



Audit Report

21/22

State Budget and EU Funds Provided for the Support of Social Enterprises

The audit was included in the audit plan of the Supreme Audit Office (hereinafter the “SAO”) for 2021 under number 21/22. The audit was headed, and the Audit Report was drawn up, by SAO member Mr Jan Kinšt.

The aim of the audit was to verify whether the state budget and EU funds earmarked for the support of social enterprises are provided and used effectively, efficiently and in accordance with legal regulations.

Audited entities:

Ministry of Labour and Social Affairs (hereinafter the “MoLSA”);

Ministry of Regional Development (hereinafter the “MoRD”);

Centre for Regional Development of the Czech Republic, Prague (hereinafter the “CRD”);

selected beneficiaries: Pivovar Chříč s.r.o., Plzeň-sever District; Veronika Vachulková, B. Němcové 244, Blatná; Ciderie Chříč s.r.o., Praha¹; Spirála Turnov s.r.o., Mírová pod Kozákovem; FT & Catering s.r.o., Brniště; PLT Liberec s.r.o., Liberec; Sociální družstvo Stabilita Olomouc, Olomouc; Tradiční Hanácká, s.r.o., Vrchoslavice; Ústav pohoda, z. ú., Český Těšín; Unika Relax Ostrava, s.r.o., Ostrava; HROCH group s.r.o., Vratimov; Prádelna PRAPOS s.r.o., Ostrava.

The period audited was from 2015 to 2021, and the preceding and subsequent periods where materially relevant.

The audit for the audited entities was carried out in the period from November 2021 to March 2022.

The **Board of the SAO** at its 8th meeting held on 30 May 2022

approved by Resolution No. 13/VIII/2022

the **Audit Report** as follows:

¹ During the audit, Ciderie Chříč s.r.o. changed its registered office from Prague to the Plzeň-sever District.

State Budget and EU Funds Provided for the Support of Social Enterprises

Basic figures

CZK 397.9 million	170	CZK 587.6 million	235
OPEm funds ² provided for the support of social entrepreneurship	Number of OPEm projects supported	IROP funds ³ provided for the support of social entrepreneurship	Number of IROP projects supported

Audit Findings

50%

The percentage of projects assessed by the SAO as ineffective or effective to a limited extent, or inefficient or efficient to a limited extent, out of the total of 16 projects evaluated.

Unclear definition of the principles of social entrepreneurship

The principles of social entrepreneurship were set up in a way that hindered the examination of their fulfilment.

CZK 1 million

High level of support – in the case of one IROP project, it was found that support per one full-time equivalent (FTE) provided to a person from a disadvantaged group amounted to nearly CZK 1 million per year.

4.7–6.2 times the average amount of support per person

Risk of inefficiency – high intensity of financial support for certain OPEm projects – up to six times the average amount of support per person under OPEm.

Purchase of real estate from a close person

Support for social entrepreneurship (69% of the project subsidy) was used to purchase real estate from a person close (IROP).

² Operational Programme *Employment 2014–2020*.

³ *Integrated Regional Operational Programme*

I. Summary and Evaluation

1.1 The SAO carried out an audit of the funds used during the programming period of 2014–2020 from the Operational Programme *Employment 2014–2020* (hereinafter the “OPEm”) and the *Integrated Regional Operational Programme* (hereinafter the “IROP”) for the support of social enterprises. Subsidy decisions for the support of social enterprises were issued in the amount of CZK 585.8 million under the OPEm, and CZK 809.8 million under the IROP.

1.2 The aim of the audit was to verify whether the state budget and EU funds earmarked for the support of social enterprises are provided and used effectively, efficiently and in accordance with legal regulations. The audited entities were the MoLSA and MoRD, where the audit focused on their activities as the programme managing authorities, the CRD as the intermediary body for the IROP, as well as 12 selected beneficiaries, where the implementation of 16 projects approved for support was examined. The amount of funds provided to the audited projects was CZK 62.8 million.

1.3 The audit found shortcomings in the setting, management and implementation of the OPEm and IROP on the part of both the providers and the beneficiaries, which significantly reduced the effectiveness and efficiency of the funds provided and drawn.

The MoLSA and MoRD have set up vague principles of social entrepreneurship without specifying a clear minimum level necessary for their achievement. Therefore, it is not possible to reliably verify their achievement.

Even though both the MoLSA and the MoRD (or the CRD) rejected a large number of applications that did not meet the criteria for support, the SAO found shortcomings in the system that allowed for the selection and support of projects in which funds were not used effectively and efficiently. From the sample of projects selected for audit, the SAO assessed half of them as effective and efficient to a limited extent or completely ineffective and inefficient. New social enterprises have often been established with significant personal links to their intended customers and suppliers. Even so, the vast majority of the enterprises audited do not achieve the economic projections listed in the business plans submitted by the applicants for support from the OPEm and IROP. The system monitoring the fulfilment of the objectives and benefits of support is insufficient.

The SAO found violations of legal regulations in the case of three beneficiaries. In the case of IROP, the SAO found a significant systemic shortcoming in the reimbursement of ineligible expenditure of beneficiaries purchasing real estate from close persons.

1.4 This overall evaluation is based on the following main audit findings:

a) The indicators set by the MoLSA and MoRD for monitoring the fulfilment of the support objectives do not sufficiently monitor the benefits of employment in social enterprises for people from the target groups. This shortcoming is particularly noticeable in the case of the OPEm, where the MoLSA did not set appropriate indicators for monitoring the objective of social integration of the target group or preventing its exclusion from society and facilitating their access to and remaining on the labour market. Furthermore, target values for indicators intended for monitoring the fulfilment of objectives of social entrepreneurship support have not been set for all defined

indicators. For none of the indicators in the OPEm, for which the target values have been set, can these values be achieved. Most of the target values of the IROP indicators can be achieved only due to their reduction by the MoRD. However, as a result of this step, the efficiency of support under the IROP expressed by the average amount of support per one full-time equivalent is approximately 4.5 times lower than the original estimates. The MoRD did not reduce the subsidy provided to the beneficiaries when they did not meet the target values of the indicators after the completion of the project (see para. 4.2 to 4.10).

- b) The MoLSA and MoRD did not set out the principles of social entrepreneurship in the OPEm and IROP (see para. 2.12) in an unambiguous manner. Some principles of social entrepreneurship were set ambiguously, with vague or declarative definitions and without setting a minimum value necessary to meet them. The consequence thereof is the impossibility of verifying compliance with the principles of social entrepreneurship. Through an audit of a selected sample of projects, the SAO found that the beneficiaries under the OPEm and IROP demonstrated compliance with the relevant principles in very different ways (see para. 4.12 to 4.20).
- c) In the case of the selected sample of projects, the SAO found that new social enterprises have often been established with significant personal links to their intended customers and suppliers. As a consequence of this and other factors (see para. 4.34), in many cases, the primary motivation for the establishment of new social enterprises was not the objectives of social entrepreneurship as such (i.e. support of people from the target groups) but rather the economic benefits to the beneficiary. The economic operation of social enterprises negatively deviates from the projections on the basis of which they were selected for support in nearly all audited projects (see para. 4.33 to 4.35). This also poses a risk to the sustainable and independent operation of the supported enterprises.
- d) For the selection of projects for support, the MoLSA and MoRD did not set any limits on the maximum amount of support per project participant (OPEm), or per FTE⁴ created (IROP). The implementing bodies did not give sufficient attention to the evaluation of project effectiveness. As a consequence, cases of high-intensity funding have been identified both under the OPEm and the IROP. In the case of IROP, the set criteria for the substantive evaluation allowed for the support of all applications that passed to this phase of evaluation (see para. 4.24 to 4.29).
- e) In the process of selecting projects for support, the MoLSA and MoRD (or the CRD) rejected a large number of applications due to failure to meet the set criteria, which the SAO recognises. Nevertheless, under the OPEm, the MoLSA has supported projects with varying evaluations or projects which received less than 50% of the maximum score (see para. 4.30 to 4.32). The risks arising from these findings were confirmed during the evaluation of the effectiveness and efficiency of the sample of projects of the beneficiaries reviewed by the SAO.

⁴ Full-time equivalent (FTE) is an indicator of human labour consumption. It is calculated as the number of hours worked in a given period divided by the number of hours a full-time worker would have worked in the same period. It allows for comparing human labour in different units of part-time employment; for example, in terms of FTE, it is equivalent if the examined unit employs one person full-time as if it employed two people for half of a full-time employment or one person for half of a full-time employment and two people for a quarter of a full-time employment.

- f) The SAO evaluated half (eight out of 16) of the projects as effective or effective in the use of funds with slight shortcomings. The remaining eight projects were assessed as effective to a limited extent or ineffective. In these categories, three projects were funded under the OPEm and five under the IROP (see para. 4.36 to 4.38).
- g) The SAO evaluated half (eight out of 16) of the projects as efficient or efficient in the use of funds with only slight shortcomings. The SAO assessed the remaining eight projects as efficient to a limited extent or inefficient. In this category, there were three projects funded under the OPEm and five projects under the IROP, with one project funded under the OPEm and one under the IROP rated most critically (as completely inefficient) (see para. 4.40 to 4.42).
- h) In one project funded under the IROP, the SAO found evidence of a breach of the budgetary discipline and irregularities due to a violation of the prohibition to purchase real estate for the purposes of social enterprise from a close person. Moreover, in the case of this project, it involved an amount of CZK 2,864,925, which amounted to 69% of the total funding (see para. 4.37). The SAO also found the same errors in two other IROP projects. The implementing authorities of the IROP (MoRD, CRD) are currently investigating in detail how many of the supported social entrepreneurship projects are actually involved in this misconduct. The SAO found further breaches of legal regulations indicating a breach of the budgetary discipline and irregularities in two other projects from the reviewed sample (see para. 4.39 and 4.43).

II. Information on the Audited Area

2.1 Social entrepreneurship addresses important societal issues, most often social or environmental, in an economically and socially sustainable manner, rather than being a profit-maximising business for stakeholders, in particular, the business owners. Therefore, such enterprises have primarily social objectives, where the business profits are first and foremost reinvested in the enterprise to expand the social objectives or to develop the local community.

