil society, a social economy and a non-profit sector, because the civil society is, in a sense, a form of organization a society chooses to organize itself, whereas social economy and the non-profit sector represent a body of guidelines allowing self-realization of the civil society. A helpful approach to identifying the relationships between the above categories defines each category and describes its features.

The term civic society is very difficult to explain because of the multitude of definitions that are mainly formulated by sociologists and philosophers who point to a set of features characterizing societies that call themselves civic. The most important of them are:

- active and aware citizenship,
- societal relations based upon trust and co-operation, (Putnam, 1994)
- equality of participation, equality in the face of law, equal access to opportunities, (Dehrendorf, 1994)
- political institutions and the Constitution enable peaceful co-existence of various attitudes and values,
- the rule of law, which can take various forms, (Gray, 1997)
- the right to establish autonomous institutions that are exempted from State’s control and express citizens’ will. (Taylor, 1994)

The above characteristics suggest that the civil society is a special form of society’s self-organization or materialization of citizens’ co-operation that purposes to satisfy social needs to a degree the society accepts.

The other two terms, i.e. a social economy and a non-profit sector, are related to institutional ways of determining and financing social tasks. In other words, they are ways of fulfilling tasks that a civil society assumes and the solutions they include are non-profit organizations and social economy.
The non-profit sector, otherwise the third sector, is positioned between the public sector and private sector to compensate for their shortcomings. Its operational instrument is private, non-public institutions that stress the meeting of specific social needs and not profits (Schuppert 1990, Billis 1989; Kietlińska 1995).

In the last decade of the 20th c., mixed-type institutions appeared at the borderline dividing the private sector and public sector. They are private business organizations having various links with the public State or local administration. For that reason, they can be grouped into three categories:
- co-financing (partnerships),
- supported by public funds (social enterprises),
- operating independently but not for profit (cooperatives, mutual companies)

All the forms of organization surfaced to contain negative social phenomena, such as unemployment, poverty and social pathologies. They are business organizations subject to market mechanisms but realizing important social goals. They combine two goals that are difficult to integrate, i.e. economic effectiveness and social effectiveness.

The emerging need to establish such organizations boosted the development of their theoretical foundations. The new forms of organization fitted neither the classic sectors (private, public or non-profit), nor the existing hybrid areas.

In the course of discussions, the term social economy was reactivated.

The notion of social economy is very broad and heterogeneous. Its paramount objective can be summarized as ‘people’s benefit over profit maximization’. In very general terms, in a social economy goods and services are generated not only by the non-profit sector, but also by private firms whose shareholders accept the primacy of social goals over economic goals. (Kwaśnicki 2005)

Entities or institutions that fall under the social economy definition can be broken down into two groups:

1. providing social services;

their representatives are classic non-profit organizations, such as
- foundations,
- associations,
- charities,
- other non-profit organizations*

* The English language literature operates the abbreviation CMAFs (Cooperatives, Mutuqals, Associations, Foundations) to name the two types of organizations.
2. running broadly understood business operations,

The other group includes:
- cooperatives,
- mutual assistance funds,
- mutual companies,
- social enterprises,
- some types of public-private partnership (PPP),

To summarize the implemented solutions, it is worth attempting to present a model that outlines relationships between the civic society and the social economy, the latter containing, as we tried to prove, also the non-profit organizations.