2.2 In the programming period of 2014–2020, the support of social entrepreneurship under the operational programmes in the Czech Republic co-financed from the EU funds was implemented through:

- the Operational Programme *Employment* 2014–2020 managed by the MoLSA,
- the *Integrated Regional Operational Programme* managed by the MoRD,
- the Operational Programme *Prague – Growth Pole of the Czech Republic* (hereinafter the “OP PGP”) managed by the City of Prague⁵.

2.3 The social objective, which is to be fulfilled by the support of social entrepreneurship provided from operational programmes co-financed in the Czech Republic from EU funds, is the employment and social inclusion of people disadvantaged on the labour market due to health, social or other reasons.

⁵ Support from the Operational Programme *Prague – Growth Pole of the Czech Republic* provided for social inclusion and for fighting poverty was subject to the SAO’s audit No 18/33, see https://www.nku.cz/assets/kon-zavery/K18033_en.pdf. Therefore, the rest of this Audit Report is dedicated only to the support of social entrepreneurship from the OPEm and IROP, which is the subject of audit No 21/22.

Social Entrepreneurship Support from the OPEm

2.4 Support for social entrepreneurship is provided from the OPEm funds as a part of its priority axis 2 (hereinafter “PA” 2) *Social Inclusion and Combating Poverty*, investment priority 1, specific objective 2.1.2 *Development of social economy sector* (hereinafter “SO 2.1.2 of the OPEm”). The OPEm provides support to social entrepreneurship also as a part of community-led local development strategies within PA 2, investment priority 3, SO 2.3.1 *Increasing the involvement of local actors in solving unemployment and social inclusion issues in rural areas* (hereinafter “SO 2.3.1 of the OPEm”). The support of social entrepreneurship provided under SO 2.3.1 must be in line with the focus of priority axis 2 of the OPEm.

2.5 The support under OPEm is primarily intended to ensure the operation of social enterprises (hereinafter “SE”) through reimbursement of wages, training and education costs and necessary marketing. The acquisition of technology, equipment and facilities using the *European Social Fund* is possible for up to 50% of the budget under the conditions set out in the relevant calls and the related documentation. The support is provided in the form of ex-ante payments using indirect costs of 25% of the budget with a co-financing rate for beneficiaries amounting to 15% in most calls. The sustainability period for the OPEm projects has not been set. An overview of the total financial allocation, the amount of funds corresponding to the issued subsidy decisions (hereinafter “SD”) and the eligible expenditure actually incurred is presented in Table 1. A detailed overview of the calls in which social entrepreneurship projects were supported under the OPEm is presented in **Annex 4** to this Audit Report.

Table 1: Financial allocation under the OPEm for the support of social entrepreneurship and its use (in CZK)

Total allocation of funds**	Issued subsidy decisions*	Total eligible expenditure	Of which, the total eligible expenditure paid from the OPEm
3,229,972,000.00	585,780,248.81	471,178,223.37	397,940,816.49

Source: MoLSA, MS2014+, status as of February 2022.

Explanatory notes:

* Excluding incomplete projects – terminated by the beneficiary.

** In some calls, it was possible to support activities other than social entrepreneurship, while the allocation for individual activities was not specified.

2.6 Within the calls under the OPEm announced for the support of social entrepreneurship, 1,007 applications for support were submitted, and the MoLSA issued SDs for 170 applications for support.⁶

Social Entrepreneurship Support from the IROP

2.7 Social entrepreneurship is supported under the IROP within the specific objective (hereinafter “SO”) 2.2 *Creation of new and development of existing social entrepreneurship business activities* (hereinafter “SO 2.2 of the IROP”) and within SO 4.1 *Strengthening the community-led local development to improve the quality of life in rural areas and activation of local potential* (hereinafter “SO 4.1 of the IROP”). The objective of support under SO 2.2 of the IROP is the creation and development of social enterprises. These include activities that should

⁶ Out of 170 SDs, 108 have been issued under SO 2.1.2., of which two for the City of Prague (call No 105), two under the *Coordinated approach to socially excluded localities* (call No 26) and one for the MoLSA under call No 16.

enable socially excluded persons and persons at risk of social exclusion to enter the labour market and the business environment. Support under the IROP, specifically from the *European Regional Development Fund* (hereinafter the “ERDF”), is intended for the creation of jobs for the disadvantaged on the labour market, the creation of new SEs or the expansion of existing activities.

2.8 Support under the IROP is primarily intended for providing the SEs with the necessary assets and equipment for the construction and reconstruction of buildings. It is provided in the form of ex-post payments, without the use of indirect costs, with a co-financing rate for beneficiaries amounting to 15%. The beneficiaries are obligated to comply with a five-year sustainability period for the outputs of the supported projects after their completion. An overview of the total financial allocation, the amount of funds corresponding to the legal acts and the eligible expenditure actually incurred is presented in Table 2. A detailed overview of the calls in which social entrepreneurship projects were supported under the IROP is presented in **Annex 4** to this Audit Report.

Table 2: Financial allocation under the IROP for the support of social entrepreneurship and its use (in CZK)

Total allocation of funds	Issued subsidy decisions*	Total eligible expenditure	Of which, the total eligible expenditure paid from the IROP
1,311,524,947.00	809,767,141.51	691,271,849.82	587,581,072.35

Source: MoRD, MS2014+, status as of February 2022.

Explanation:

* Excluding incomplete projects – terminated by the beneficiary.

2.9 Within the calls under the IROP announced for the support of social entrepreneurship, 669 applications for support were submitted, and the MoRD issued SDs for 235 applications for support.⁷

Target Groups and Principles of Social Entrepreneurship

2.10 In the Czech Republic, social entrepreneurship is not regulated by law. There is only limited coordination between the providers of funding. The cooperation between the involved entities has so far been mainly through mutual cooperation in programme partnerships, work teams or planning committees. In this context, the SAO points out the fact described in its Audit Report from audit No 18/33, finding that the *Prague – Growth Pole of the Czech Republic* Operational Programme surprisingly targeted a significantly wider group of people, and under more favourable financing conditions, than in the case of support of social entrepreneurship projects under other operational programmes intended for regions with worse socio-economic situation.⁸ The City of Prague, as the managing authority of this operational programme, did not accept the recommendations of the Ministry of Labour and Social Affairs to amend the definition of the target group and the conditions of project financing.

⁷ Out of 235 SDs, 142 SDs were issued under individual calls (of which nine under call No 90), and 93 SDs were issued under integrated calls (21 under SO 2.2 and 72 under SO 4.1).

⁸ More information available at https://www.nku.cz/assets/kon-zavery/K18033_en.pdf

2.11 The disadvantaged persons whose employment is supported in social entrepreneurship projects under the OPEm and IROP are defined as the following target groups⁹ (hereinafter “TG”):

- long-term or repeatedly unemployed,
- persons with disabilities,
- persons in prison/released from prison,
- persons leaving institutional care,
- asylum seekers within 12 months of receiving asylum,
- persons caring for other dependants,
- persons threatened by multiple risks,
- persons caring for young children,
- job-seekers and inactive people aged 55–64,
- young people.

2.12 Under the OPEm and IROP, the principles of social entrepreneurship are used to define what characteristics a supported entity must meet to be considered a social enterprise.¹⁰ Beneficiaries are obligated to comply with these principles not only in the implementation of their projects, but in the case of the IROP projects, also in the sustainability period following their completion. The relevant moment at which the principles must be adhered to in relation to the implemented projects is the date of completion of the project. The principles of social entrepreneurship are defined in a similar way¹¹ under both the IROP and the OPEm and are intended to ensure compliance with the set conditions for social, economic, environmental and local benefits. Detailed information on the principles of social entrepreneurship applied in both operational programmes is provided in **Annex 3** to this Audit Report.

2.13 Eligible applicants for a subsidy are self-employed persons, companies and non-governmental non-profit organisations. The most common activities of social enterprises include food production, construction, textile services, metalworking and woodworking, cafes, roasting plants, distilleries, breweries, cleaning services, laundries and other similar services.

III. Scope of the Audit

3.1 The aim of the audit was to verify whether the state budget and EU funds earmarked for the support of social enterprises are provided and used effectively, efficiently and in accordance with legal regulations.

⁹ This is the broadest definition of the target groups – the specific target groups supported were defined in the documents for the respective calls.

¹⁰ In the OPEm, these principles are labelled as distinguishing characteristics; in the following text, we use the term “*principles*” for convenience. The principles of social entrepreneurship applied in both the OPEm and the IROP are based on the indicators of the Thematic Network for Social Entrepreneurship, see www.tessea.cz.

¹¹ Compared to the OPEm, in the case of the IROP, some principles are defined as recommended.

3.2 The use of public funds is considered effective if it ensures an optimal rate of achievement of objectives in the fulfilment of the set tasks¹². Therefore, the provision and use of the funds was effective in meeting the set objectives, in particular, in the sense that a new social enterprise was established or activities of an existing social enterprise were expanded while the supported entities complied with the obligation to follow the principles of social entrepreneurship for the specified period. Ultimately, the support was supposed to lead (the benefit) to the empowerment of people from the target groups on the labour market.

3.3 The use of public funds is considered efficient if it achieves the best possible scope, quality and benefit of the tasks performed in comparison with the amount of funds spent on their performance¹³. Therefore, the provision and use of funds was considered efficient if the optimal use of funds was ensured in relation to the outputs of the social enterprise and if only the expenditure related to its implementation and necessary for the fulfilment of its objectives was financed. The use of public funds is considered economical if it ensures the performance of the set tasks with the least possible expenditure of such funds while ensuring the adequate quality of performance of the tasks¹⁴, where, in particular, the performance of those tasks has not exceeded the costs usual for the given place and time. The assessment of the economical use of support in this audit was included in the overall assessment of efficiency.

3.4 In order to fulfil the objectives of the audit, the SAO evaluated the findings to answer the following questions:

- A. *Have the managing authorities of the OPEm and IROP set up the objectives and indicators correctly to provide information on the effectiveness and efficiency of the support provided?*
- B. *Have the managing authorities set up the principles of social entrepreneurship in such a way as to ensure the provision of effective support?*
- C. *Have the implementing authorities selected the projects to be supported in such a way as to ensure that the support is provided to effective and efficient projects?*
- D. *Have the funds intended for the support of the selected social enterprises been provided and used effectively?*
- E. *Have the funds intended for the support of the selected social enterprises been provided and used efficiently and in accordance with legal regulations?*

3.5 The SAO audited the MoLSA as the managing authority of the Operational Programme *Employment 2014–2020*, the MoRD as the managing authority of the *Integrated Regional Operational Programme*, the CRD as the intermediary body of this operational programme and the selected beneficiaries under these operational programmes.

3.6 The SAO audited, in particular, the facts concerning the support of social entrepreneurship provided under SO 2.1.2 of the OPEm and SO 2.2 of the IROP, as these specific objectives were focused exclusively on the support of social entrepreneurship. The support of social entrepreneurship provided under SO 2.3.1 of the OPEm and SO 4.1 of the IROP, focused on the support of local development and allowing support of other measures

¹² Pursuant to Section 2 (o) of Act No 320/2001 Coll., on financial control in public administration and on amendments to certain acts (Act on Financial Control).

¹³ Pursuant to Section 2 (n) of Act No 320/2001 Coll., on financial control in public administration and on amendments to certain acts (Act on Financial Control).

¹⁴ Pursuant to Section 2 (m) of Act No 320/2001 Coll., on financial control in public administration and on amendments to certain acts (Act on Financial Control).

than social entrepreneurship, was audited only in terms of setting the basic rules of support and its general framework (in particular, the definition of social entrepreneurship, its objectives and indicators, financial allocation).

3.7 A sample of 16 projects implemented by 12 beneficiaries was selected for audit (hereinafter the “Selected Projects”). The sample consisted of eight projects implemented under the OPEm and eight projects implemented under the IROP. The SAO evaluated the effectiveness and efficiency of the funds spent on each of them based on the facts found and according to a four-point scale within the meaning of their definition under para. 3.2 and 3.3; details of the evaluation criteria are provided in **Annex 2** to this Audit Report.

3.8 In selecting the projects to be audited, the SAO primarily followed the substantive criterion to ensure the representation of different types of supported activities and proportional representation of newly established and existing social enterprises. Furthermore, the SAO used a quantitative viewpoint, preferring financially more significant projects, the implementation of which had already been completed. In the selection process, the SAO also included beneficiaries implementing either two successive projects, or two concurrent, follow-up and mutually supporting projects funded under both operational Programme programmes in the period under review.

3.9 The financial volume of the audited projects amounted to CZK 62.8 million, which represents approximately 5.4% of the eligible expenditure spent on the support of social entrepreneurship as at the end of the SAO audit. In the case of the OPEm, this amounts to approximately 9.66% of the total amount of eligible expenditure approved under the calls from which projects were selected for audit; in the case of the IROP, it amounts to approximately 5.9%.

3.10 The audited period was 2015-2021; both the previous and subsequent periods were also considered for contextual reasons.

Note: The legal regulations indicated in this Audit Report are applied in their wording, valid and effective for the audited period.

IV. Detailed Facts Found in the Audit

A. Have the managing authorities of the OPEm and IROP set up the objectives and indicators correctly to provide information on the effectiveness and efficiency of the support provided?

4.1 One of the basic prerequisites for ensuring the effectiveness and efficiency of the provided support is the correct setting of the support objectives and the indicators for their monitoring. Correctly set objectives and indicators should provide regular information on the effectiveness and efficiency of the provided support achieved and lead to its better targeting in the current or next programming period.

→ **The MoLSA did not set targets and indicators to provide sufficient information on the benefits achieved for the employed persons from the target groups.**

4.2 The MoLSA considers the objective of the support of social entrepreneurship under the OPEm to be the establishment of new enterprises and the development of the existing social enterprises in accordance with the principles of social entrepreneurship set out in the set of

distinguishing characteristics. The fulfilment of this objective, in the case of SO 2.1.2 of the OPEm,¹⁵ is expressed through indicators listed in Table 3 below:

Table 3: Set and achieved values of the selected indicators under SO 2.1.2 of the OPEm

Indicator		Region category	Target value	Achieved value
Code	Name			
1 02 11	Number of social enterprises established due to the support that continue to operate after the end of the funding	Less developed	83	27
		More developed	9	0
1 02 12	Number of existing social enterprises supported	Less developed	Undetermined	34
		More developed	Undetermined	1
1 02 13	Number of social enterprises established through support	Less developed	124	59
		More developed	14	0
6 00 00	Total number of participants	Less developed	Undetermined	732
		More developed	Undetermined	7

Source: OPEm SD, MoLSA, MS2014+, status as of February 2022.

4.3 Under SO 2.1.2 of the OPEm, the target values that were to be achieved through support were set by the MoLSA only for the newly established social enterprises. Under this SO, the objective to support newly established social enterprises was defined in accordance with the SMART¹⁶ principles. However, no target values have been set for the support of existing social enterprises or the indicators following the supported entities¹⁷ and their characteristics¹⁸. The funds spent by the MoLSA also did not ensure the achievement of the set target values in the case of the social enterprises newly established due to the OPEm support.

4.4 In the OPEm programming document, the MoLSA stated that social enterprises with activities aimed at improving the position of socially excluded persons or persons threatened by social exclusion on the labour market would be supported. The objective of these activities is the social integration of the target group (or avoiding their exclusion from society) and facilitating the entry and retention of the target group on the free labour market. However, the MoLSA did not set any suitable indicators for this defined objective which would enable its measurement, and therefore not even a target value, the achievement of which would be considered an effective use of the programme funds. In addition, employment of persons from the target groups in supported social enterprises is required by the MoLSA only during the implementation of the projects, and for the inclusion of the supported person in the value of the basic indicator 6 00 00, it is sufficient to achieve the specified number of hours of support provided to such a person¹⁹.

→ The effectiveness of support under the IROP expressed by the average amount of support per one full-time equivalent is approximately 4.5 times lower than the original estimates.

4.5 The objective of support of social entrepreneurship under the IROP is defined as the *Creation of new and development of existing social entrepreneurship business activities*. In the

¹⁵ Under SO 2.3.1 of the OPEm, the MoLSA did not set exclusive indicators for monitoring the support provided to social enterprises in the programming document for the OPEm.

¹⁶ SMART = acronym: specific, measurable, achievable, relevant, time-bound.

¹⁷ Table 3 shows only the most significant of these indicators – 6 00 00 *Total number of participants*.

¹⁸ This includes, e.g., monitoring of persons by sex, education, previous participation on the labour market, being a part of the defined target group, etc.

¹⁹ In general, this amounts to a support of only 40 hours.

case of SO 2.2 of the IROP²⁰, the fulfilment of this objective is expressed through the output indicators listed in Table 4 below and the result indicator 1 04 11 *Unemployment rate of people with the lowest education*. In the case of SO 2.2, the MoRD has set up the support objective and the output indicators for its monitoring, in particular, at the beneficiary level to correspond with the SMART principles. However, the result indicator is not linked to the output indicators monitored at the beneficiary level, and the actual contribution of the IROP projects to meet this indicator cannot be substantiated.

Table 4: Overview of achievement of target values for the output indicators of SO 2.2 of the IROP

Indicator		Unit of measure	Target value	Achieved value
Code	Name			
1 00 00	Number of enterprises receiving support	Enterprise	160	141
1 01 02	Number of enterprises receiving grants	Enterprise	160	141
1 03 00	Private investments corresponding to the public support of enterprises (grants)	EUR	11,000,000.00	21,335,423.00
1 01 05	Number of new enterprises receiving support	Enterprise	80	74
1 04 00	Increased employment in the supported enterprises	FTE	441.00	372.05
1 04 03	Increased employment in the supported enterprises focused on disadvantaged groups	FTE	596.00	285.23

Source: IROP SD, MoRD, MS014+, status as of February 2022.

Note: At the beneficiary level, indicators 1 01 05, 1 04 00 and 1 04 03 are monitored.

4.6 However, the target values of the IROP output indicators listed in Table 4 will only be achieved due to their significant revision carried out by the MoRD in 2020²¹. The reduction of the target values by 22%, or 25%, while maintaining the planned allocation, leads, among other things, to an increase in the amount of support per FTE. The efficiency of support under the IROP expressed by the average amount of support per one full-time equivalent is approximately 4.5 times lower than the original estimates of the MoRD.

4.7 One of the types of support implemented within SO 2.2 of the IROP was the provision of support to disadvantaged persons living in socially excluded localities (hereinafter “SEL”) through calls No 11 and 43 of the IROP. In these two calls, the MoRD disbursed support in the amount exceeding CZK 350 million. The SAO found that the MoRD did not set any specific indicators for monitoring this type of support. The consequence of this situation is that there is no information available on how many people from SELs have actually been supported and whether this value meets the originally planned objective for SELs.

4.8 In the case of support under the IROP compared to the support under the OPEm, the SAO considers positive the fact that, under the IROP, it is possible to monitor, through the set indicators, how the overall employment in the supported social enterprises has changed compared to the situation before the implementation of the projects, in particular, in relation to persons from disadvantaged groups. Under the IROP, this characteristic is monitored even after the completion of project implementation during their sustainability period, and the beneficiaries are obligated to maintain the set target values. In the case of the OPEm projects, the sustainability period was not set at all, which the SAO assessed as an issue in the support provision system under the OPEm, as such a situation does not correspond to the declared

²⁰ Under SO 4.1 of the IROP, the MoRD did not set exclusive indicators for monitoring the support provided to social enterprises in the programming document for the IROP.

²¹ The target value for indicators 1 00 00 and 1 01 02 was reduced from 383, for indicator 1 01 05 from 320 and for indicator 1 04 00 from 1,988.

intention of the MoLSA to support competitive social enterprises with the potential for long-term operation. On the sample of projects selected by the SAO for audit, it was also found that, in some cases, technology and tangible fixed assets were acquired, and therefore, the monitoring of the sustainability period for such projects would be desirable.