Figure 1. Relationships between market economy sectors.

```
<table>
<thead>
<tr>
<th>Private sector</th>
<th>PPP (1)</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

Third sector (social economy)

Activities of business organizations

Activities of non-profit organizations

Civic society

Source: developed by the author.
The scheme shows that the civil society is based on an efficiently functioning economy, in which the private sector and public sector are accompanied by the third sector (social economy) incorporating both businesses and non-profit organizations. Beside, there is a whole range of hybrid institutions, sitting at the borderline between the three sectors. Special attention should be paid to the PPPs that seem to fit the border area of every sector depending on the type of partners involved and the goals they assume.

The multitude of organizations making up the social economy makes us choose those to be studied more in detail, because the framework of this paper does not allow a more general discussion. For that reason, the next sections of the paper present organizations that have been active in the Polish economy for a relatively short period of time, i.e.:

- the social enterprise and all its variants,
- social cooperatives.

2. Social enterprises and social cooperatives as subjects of social economy

Social enterprises are a relatively new solution, as they appeared in the 1990s of the last century. The name has only theoretical significance, because it does not formally exist in many countries, including Poland.

The term “social enterprise” is applied to initiatives meeting certain economic and social requirements (Leś, 2005).

The economic requirements include:

- continuous production and distribution of goods and services in order to secure employment for these groups of people the enterprise was established for,
- considerable autonomy,
- operations involving economic risk,
- possibility of using both financial and non-financial sources in its operations,
- operations based on gainful as well as voluntary work,
- primacy of social goals over profit maximization.

The social requirements are as follows:

- activity results from collective efforts of citizens that belong to the same community and have the same needs or goals,
- democratic enterprise management is guided by the principle: one person, one vote, so decisions do not depend on the amount of contributed capital,
- beneficiaries of services are represented in the enterprise structures.

The term social enterprise applies to various types of business activities, all being focused not on profit maximization, but on solving social problems (Defourney, 2001) of persons who have been excluded from the labor force for the following reasons:
- physical or mental disability,
- economic disability (unemployed persons, families with financial problems),
- social disability (homeless persons, long-term unemployed, alcohol and drug addicts who graduated from rehab programs, ex-prisoners), (Vidal, 2000).

In the Polish economy, the first two problem groups (physical and mental disability and economic disability) can be placed within the coverage of social enterprises. The third group, i.e. the socially disabled persons, is assigned to social cooperatives (Social cooperatives act, 2006); however, lines dividing tasks being fulfilled by each of the organizations are fluid.

3. Social enterprise as a form of employment for physically and mentally disabled persons

In 2002, the number of disabled persons living in Poland amounted to around 4.5 million.

This number comprises persons with various degrees of disability. Their percentages were the following:
- persons with considerable disability – 24%
- persons with moderate disability – 32%
- persons with low disability – approx. 35%
- persons with unknown level of disability – approx. 9% (National Strategy, 2004)

Enterprises employing disabled persons have been operating in our country for a long time and they were established to provide this group of citizens with jobs. Two types of such enterprises can be distinguished:
- organizations employing at least 25 disabled workers who represent around 6% of all company’s workforce,
- protected industrial works obliged to have not less than 40% of disabled workers among their total workforce.
Each type enjoys certain privileges granted by the State. Until the end of 2003, the advantages included the following rights:

- enterprises in the first group were allowed income tax relieves and they were also eligible for numerous subsidies,
- protected industrial works were exempted from the income tax (10% of the amount due was transferred to the State Fund For Rehabilitation of Disabled Persons (PFRON in Polish) and the remaining 90% was retained for Enterprise’s Fund For Rehabilitation of Disabled Persons (ZFRON)). In addition, they had many additional sources of income, such as subsidies, grants and subventions. (Occupational and social rehabilitation and disabled persons employment, akt, 1997)

On January 1 2004, support measures available for enterprises employing disabled persons were changed. The alterations were introduced in pursuance of the EC Regulation effective in Poland (EC Regulation, 2004) that concerns public aid to employment and defines the permitted forms of aid under the EU’s competition policy.

The rules of subsidizing enterprises with disabled workers were changed in Poland in 2004 by replacing the tax relieves and exempts with subsidies to wages earned by the disabled workers, their amounts being dependent on the degree of worker disability (New rules of PFRON, 2004). The subsidies are funded by the State Fund for Rehabilitation of Disabled Persons.

Additionally, an employer having disabled workforce may seek reimbursement of the training costs. PFRON is also obligated to support disabled persons running their own business.

Beside aid financed from PFRON’s public funds, a social entrepreneur can apply for additional money to the Community Initiative EQUAL (Regulation by the Minister of Economy, 2005). Seventy five percent of EQUAL’s resources come from the European Social Fund and the other 25% is contributed by the national budget.

Resources made available by the Program can be used to finance a variety of goals, one of them being reimbursement of higher employment costs of disabled workers.

Another source of funds available for social entrepreneurs is funds provided by non-governmental organizations.

In 2004, the National Strategy of Social Integration for Poland (National Strategy, 2004) was developed that presented directions of social policy in our country and addressed, amongst others, disabled persons.
In Poland, actions serving the disabled are covered by law and aid programs. Because it is not possible to discuss all of them, we present only the most important of them. A worrying phenomenon is the multitude of programs and institutions that are responsible for them. Problems with coordinating actions of all the organizations may produce inefficiencies such as the duplication of services and beneficiaries possibly taking advantage of many support measures offered by the duplicating institutions.

4. Assistance available for social enterprises employing jobless persons (the economically disabled).

Although solving of the problem of disabled persons’ employment can be explicitly put within the coverage of social enterprises, the issue of unemployment has to be discussed in a broader context. The reason is that many institutions deal with unemployment and they are not only instrumental in creating jobs but also help prepare workers to take them. The discussion is quite difficult, because the two areas of activities cannot be clearly separated, as many labor market institutions prepare workers, offer placement services and create jobs.

Institutions whose main goal is preparing people to take jobs are:

- public employment service responsible for the labor market policy in a region;
- employment agencies being private organizations that offer placement services in Poland and abroad. Other services include job counseling and temporary positions;
- training institutions being public and non-public organizations that provide unemployed workers and job seekers with training,
- social dialogue and labor market partnership organizations are NGOs cooperating with the public employment service and Voluntary Labor Units (VLU) to promote employment and economic activation of persons who are unemployed or run the risk of unemployment.

Another problem is creation of jobs for the unemployed. This activity lies in the domain of social enterprises. The encouragement for social entrepreneurs to assume the task is entitlement to financial support, i.e. to a partial reimbursement of the incurred costs. The main funding source in the area is the Labor Fund (Employment promotion, act, 2004)

The Labor Fund is a special public fund supplied by the following sources:

- obligatory contributions,
• grants from the national budget,
• EU funds for co-financed projects,
• EU budget’s resources for employment co-financed under EURES,
• interests on Labor Fund’s deposits and on funds provided by various sources,
• interests on loans granted by the Labor Fund,
• other.

Labor Fund’s resources are allocated to two basic groups of tasks:
• investments in human capital (costs of training, retraining, job counseling, conferences and meetings, as well as those incurred by bodies supervising such activities),
• supporting jobs for the unemployed.

Considering the subject of this paper, the other group of tasks seems to be more interesting.

Employment of the jobless is supported by financial assistance available to social enterprises that create jobs for them. In practice, the assistance varies depending on unemployed person’s age and two groups of the beneficiaries have been distinguished: youth and adults.

**Youth employment** is organized by the Voluntary Labor Units. This organization is financed from public funds and it is responsible for pursuing goals such as employment and prevention of marginalization and social exclusion among young people, as well as job counseling and educational services.

Assistance addressing employers involves reimbursement of the costs of wages and social security contributions paid for junior workers with employment contracts. Funds are provided by the Labor Fund or the national budget if projects are co-financed by the European Union.

Persons responsible for arranging jobs for unemployed adults are the *starostas*, i.e. heads of county administration. The type of support available for social enterprises employing previously jobless persons depends on the type of employment.

Every social enterprise planning to recruit unemployed workers is eligible for the following types of support:
• reimbursement of the costs of equipment or extra equipment needed for a station, if the worker continues full-time employment for at least 12 months,

• periodical reimbursement of the payroll and social security costs connected with a previously unemployed worker if the above requirement is met.

The above shows that the support for social enterprises recruiting unemployed workers is actually limited to various refunds of the payroll and social security costs. Provisions for that area can be found in the employment promotion and labor market institutions act (Employment promotion, act. 2004) They are not only scattered, but also frequently focus on trivia. Another puzzling thing is why they use different bases to calculate reimbursements of the payroll costs, e.g. the minimal wage in economy, an equivalent of the unemployment benefit and the average wage paid in economy. As a result, things become too complicated and so irregularities can be expected.