→ In the case of the IROP projects, the MoRD did not reduce the subsidy provided to the beneficiaries when they did not meet the target values of the indicators after the completion of the project.

4.9 On the contrary, in the case of the IROP, compared to the OPEm, the SAO found that the MoRD did not set up a sufficient method for verifying the fulfilment of indicators as at the date of completion of the project²² indicated in the SD and a specific method for calculating the reduction of subsidy in the case of failure to fulfil the indicators by the set deadline. The SAO found that the fulfilment of the condition imposed on the beneficiaries in the SD, i.e. to achieve the set target values for indicators 1 04 00 and 1 04 03 by the project completion date, was only reviewed by the CRD after a one-year delay during the audit of the first submitted sustainability report. At the same time, the SAO found that the IROP implementing bodies do not sanction beneficiaries for not achieving the indicators by the project completion date in any way, and therefore, the beneficiaries do not have to comply with the set conditions despite being obligated to do so under the SD. Example 1 illustrates this shortcoming more clearly:

Example 1

As a part of project No 151, the beneficiary was to create two FTEs. However, as at the deadline, the beneficiary did not comply with this obligation by including persons who did not meet the specified conditions in the FTEs created. In fact, the beneficiary has only created 1.23 FTEs.

However, the CRD did not reveal this fact when reviewing the first project sustainability report due to the inadequate review mechanisms set by the MoRD. This error on the part of the beneficiary was only discovered by the CRD through an on-site audit during the follow-up audit of the second project sustainability report.

However, the CRD did not apply this audit finding retrospectively as a failure to meet the conditions of receiving the project support and did not draw any consequences for the beneficiary. Only after the SAO's warning did the CRD review its audit findings (the outcome of the review was not known at the time the SAO completed its audit).

4.10 In relation to the finding described in Example 1, the SAO determined that the situation was also a consequence of insufficiently set up review mechanisms of the IROP by the MoRD to verify the fulfilment of conditions related to the achievement of indicators 1 04 00 and 1 04 03. As at 28 April 2020, the MoRD amended the insufficient review mechanisms by adding the obligation to the checklists to verify whether “... the number of jobs created represents a net increase in jobs in the organisation compared to the average for the 12 months preceding the implementation of the project, while the jobs must be created in direct relation to the project”. However, even this specification was not sufficient, as the MoRD did not specify the exact methodology for calculating the indicators. For example, this was reflected in the different approach of the CRD in two of the sampled projects (No 119 and 151). This was only corrected

²² This is either the date of project completion or a date within 90 days of the project completion.

in the IROP through the further specification of the review mechanisms with effect as at 28 April 2021.

B. Have the managing authorities set up the principles of social entrepreneurship in such a way as to ensure the provision of effective support?

4.11 One of the basic prerequisites for ensuring the effectiveness of the support provided is that it is only provided to enterprises that can be truly considered *social* enterprises. In the conditions of both the OPEM and the IROP, enterprises that fulfil and comply with the principles of social entrepreneurship set out for these operational programmes are considered social enterprises (see **Annex 3** to this Audit Report). In relation to the principles of social entrepreneurship, the SAO verified, in particular:

- the definition of principles of social entrepreneurship, as well as their clarity and completeness;
- the consistency in names, meaning, content and ways of fulfilling the principles;
- the functionality of the requirements for ways of fulfilling the principles.

→ ***The definition of social entrepreneurship principles is set in an unclear and inappropriate manner, which limits the examination of their fulfilment with a risk posed to the effectiveness of the funds spent.***

4.12 On the sample of Selected Projects, the SAO found that the beneficiaries demonstrated compliance with the principles of social entrepreneurship in different ways. This is mainly due to the often vague, unspecific and declarative definition of the individual principles without setting a clear minimum threshold required to meet them. At the same time, the SAO found that the implementing authorities did not identify any cases of non-compliance or non-observance of the principles that would lead to sanctions against the beneficiaries²³, which the SAO considers being one of the possible consequences of this situation. The SAO also found limited functionality of the methods for demonstrating compliance with the principles of social entrepreneurship, which is limited by the provisions of the Act on Accounting²⁴. Details of key findings relating to the principles of social entrepreneurship are provided in para. 4.13–4.20.

4.13 In the case of the requirement that *the percentage of persons from disadvantaged groups should be more than 30% of the employees of the social enterprise*, it has not yet been methodically set for how long after the start of employment in the social enterprise can a person from a disadvantaged group still be reported as such. As a result, a person who started working in a social enterprise four years ago as a person suffering from long-term unemployment may still be reported as “disadvantaged”. However, such a person actually no longer meets the criteria for classification as long-term unemployed at the given moment, and had not for several years.

4.14 In order to achieve the *socially beneficial objective of employing people from disadvantaged groups*, it is necessary that the social enterprise provides them with care respecting their individual needs. One of the main instruments to ensure this is the use of HR tools which support the development and integration of such employees. However, in the

²³ With the exception of project No 119, where the sanction applied concerning the violation of the principle of social entrepreneurship described in para. 4.17 was revoked after the support provider revised the rules.

²⁴ Act No 563/1991 Coll., on accounting.

case of IROP, the relevant principle was only set as recommended, not mandatory. The MoRD did not even set up the necessary procedures for proving the fulfilment of this principle. In the case of both the OPEm and the IROP, it is not clear from the definition what the desired target situation or the specific necessary value to fulfil this principle is. Therefore, the range of activities carried out by the individual beneficiaries, the way they are substantiated, and the results achieved differ significantly among the beneficiaries, as demonstrated in Example 2:

Example 2

In its business plan, the beneficiary in project No 3498 (IROP) expected that each employee from the target group would receive seven trainings in the first year of project implementation. In fact, only the training on the use of the acquired equipment was provided, and some of the staff received basic financial literacy training. The individual staff training plan has not been implemented.

In contrast, in the case of project No 3365 (IROP), individual development plans were prepared for all employees from the target groups; a system of internal coaching and psychosocial support was provided by educated and experienced professionals, as well as external training and internships to get familiar with the necessary technologies, programmes and procedures.

4.15 In terms of the requirement that employees and/or members should be regularly and systematically informed about the operation of the enterprise, economic results and fulfilment of socially beneficial objectives and involved in the decision-making process in the direction of the enterprise, neither under the OPEm nor the IROP were the rules set up sufficient to make it clear what the desired target state or the specific required level of performance is. Example 3 below illustrates the level of performance that was acceptable to the provider of support:

Example 3

In the case of project No 3525 (IROP), the beneficiary submitted to the SAO three minutes of meetings held at approximately annual intervals. Two out of three minutes did not even concern the enterprise as a whole but only one of the two establishments. The minutes show that these meetings focus only on routine operational matters of the enterprise. The minutes do not show that the beneficiary used the meetings to inform the employees about the implementation of socially beneficial objectives of the social enterprise or that the employees were given the opportunity to participate in the decisions regarding the enterprise.

4.16 In the case of the principle requiring that *at least 51% of any profits should be reinvested into the development of the social enterprise*, the practice had demonstrated that proving compliance therewith is problematic, in particular, in the case of the OPEm projects, where there is no sustainability period set and the projects usually last only two years. It is common for a project of a two-year duration to start its implementation in the course of the calendar (and therefore financial) year. Therefore, when reviewing compliance with the conditions during the project implementation, the MoLSA could often rely on data for only one closed accounting period. However, in order to demonstrate compliance with the set conditions, it is sufficient to keep the profit in the retained earnings account, so there is a risk that the profit is not actually reinvested in the development of the social enterprise.

4.17 Social enterprises are required to generate *at least 30% of their total revenues from the sale of products or services*. It is unclear whether or not the revenues from the sale of products and services should include revenues from the sale of goods, i.e. products purchased from

another entity for the purpose of resale. According to the MoLSA's statement, it allowed revenues from the sale of goods to be included in the projects subsidised under OPEm, even though this was not apparent from the definition of the principle and the requirements for its fulfilment. In the case of the IROP, a change in approach during the implementation of the programme was found, which demonstrates the lack of clarity in the understanding of the meaning and purpose of this principle.

4.18 Beneficiaries are further required to formulate *principles of environmentally-friendly business* and to adhere to them in practice. The SAO found that the providers of support did not sufficiently define the rules determining how compliance with the principles of environmentally friendly business was to be demonstrated by the beneficiaries. In the case of the IROP, there were no minimum requirements set at all; in the case of the OPEm, it was sufficient to provide mere three accounting documents for the purchase of environmentally friendly products (e.g., cleaning products). The submission of three accounting documents in the amounts of tens or hundreds of crowns, which the beneficiaries often use to demonstrate their environmentally friendly business, cannot provide sufficient assurance that the social enterprises are actually environmentally friendly.

4.19 The conditions set out in the *local benefit* principle category should ensure that the needs of the local community and demand and use of local resources are prioritised and that the social enterprise cooperates with local actors. However, the minimum level set by the providers of support to demonstrate that the conditions have been met cannot ensure that the requirements are actually met. To do so, submitting three accounting documents from customers or suppliers incurred over the past 12 months, as the MoLSA has required in the OPEm, is clearly insufficient. In addition, the MoLSA considered it sufficient for the establishment of the buyers or suppliers to be located in a neighbouring region or in a cross-border region. Such a territorial definition does not sufficiently emphasise the principle of (local) benefit, and it cannot be used to demonstrate the preference for meeting the needs of a local community and demands or preferential use of local resources. For example, a beneficiary from the western part of the Central Bohemian Region can formally meet the *local benefit* requirement by submitting an invoice for the purchase of goods or services from a supplier from the Vysočina Region tens or hundreds of kilometres away. The IROP conditions include the same territorial definition, and no minimum requirements have been defined to prove the fulfilment of the principle.