To summarize the discussion, the types of Labor Fund’s expenditures are worth presenting in order to visualize the weight of active support measures targeted to social enterprises among all financial tasks of the Fund.
Table 1. Structure of Labor Fund’s expenditures, years 2001-2002.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total spending</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Passive measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- unemployment benefits</td>
<td>45.5</td>
<td>43.0</td>
</tr>
<tr>
<td>- pre-retirement benefits</td>
<td>25.5</td>
<td>27.5</td>
</tr>
<tr>
<td>- pre-retirement allowance</td>
<td>13.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Active measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- training</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>- intervention work</td>
<td>1.8</td>
<td>1.0</td>
</tr>
<tr>
<td>- public works</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>- loans</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>- other</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Reimbursement of junior workers’ payroll</td>
<td>4.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>3.6</td>
<td>2.2</td>
</tr>
</tbody>
</table>


According to table 1, LF’s amounts spent on the active measures make up a small percentage of the entire spending and show a downward trend.

5. Support measures for social enterprises creating jobs for socially excluded persons (socially disabled)

Although the social exclusion problem has always been present in our country, its solutions were given legal foundations quite recently, i.e. in 2004. (Social employment act, 2003)

Social exclusion is difficult to define, as it incorporates a variety of problems generated by social marginalization. In very broad terms, social exclusion affects people who give up the established and socially acceptable way of life or dropping out for economic reasons (poverty, dismissals, lack of qualifications) or social reasons (addictions, long-term sickness, disability) (National Strategy, 2004).
According to the social employment act, the following groups of people are vulnerable to social exclusion (Social employment act, 2003):

- long-term unemployed,
- homeless,
- addicted to alcohol, drugs and other intoxicating substances, after they graduated from the therapeutic programs,
- psychiatric patients,
- ex-prisoners,
- refugees.

The National Strategy of Social Integration (National Strategy, 2004) has added to the list:

- children and youth dropping out from the school system,
- some categories of rural population, e.g. workers of the former state-owned farms,
- tenants who run the risk of eviction,
- immigrants.

Today social exclusion has drawn the interest of the government, which is evidenced by actions such as:

- development of the National Strategy of Social Integration for Poland,
- implementation of the social employment act.
- implementation of the social cooperatives act.

The National Strategy of Social Integration deals with the social exclusion issue by providing a theoretical outline of the related problems, presenting its extent and indicating State’s policy goals in the area. It does not propose any solutions, but stimulates their creation (National Strategy, 2004)

The social employment act (Social employment act, 2003) was announced in 2003 but its more dynamics implementation started as late as the turn of 2004 and 2005, probably because the National Strategy was publicized at that time that made obligatory actions to contain negative social phenomena.

Actions serving socially excluded persons as provided in the act focus on:

- social reintegration, i.e. reconstruction of skills allowing individuals to participate in community activities and to fulfill their social roles in places where they work, live or stay (re-educational activities),
- occupational reintegration, i.e. restoration of persons’ ability to be self-reliant members of the labor force (job training),
beneficiaries’ economic activity, by assisting them in taking a job or starting their own businesses.

To fulfill the tasks, the act has provided for an institution called the Social Integration Center (SIC). A SIC can be established by mayors, as well as public benefit organizations. SIC status is granted by a governor on the SIC founder’s motion. A SIC operates as an enterprise operating according to simplified rules or, if set up by a public benefit organization, as a unit having its own organizational and financial identity.

SIC actions in support of the socially excluded are divided into stages, i.e.:

- social reintegration,
- occupational reintegration.

Beneficiaries participating in the process receive allowances amounting to 80% of the unemployment benefit.

Once the two stages are complete, a SIC may refer a beneficiary via the County Labor Office to work:

- for an external employer,
- at SIC.

It is also possible for the beneficiaries to start up their own business in the form of a social cooperative.

Employers recruiting socially excluded workers are refunded a corresponding part of their payroll together with the related social security costs, provided that:

- they have signed a contract with the SIC,
- the period of employment is at least 18 months.

The refund is paid out by the starosta for the period of 12 months and its amount makes up:

- 80% of the unemployment benefit plus the related social security contribution costs in the first three months,
- 60% in the next three months,
- 40% in the last six months.

The same rule applies, when jobs are created by the SIC.

In addition, an employer can apply for the Labor Fund money to cover 80% of his attested costs of legal advice, consultations and advisory services, but the refunded amount cannot exceed an average wage in the national economy.

Beside SICs that are established at the county level, the act allows communes to form Social Integration Clubs that develop temporary work programs helping workers find jobs
based on civil law contracts signed with employers. The act is silent on the terms of assistance addressing employers (Social employment act, 2003).

Another law with respect to job creation for socially excluded persons (the socially disabled) is the social cooperatives act (Social employment act, 2006).

Social cooperatives are established to support the social and occupational reintegration of its members. The members can be all persons that can be deemed socially excluded. A cooperative can employ other persons as well, but their jobs must require special skills that are lacked by other cooperative members.

A social cooperative is granted the following privileges in order to be able to attain its goals:

- exemption from the tax on civil law transactions, stamp duty and court fees,
- preferential purchase of the usufruct right to properties held by the Treasury or local governments,
- financing by the Labor Fund for the period of 18 months:
  - part of the payroll costs and social security costs

The precondition is a contract signed between the competent starosta and the cooperative.

Social cooperatives become more and more important among organizations that endeavor to create jobs for persons with various disabilities. This evidences that such support is needed.

Final remarks

The end of the 20th c. and the beginning of the 21st c. has been a period, in which negative social phenomena such as poverty unemployment, disabilities and social pathologies have been building up. Governments in many countries seek ways of reducing the weight of the problems.

Solutions based on the establishment of non-governmental organizations as institutions compensating for the weaknesses of the public sector and private sector have turned out insufficient. It has become necessary to create jobs for persons exposed to discrimination and unequal treatment in the labor market. Extension of the non-profit sector to include business organizations that can create jobs for the disadvantaged with State’s support is one of the implemented measures. Theory has labeled this enlarged sector as a social
In addition to classic non-profit institutions, other components of the sector are cooperatives, mutual companies, social enterprises and social cooperatives.

This paper characterizes the last two types of organizations that have been operating in our economy for a relatively short time. They incorporate three types of institutions that employ:

- physically and mentally disabled persons,
- unemployed workers (economically disabled),
- socially excluded persons (socially disabled).

In Poland, the most developed type of social enterprise is organizations recruiting physically and mentally disabled persons. The methods for financing such enterprises via public funds were effectively changed as late as 2004, which impedes evaluation of the enterprises.

The most scattered and unclear regulations concern social enterprises creating jobs for unemployed persons (i.e. the economically disabled). They categorize enterprises according to the type of employment (regular jobs, intervention work and public works). The funding comes from the Labor Fund. The most limited support is offered to employers interested in recruiting regular workers. Those who employ workers under intervention work and public works can receive much large financial assistance. Because entrepreneurs are awarded contracts following a tendering procedure, some irregularities may occur.

Jobs for socially excluded persons (the socially disabled) are available in the Social Integration Centers and social enterprises. The latter are subjected to rather clearly defined laws; however, some problems arise when it comes to defining SICs’ status. They implement human capital development programs and offer individuals supported employment on program completion. Their other function, i.e. SIC as an employer, generates certain doubts. According to law, a SIC can manufacture, trade or provide services, but it is not deemed a business. Therefore, what is a SIC in its employer capacity: a school workshop, occupational therapy institution or an economic activation establishment (Kaźmierczak, 2005)? If social enterprises and social cooperatives are doing well as employers, why should not the function be left with them?

The above discussion allows to identify a series of barriers that obstruct the expansion of social economy institutions established to solve burning community problems in our country. The most significant barriers include:

- multitude of institutions developing assistance programs,
- detailed and complicated laws,
- unclear status of many institutions,
- red tape hindering the establishment of social enterprises,
- Labor Fund being one of the main sources financing social enterprises,
- a multitude of intermediaries in the distribution system of Labor Fund’s money,
- different types and scopes of support made dependent on the type of social enterprise.


3. Employment promotion among the labour market institutions act (2004) Journal of Law no 99 item 1001, with following amendments


5. Gray J.(1997), From the postcommunism to civil societyreturn to history and the dusk of Western model [in:] Szacki J. ed. „Neither prince nor marchant”, Cracow

6. T. Kaźmierczak (2005), Centres of Social Integration as an idea of counteract the social exclusion? Reflections around the social employment act [in:] Third Sector, Quarterly no. 2


8. Kwaśnicki W. (2005), Social economy from the perspective of liberal economy [in:] Third Sector, Quarterly no. 2

9. Leś E. (2005), The New social economy. Some ideas., Third Sector, Quarterly no 2,


14. Regulation by the Minister of Economy and Labor 2005 regarding specific conditions and procedure for supporting employment under operational
program – Community Initiative Program EQUAL for Poland 2004-2006. Journal of Law no. 154, item 1288,