4.20 In the case of securing *cooperation with local actors*, only a range of possible suitable actors was identified without specifying what forms the cooperation should take or what it should entail. In many of the Selected Projects, it was found that although the cooperation was formally taking place, it had no other effects besides ensuring the customer-supplier relations and employment of people from the target group in the social enterprise. Example 4 demonstrates the different approaches taken by the beneficiaries:

Example 4

In the case of project No 3498 (IROP), the beneficiary documented its cooperation with local actors through a contract, on the basis of which cooperation took place in the form of consultations and work in the process of obtaining subsidies from the IROP and the subsequent preparation of sustainability reports. The beneficiary also cooperated with the local labour office, with which it did not have a contract and through which it advertised jobs. In turn, the labour office sent suitable job applicants to the beneficiary. The beneficiary also contacted the

local authority, but no formal agreement was reached. Therefore, all the cooperation that took place simply entailed a customer-supplier relationship and cooperation in the employment of people without any additional effect.

On the other hand, in the case of project No 9671 (OPEm), the beneficiary cooperated in its activities effectively with the local authorities to organise public benefit events by arranging for the equipment necessary for the events, organising open days, providing excursions to the enterprise or by linking local events on its website. The beneficiary also cooperated with the Czech National Disability Council. In addition to providing employment to the disadvantaged in the social enterprise, this cooperation ensured their training and brought local benefits by developing tourism.

C. Have the implementing authorities selected the projects to be supported in such a way as to ensure that the support is provided to effective and efficient projects?

4.21 One of the basic prerequisites for the provision of support to effective and efficient projects is a properly set up and performed selection of projects based on the assessment of applications for support and annexes thereto. In this context, the SAO examined the set-up and evaluation of the eligibility as well as the formal and substantive evaluation of the projects while verifying whether the principles of social entrepreneurship were respected in the selection of projects for support.

4.22 The SAO verified that, when evaluating applications for support, the implementing bodies of the OPEm (MoLSA) and IROP (MoRD, CRD) respected the principles of social entrepreneurship set out in the operational programmes. However, in this context, the SAO points out the shortcomings associated with the definition of social entrepreneurship principles described in the previous Chapter B, which involve the risk for the effective use of funds on the supported projects.

4.23 In the case of both audited operational programmes for the support of social entrepreneurship, the implementing authorities rejected a high number of applications due to the failure to meet the established selection criteria. In the case of the IROP, the percentage of rejected applications was about 63%, and about 76% in the case of the OPEm. The SAO commends this as a positive. However, even such a “fine sieve” of the selection process did not ensure support only for those projects with prerequisites of effective and efficient use of funds from both operational programmes. The SAO found deficiencies in the setting of the rules for project selection and evaluation, which, in the SAO’s opinion, counted among the causes of reduced effectiveness and efficiency of the funds used for the support of the Selected Projects (see Chapters D and E of this part of the Audit Report). These deficiencies are described in the following para. 4.24–4.29.

→ The evaluation of the efficiency of support in the selection of projects was not sufficient.

4.24 The audit found that neither the OPEm nor the IROP set any limits for the selection of projects for support in terms of the maximum amount of support per project participant (OPEm), or one FTE job created (IROP). In individual cases, there were projects selected with high intensity of support, which did not change much during the project implementation. An example of the most significant differences in the OPEm projects is presented in the following Table 5, which compares the intensity of support of the indicated projects to the average value

for all OPEm projects selected for the support of social entrepreneurship, amounting to approximately CZK 170 thousand per person per year.

Table 5: Examples of OPEm projects with less than four planned participants and a higher support intensity per person per year

Project	Persons	EU contribution (in CZK)	Ratio per person (in CZK)	Person/year (in CZK)	Excess margin of the average OPEm value
5846	2	4,180,002.87	2,090,001.43	1,045,000.72	6.15
14925	2	3,693,228.75	1,846,614.38	923,307.19	5.43
11792	3	4,874,194.31	1,624,731.44	812,365.72	4.78
10475	2	3,240,219.33	1,620,109.67	810,054.83	4.77
14964	3	4,840,539.62	1,613,513.21	806,756.60	4.75
11333	3	4,785,513.81	1,595,171.27	797,585.64	4.69

Source: prepared by the SAO on the basis of MoLSA data, status as of February 2022.

Note: For convenience, person per year is calculated at a project duration of two years.

4.25 Table 5 clearly indicates that the average intensity of support was exceeded up to six times under the OPEm. Even taking into account the fact that the supported projects differ in content, the data above indicate a risk of reduced efficiency of support for some OPEm projects. The SAO points out that according to an analysis submitted to the SAO by the MoLSA, the average costs per unemployed person in 2019 were nearly CZK 400 thousand per year. The intensity of support for the projects listed in Table 5 is high even compared to such an amount.

4.26 Of the OPEm projects selected for audit, a high support intensity was found in project No 12055, where the beneficiary anticipated two project participants in its application. The support intensity was five times higher than average, but even so, a project with such a high intensity was approved by the MoLSA and selected for support. Eventually, five participants were supported, and the total intensity of support amounted to CZK 457,365.02 per person per year, therefore still 2.7 times higher than average.

4.27 In reviewing the setting of the project evaluation process, the SAO also found that, for the corresponding criterion of substantive efficiency evaluation, the MoLSA had set a disproportionately low part of the total number of points for the substantive evaluation of projects (15 out of 100 possible points, i.e. only 15%). Therefore, in the evaluation of projects under the selected calls, the efficiency of the funds spent on project implementation had a minimal impact on their selection.

4.28 In the case of the IROP projects, the average amount of support for the selected sample of projects was approximately CZK 200 thousand per FTE per year, taking into account the five-year sustainability period of support²⁵. From the setting of the substantive evaluation of the IROP projects, it is clear that support not exceeding approximately CZK 400 thousand per year per FTE was considered efficient²⁶. However, in the case of one selected project (No 3438), the intensity of support amounted to approximately CZK 660 thousand per FTE per year. This was due to the high proportion of expenditure used for the acquisition of real estate (see also Example 7) and the low number of FTEs created. As in the case of the OPEm, there

²⁵ At the same time, jobs are expected to be created at the end of the project implementation.

²⁶ This conclusion is based on the recalculation of the maximum amount of subsidy in terms of the requirement to create at least two new FTEs for disadvantaged persons, for which the maximum score was given under the corresponding efficiency criterion in the substantive evaluation of the applications for support.

are other projects under the IROP outside the selected sample audited by the SAO, where the intensity of support significantly exceeds the average of the operational programme. In the case of the most significant difference identified by the SAO, the amount of support per FTE is approximately CZK 1 million per year.

4.29 The SAO also found that the MoRD had set evaluation criteria for the IROP that did not guarantee the sole selection of efficient social entrepreneurship projects. In addition to the fact indicated in para. 4.28, this is the result of the inappropriate structure and content of the substantive evaluation criteria. All projects that successfully passed to the substantive evaluation phase received the minimum required number of points that could be awarded (no project was eliminated for the failure to achieve the required number of points in the substantive evaluation or for insufficient project quality). There was no further selection of projects based on their overall quality, including, for example, their efficiency, as sufficient financial allocation was available to support the projects. However, the possibility to support all the projects that passed to the substantive evaluation phase was a consequence of the fact that the implementing authorities (MoRD, CRD) excluded a large number of projects from the evaluation process already at the phase of eligibility and formal evaluation. The overall success rate of the submitted applications for support under the IROP was about 37%. However, in the first two calls announced (No 11 and 12), it was only 15%.

→ The system for the selection of projects for support from the OPEm shows risks that reduce the effectiveness and efficiency of the support provided, ...

4.30 In the selection of social entrepreneurship projects under the OPEm, the substantive evaluation played an important part. The data presented in Table 6 show that the volume of submitted applications for support significantly exceeded the available call allocation.

Table 6: Financial volume of submitted and supported applications for support in calls funding social entrepreneurship under the OPEm

Call	Financial allocation of the call (total eligible expenditure)	Total number of applications submitted	Total number of SDs issued	Application success rate (in %)
15	100,000,000.00	1,253,485,036.00	74,868,410.25	5.97
26	609,972,200.00	167,065,080.10	8,744,361.25	5.23
47	2,030,000,000.00	273,516,254.41	150,387,499.70	54.98
67	100,000,000.00	748,318,405.10	70,255,448.75	9.39
105	50,000,000.00	55,036,725.63	7,568,736.25	13.75
129	315,000,000.00	1,560,942,262.00	267,282,855.60	17.12

Source: MS2014+, situation as of July 2021.

4.31 The success rate of the applications submitted was low. This would indicate a consistent and effective system for selecting effective and efficient projects. Nevertheless, the SAO found risks that this might not be the case in the setting of the substantive evaluation of applications for support and other related facts. The analysis of the substantive evaluation process in calls No 15, 67, 105 and 129²⁷ shows:

- *The MoLSA supported a large number of projects without them receiving more than 50% of the possible points:*

²⁷ In the other calls under the OPEm, where social enterprises were supported, the evaluation system was different and did not allow for the analysis carried out for calls No 15, 67, 105 and 129.

In the case of calls No 15, 67, 105 and 129, projects could be supported if none of the substantive evaluation criteria was assessed as unfulfilled. At the same time, the applications submitted had to receive at least 50 out of 100 total points. The lowest number of points the application for support could receive was not 0, but 25 points. Half of the interval between 25 and 100 available points is 62.5 points. Table 7 below shows that 48 out of 105 projects supported (i.e. 46%) received no more than half of the available points.

Table 7: Overview of the scores awarded by the evaluation committee in calls No 15, 67, 105 and 129 in the OPEm

Call	Number of successful projects	Points awarded by the evaluation committee			Number of projects receiving between 50–62.5 points	Number of projects receiving 50 points
		Min.	Max.	Average		
15	16	50.00	91.25	67.27	8	4
67	21	50.00	78.75	58.10	16	5
105	2	73.75	75.00	74.38	0	0
129	67	50.00	87.50	69.47	24	1
Total	106	50.00	91.25	65.54	48	10

Source: prepared by the SAO on the basis of the minutes of the evaluation committees, status as of February 2022.

- *The individual evaluations produced show a high degree of variability in opinions.*

For each project evaluated under calls No 15, 67, 105 and 129, two baseline²⁸ evaluations were prepared, which served as the basis for the final decision made by the entire evaluation committee. The evaluation of the evaluation committee was final (decisive) and could be substantially different from the baseline opinions. The SAO found that there was considerable variation between the results of the individual evaluations prepared and that this variation was particularly noticeable in the case of successful applications. The differences in the opinions refer to a situation where one evaluation differed from the others in whether or not to support the project. Table 8 below shows that the rate of variation in the opinions regarding supported projects (i.e. successful applications) in the reviewed calls was more than 60%. Such high variability in opinions in the evaluation of projects selected for support indicates risks for their effective and efficient implementation.

Table 8: Variability rate in the evaluation opinions in calls No 15, 67, 105 and 129 of the OPEm

Call	Evaluated applications	Applications with varying opinions	Rate (in %)	Successful applications	Successful applications with varying opinions	Rate (in %)
15	278	36	12.95	16	9	56.25
67	181	30	16.57	21	13	61.90
105	11	2	18.18	2	1	50.00
129	306	83	27.12	67	42	62.69
Total	776	151	19.46	106	65	61.32

Source: prepared by the SAO on the basis of MoLSA data, status as of February 2022.

²⁸ The baseline evaluation means the underlying evaluation for the meeting of the evaluation committee, which produces a single decisive evaluation without having to take the baseline evaluations into account.

→ ... the implementation of the supported projects deviates negatively from the projections; the risks pointed out in the evaluations are materialising.

4.32 During the audit of project implementation carried out by the SAO on the selected sample of projects under the OPEm, it was found that the risks of supporting projects not recommended for support have manifested themselves. However, the final decision of the evaluation committee did not take these risks sufficiently into account, and the projects were supported. Some of the risks that have been identified by some of the evaluators are listed in Example 5:

Example 5

In the case of project No 9087, one baseline evaluation for the meeting of the evaluation committee did not recommend the project for support. The opinion found the project unnecessary as it did not bring any advantages over the existing competition on the market, and the evaluator saw a problem with securing enough suitable workers from the target group. All of the risks were confirmed during the implementation of the project, and the supported enterprise did not even come close to the results projected in the business plan.

Similar risks, pointed out by one of the evaluators, have manifested in project No 5738, albeit to a lesser extent. Among other things, the relevant evaluation pointed out the insufficiently elaborated business plan and insufficiently emphasised the social aspect of the project (project benefits for the target group of people). The former of the risks has indeed manifested itself during and after the completion of the project. The beneficiary has ongoing problems finding and retaining suitable employees and achieves the expected economic objectives only partially, moreover, only due to the personal links to economic entities associated with the social enterprise.

→ New social enterprises are often created for economic rather than social reasons and have a strong personal link to external entities, which are then the main source of sales.

4.33 For the selected sample of projects, it was found that the motivation for the establishment of new social enterprises was not primarily the objectives of social entrepreneurship as such (i.e. primarily the support of people from the target groups) but rather the economic benefits to the beneficiary. New social enterprises have often been established with significant personal links to their intended customers and suppliers. In the first years of operation of new social enterprises, such companies were a dominant and exclusive part of the distribution chain. This is the case of beneficiaries of projects No 3366 (and 5738), 3382, 3498, 9087 and 14002, which represent five out of nine newly established social enterprises from the sample.

4.34 The primary motivation for the economic benefits of the creation of new social enterprises was also directly stated by the beneficiaries in their business plans included in the submitted applications for support, as shown in Example 6:

Example 6

In its business plan, the beneficiary in the case of project No 14002 (OPEm) stated the following: "After evaluating primarily the economic context, such as the option of taking out a loan for the initial investment (a loan was already taken on the Brewery and it should not incur more debts without the bank's permission), or pragmatic concerns about new business activities of a dynamically growing brewery, facing issues and challenges of a double-digit

production growth, being treated as a “Cinderella” in the context of the industry without being able to develop its full potential, we decided to establish a new business entity, partially linked through staff with the social enterprise ...”

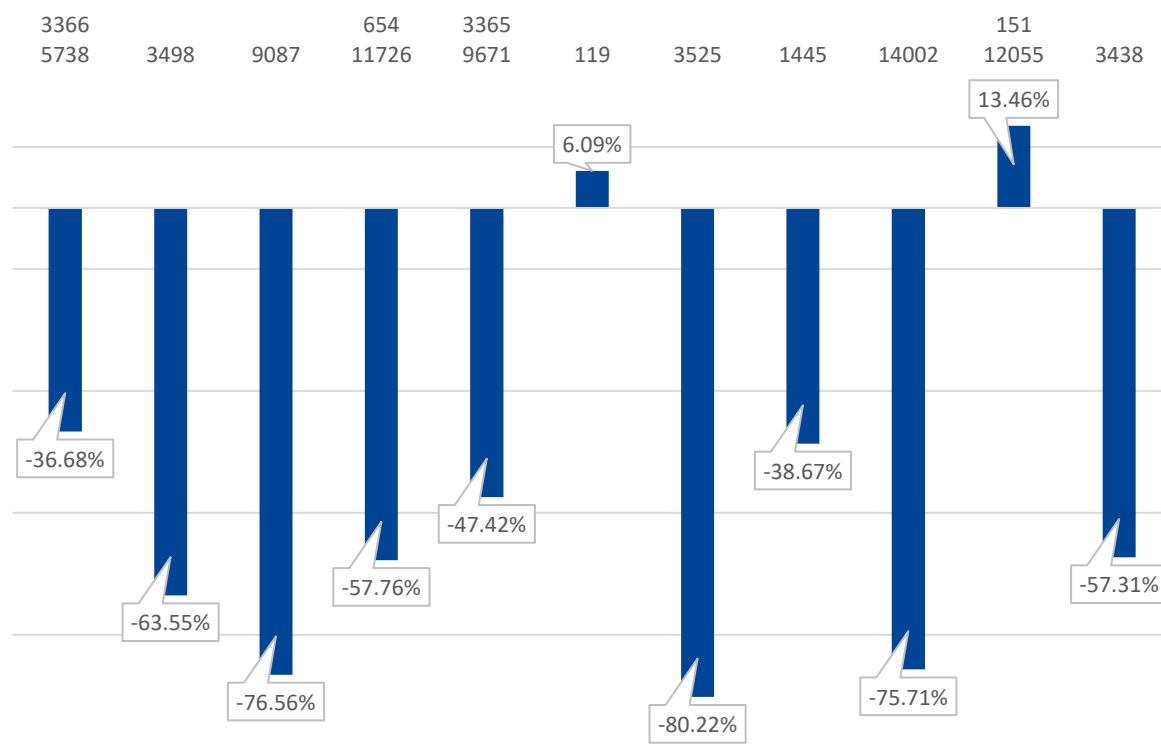
In its business plan, the beneficiary in the case of project No 1445 (OPEm) stated the following: “The main reason for establishing a new legal entity is to prevent the company from becoming a VAT payer in its first years of operation²⁹, as there are minimum possibilities of input VAT deduction for massage services, and the VAT payments reach nearly the full rate (21% of revenues), which would have a drastic impact on the company in the first years of operation. If the company conducted business under the name of the existing company ..., providing accounting services, the company would become a payer of VAT within 12 months from the start of the provision of massage services, which would put the even existing company at financial risk. Conducting business as separate entities also eliminates the risk in the event that one of the businesses would be operating at a loss and the company would go into liquidation..., is also a VAT payer and does not fall within the eligible applicants under the call. At the same time, the company ... could not be the founder of the new company due to exceeding the limit of public support in the de minimis regime; the company already draws public support as a part of the provision of social and other services.”

→ The actual operation of the supported enterprises shows significant negative deviation from the economic projections indicated in the business plans.

4.35 For projects supported under the IROP, there is a set five-year sustainability period. In the case of the OPEm projects, there is no set sustainability period; however, the MoLSA declares its interest in supporting “viable beneficiaries with long-term potential for successful operation”. For both operational programmes, the evaluation and selection of projects is based, inter alia, on business and financial plans containing the projections of the economic operation of the applicants for the duration of the project implementation and for a period of at least the following 12 months. The SAO’s audit of the beneficiaries found that, in the vast majority of supported projects, the economic operation did not meet the projections set by the beneficiaries in their business and financial plans, and the deviations were significant in some cases. This illustrates the lack of attention given to the viability of the business and financial plans during the selection process. The COVID-19 epidemic had a partial impact on this situation only for some beneficiaries. Chart 1 below shows the observed differences between the projected and actual revenues:

²⁹ Value added tax.

Chart 1: Differences between actual and expected revenues of beneficiaries in the sample of Selected Projects³⁰



Source: MS 2014+, prepared by the SAO, status as of February 2022.

D. Have the funds intended for the support of the selected social enterprises been provided and used effectively?

4.36 Based on the facts found during the audit of the Selected Projects and support providers, the SAO evaluated whether the state budget and EU funds for the support of social enterprises were provided and used effectively. For this purpose of project evaluation, the SAO prepared a four-point evaluation scale (the project is: effective – effective with slight shortcomings – effective to a limited extent – ineffective) and set uniform criteria for evaluation (see **Annex 2** of this Audit Report). The results of the assessment of individual projects are available in **Annex 1** to this Audit Report.

→ The effectiveness of the used funds was positively evaluated in eight out of 16 audited projects; seven projects were evaluated as effective to a limited extent and one as completely ineffective.

4.37 The SAO evaluated the effectiveness of funds used on the sample of Selected Projects. In addition to the shortcomings identified in the previous examples, the SAO provides further examples of reduction in the effectiveness score of the funds used in Examples 7 to 9:

³⁰ The projects are identified by their abbreviations (see **Annex 1** to this Audit Report); in the case of two projects of one beneficiary, data for the longest period available were used. In the case of Project No 3382, comparable data on projected and actual revenues were not available.

Example 7

Project No 3438 was supported by the MoRD under the IROP with the amount of CZK 4.1 million. The project objective was to employ at least two persons from the target groups and create at least 1.25 FTEs. Under the eligible expenditure for the project in the application for support, the beneficiary claimed the expenditure for the acquisition of real estate from a close person (husband) in the amount of CZK 3,370,500, while CZK 2,864,925 was provided from the funding for this purpose. This expenditure was ineligible at the time of submission of the application for payment but was reimbursed from the IROP funds nevertheless. Such an expenditure, amounting to 69% of the total amount of support, cannot be considered effective and efficient (even regardless of its ineligibility) in relation to the stated objective “to support creation and development of social entrepreneurship”. For these reasons, the SAO evaluated the use of the IROP funds for this project as ineffective and inefficient. By supporting such a project and reimbursing such ineligible expenditure, the management and control functions of the MoRD as the managing authority and the CRD as the intermediary body failed significantly (see also para. 4.43).

Example 8

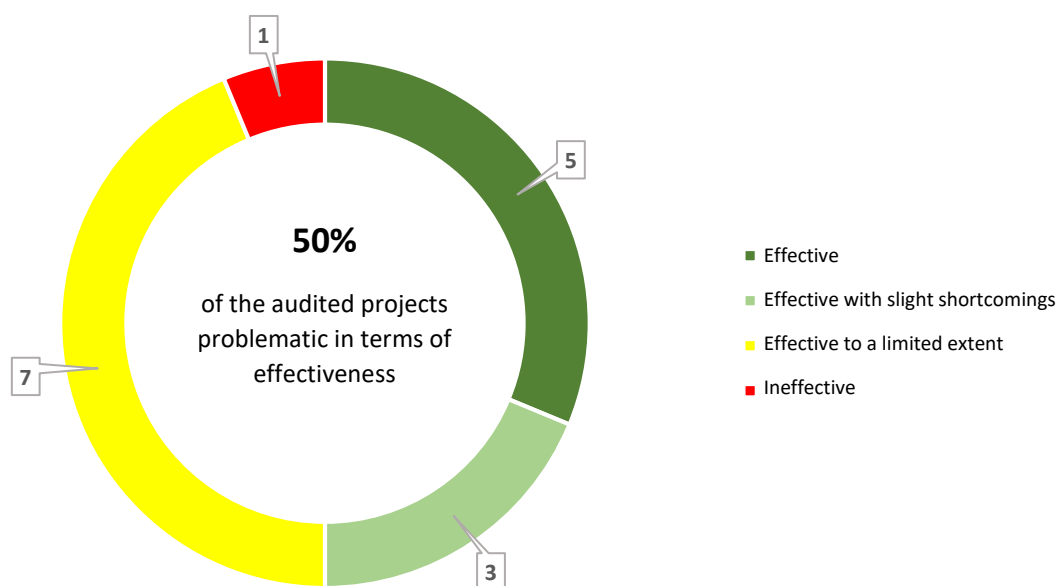
In the case of project No 3382 (IROP), the construction of a laundry was funded, with the project objective to create a minimum of 2.4 FTEs. The beneficiary implemented only a small fraction of the training activities planned in connection with the achievement of the objective (e.g., it did not implement psychosocial support from the employees from TGs, workshops to increase work competencies, or led work team meetings). The beneficiary was only partially successful in achieving the objective “to build a stable and financially self-sufficient entity”. The local community and demand were covered predominantly by legal entities with personal links to the beneficiary. The beneficiary did not arrange for cooperation with relevant local actors as intended and declared in the business plan, so the cooperation was not relevant for the employment of the target groups in the social enterprise and did not bring local benefits. The SAO evaluated project No 3382 as effective (and efficient) to a limited extent.

Example 9

The beneficiary in project No 14002 (OPEm) received support in the amount of CZK 3.9 million for the acquisition of technology and establishment of a cidery. The beneficiary achieved the projected economic objectives of the project at only approx. 25% of the expected values and the project was implemented with significant delay as opposed to the schedule. As a result, the intended social benefits of the project were significantly reduced. In addition, the project was reimbursed for significant investment expenditure (despite being an OPEm project), and the intensity of support provided from public funds in the case of this project was high. For these reasons, the SAO evaluated this project as effective (and efficient) to a limited extent.

4.38 A summary result of the effectiveness evaluation of 16 assessed projects is illustrated in Chart 2. Half of the projects were evaluated positively (at worst, projects were evaluated as effective with slight shortcomings). However, in the case of the other half of the projects, the effectiveness of the funds used was significantly decreased, with one project evaluated as completely ineffective – see Example 7.

Chart 2: Summary result of evaluation of effectiveness of assessed projects



Source: data analysis prepared by the SAO.

4.39 In this context, the SAO points out the significant systemic deficiency found in the IROP in connection with the reimbursement of ineligible expenditure related to the purchase of real estate from close persons. The SAO found that the shortcoming described in Example 7 did not concern only one of the Selected Projects. While auditing projects supported by the provider of support, the SAO found evidence of errors in two other social entrepreneurship projects supported from the IROP. Since the SAO found these errors simply by comparing the surnames of the sellers and the buyers, there is a risk that the purchase of real estate from close persons could have occurred with multiple beneficiaries where their names do not match the name of the seller. The IROP implementing bodies have already been alerted to this fact during the audit and, on this basis, are carrying out special audits of all projects focused on the support of social enterprises, which will focus on a thorough examination of the purchase of a real estate in order to eliminate this risk to the eligibility, effectiveness and efficiency of the funds used.

E. Have the funds intended for the support of the selected social enterprises been provided and used efficiently and in accordance with legal regulations?

4.40 Based on the facts found during the audit of the Selected Projects and support providers, the SAO evaluated whether the state budget and EU funds for the support of social enterprises were provided and used efficiently. As in the case of effectiveness evaluation, the SAO prepared a four-level evaluation scale for the evaluation of project efficiency (the project is: efficient – efficient with slight shortcomings – efficient to a limited extent – inefficient) and set uniform criteria for evaluation (see **Annex 2** of this Audit Report). The results of the assessment by individual projects are available in **Annex 1** to this Audit Report.

→ Eight of the 16 projects audited were evaluated as efficient, six projects were evaluated as efficient to a limited extent, and two as completely inefficient.

4.41 The SAO evaluated the efficiency of funds used on the sample of Selected Projects. In addition to the cases listed above in the Audit Report, in particular, in Examples 5, 7, 8 and 9, the SAO provides further examples of reduction in the evaluation score of the fund use efficiency in Examples 10 to 12:

Example 10

In the case of project No 151 (IROP), the beneficiary used the purchased technology for the production and pasteurisation of malt soda beverages, at the purchase price of CZK 796,000 excluding VAT (or CZK 795,204 in the approved amount of eligible expenditure), to a minimum extent. The sales volumes for malt soda were only 2% of the projected sales, and the sales revenue amounted to about 5% of the projections. The SAO evaluated the project as efficient to a limited extent, as the final evaluation was also influenced by the finding described in Example 1.

Example 11

In the case of project No 119 (IROP), the beneficiary used the project to expand its existing business activities by acquiring technological equipment related to the new activity of attending public greenery. A total support of CZK 4.2 million was approved for the project; the enterprise was to provide full-time or part-time employment totalling at least 3.00 FTEs. During the implementation of the project, the beneficiary has significantly deviated from the projected economic plans. In 2020 and 2021, revenues from the services provided were not even half of the amount expected by the beneficiary. In providing service from mid-2018 till the end of 2021, the articulated loader purchased with other accessories at the cost of CZK 4.8 million generated contracts in the amount of only CZK 1.7 million. Due to the low number of contracts using the articulated loader, namely 15 in 2020 and eight in 2021, the other accessories were not used either (car and trailer). Similarly, there was no work for the three employees of the support staff employed in connection with the new business activity. These employees were assigned work in the garden centre store or in replacement contracts for sorting fruit and vegetables. The SAO evaluated the project as efficient only to a limited extent.

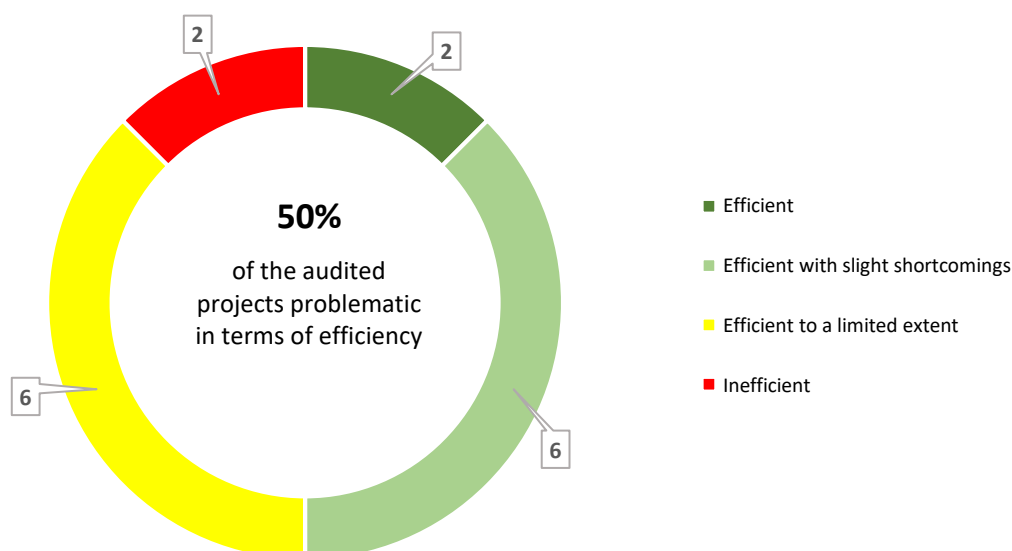
Example 12

The beneficiary implemented project No 12055 with the help of support provided from the OPEm. Within the budget presented, personnel costs accounted for only 7.9% of the budget, and no direct support was provided to the target groups of people. On the other hand, the investment expenditure accounted for 49.67% of the budget, while the "equipment and facilities, including lease and write-offs" item accounted for 86.53% of the budget. The nature of the project does not correspond to other projects financed under the support of social entrepreneurship under the OPEm, which mainly covers wages and direct support, training and education and possible marketing. At the time of submission of the application for support, the social enterprise employed 12.99 FTEs from the target group. During the implementation of the project, the wages of these persons were paid by the beneficiary through other public sources (contributions from the labour office). The investment expenditures within the project were mainly for the acquisition of new technologies that were to increase the production of the social enterprise without directly serving the acquisition of special skills by the employees from the target groups. The level of involvement of employees from the target groups in the

project was low; therefore, the intensity of support for the target group was high. The SAO evaluated this project as inefficient.

4.42 A summary result of the efficiency evaluation of 16 assessed projects is illustrated in Chart 3. As in the case of the evaluation of effectiveness, half of the projects received a positive score (at worst, the projects were evaluated as efficient with slight shortcomings), while the other half received a significantly worse score for the efficiency of the funds used. Two projects were assessed as completely inefficient (see Examples 7 and 12):

Chart 3: Summary result of evaluation of efficiency of evaluated projects



Source: data analysis prepared by the SAO.

→ In three out of 16 projects audited, the SAO found evidence of a breach of the budgetary discipline and irregularities within the meaning of both Czech and EU legislation.

4.43 In addition to the significant use of the IROP funds to finance ineligible expenditure associated with the purchase of real estate from a close person amounting to CZK millions (see Example 7), the SAO found two other cases of ineligible expenditure (project No 1445 supported from the OPEm and project No 3382 supported from the IROP), in both cases ranging in CZK tens of thousands. These findings had the nature of individual breaches of the established rules on the eligibility of expenditure. In all three cases, the SAO assessed these findings as indicating a possible breach of the budgetary discipline and irregularities within the meaning of both Czech and EU legislation³¹.

³¹ A breach of the budgetary discipline pursuant to Section 44(1)(b) of Act No 218/2000 Coll., on budgetary rules and amending certain related acts (Budgetary Rules), and irregularities within the meaning of Article 2(36) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

List of Terms and Abbreviations

CR	Czech Republic
CRD	Centre for Regional Development of the Czech Republic
ERDF	<i>European Regional Development Fund</i>
EU	European Union
FTE	Full-time equivalent
IROP	<i>Integrated Regional Operational Programme</i>
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
OPEm	Operational Programme <i>Employment 2014–2020</i>
OP PGP	Operational Programme <i>Prague – Growth Pole</i>
PA 2	Priority axis 2 of the OPEm <i>Social inclusion and combating poverty</i>
SAO	Supreme Audit Office
SD	Subsidy decision
SE	Social enterprise
SEL	Socially excluded localities
Selected Projects	audited sample of 16 projects implemented by 12 beneficiaries
SO	Specific objective
SO 2.1.2	Specific objective 2.1.2 of the OPEm <i>Development of social economy sector</i>
SO 2.2	Specific objective 2.2 of the IROP <i>Creation of new and development of existing social entrepreneurship business activities</i>
SO 2.3.1	Specific objective 2.3.1 of the OPEm <i>Increasing the involvement of local actors in solving unemployment and social inclusion issues in rural areas</i>
SO 4.1	Specific objective 4.1 of the IROP <i>Strengthening the community-led local development to improve the quality of life in rural areas and activation of local potential</i>
TG	Target groups
VAT	Value added tax

Overview of audited projects from the OPEm and IROP and evaluation of their effectiveness and efficiency

Project		Audited beneficiary	Support pursuant to SD (in CZK)	Evaluation	
Abbr.	Number and name			Effectiveness	Efficiency
654	CZ.03.2.60/0.0/0.0/15_015/0000654 Naše Café – workshop	Sociální družstvo Stabilita Olomouc	5,097,450.00	1	2
1445	CZ.03.2.60/0.0/0.0/15_015/0001445 Social enterprise – Unika Relax Ostrava massage centre	Unika Relax Ostrava, s.r.o.	4,636,849.02	1	2
5738	CZ.03.2.60/0.0/0.0/16_067/0005738 Brniště park services	FT & Catering s.r.o.	2,893,485.00	2	2
9087	CZ.03.2.60/0.0/0.0/17_129/0009087 Cleaning for stable employment	Spirála Turnov s.r.o.	3,766,647.50	3	3
9671	CZ.03.2.60/0.0/0.0/17_129/0009671 Social enterprise for the countryside	Tradiční Hanácká, s.r.o.	1,678,299.50	1	1
11726	CZ.03.2.60/0.0/0.0/17_129/0011726 Our Café – store expansion	Sociální družstvo Stabilita Olomouc	4,189,097.50	1	2
12055	CZ.03.2.60/0.0/0.0/17_129/0012055 Expansion of production and improvement of PR activities of Pivovar Chříč	Pivovar Chříč s.r.o.	4,574,912.50	3	4
14002	CZ.03.2.60/0.0/0.0/17_129/0014002 Establishment and operation of the integration social enterprise Ciderie Chříč	Ciderie Chříč s.r.o.	5,063,081.31	3	3
OPEm Total			31,899,822.33		
119	CZ.06.2.58/0.0/0.0/15_005/0000119 TECHNOLOGICAL EQUIPMENT FOR HROCH GROUP S.R.O.	HROCH group s.r.o.,	4,165,000.00	3	3
151	CZ.06.2.58/0.0/0.0/15_010/0000151 Expansion of production of the social enterprise Pivovar Chříč	Pivovar Chříč s.r.o.	3,487,221.05	3	3
3365	CZ.06.2.58/0.0/0.0/16_061/0003365 Social enterprise for the countryside	Tradiční Hanácká, s.r.o.	3,002,338.21	1	2
3366	CZ.06.2.58/0.0/0.0/16_061/0003366 Brniště park services equipment	FT & Catering s.r.o.	1,057,496.44	2	2
3382	CZ.06.2.58/0.0/0.0/16_060/0003382 Social enterprise – Ústav Pohoda, z. ú. – construction of a laundry in Český Těšín	Ústav pohoda, z. ú.	2,289,055.95	3	3
3438	CZ.06.2.58/0.0/0.0/16_060/0003438 Kavárna Blatná	Veronika Vachulková	4,137,513.14	4	4
3498	CZ.06.2.58/0.0/0.0/16_061/0003498 Social enterprise PLT Liberec s.r.o.	PLT Liberec s.r.o.	3 700 877,05	3	3
3525	CZ.06.2.58/0.0/0.0/16_061/0003525 EXPANSION OF THE CAPACITY OF PRÁDELNA PRAPOS S.R.O.	Prádelna PRAPOS s.r.o.	3,961,940.40	2	1
IROP Total			25,801,442.24		

Grading:

1	Project is effective and efficient.
2	Project is effective, or efficient with minor shortcomings.
3	Project is effective but shows limited efficiency.
4	Project is ineffective and inefficient.

Criteria for evaluating effectiveness and efficiency of the OPEm and IROP projects

1. Evaluation of effectiveness

Level of project effectiveness	Definition of effectiveness level
<p>1. Project is effective</p>	<p>The project has been duly implemented and achieved or is likely to achieve the projected outputs and objectives. The objectives (not just the monitoring indicators) are specific and measurable, and their achievement can be verified; the effects are sustainable in the long term (SMART). Sub-objectives and key activities have been fulfilled in accordance with the project schedule, and the benefits of the project for the target group and fulfilment of the general objectives of the OPEm and IROP can be expected. The expected benefits, where relevant, can be observed even after the completion of the project.</p> <p>Note: Usually, this entails achieving 100% of the set sub-objectives; however, the relative importance of the set objective has to be taken into account – e.g., four major objectives achieved and one marginal objective failed can be evaluated as “all achieved”.</p> <p>In the case of investment transactions, it is necessary to verify that the project outputs are used for the intended purpose (e.g., the constructed/renovated premises are used by the employees from the target group and in accordance with the project).</p> <p>The supported enterprise fulfils all the distinguishing characteristics of social enterprises; according to the auditor’s professional judgment, the primary purpose of the enterprise is “social”, not “business”.</p>
<p>2. Project is effective with minor shortcomings</p>	<p>The project supports the right target groups and leads (or is expected to) to the achievement of the programme objectives (creation and development of social entrepreneurship). The objectives will be largely, but not entirely, achieved. For example, the project has achieved or is expected to achieve ¾ of its objectives. Failure to achieve some of the sub-objectives does not materially affect the success of the project. Some of the project objectives are vague and not measurable, or only the output (not result) indicators are known. However, as a whole, the project works for the benefit of the target group and will lead to the benefits that were expected through their employment.</p> <p>The outputs of investment projects are largely used for their intended purpose.</p> <p>The supported enterprise fulfils all the distinguishing characteristics of social enterprises; according to the auditor’s professional judgment, the primary purpose of the enterprise is “social”, not “business”. However, in the professional judgement of the auditor, the degree of fulfilment of some of the distinguishing characteristics (a small number) is low or questionable, or the established facts do not fully guarantee that the “social” aspect is pursued as the primary principle.</p>
<p>3. Project shows limited effectiveness</p>	<p>Some of the prerequisites of effectiveness (see the first level of effectiveness evaluation) are significantly challenged.</p> <p>For example, the application for subsidy contains vague and unverifiable data against which the result of the project cannot be measured. The facts support the unachievable nature of the expected results, e.g., when the project has achieved (or is likely to achieve) only approx. ½ of its objectives, or there are doubts regarding their sustainability.</p> <p>The outputs of the investment transactions are used only to a limited extent, and there is no reasonable expectation of significant improvement in the future. The supported enterprise fulfils all the distinguishing characteristics of social enterprises; according to the auditor’s professional judgment, the primary purpose of the enterprise is “social”, not “business”. However, in the professional judgement of the auditor, the degree of fulfilment of some of the distinguishing characteristics (several) is low or questionable, or the established facts do not fully guarantee that the “social” aspect is pursued as the primary principle.</p>
<p>4. Project is not effective</p>	<p>The prerequisites of effectiveness (see the first level of effectiveness evaluation) are fundamentally challenged by some of the following shortcomings. For example, the project should not have been selected for funding (project is ineligible from the outset) because the target group benefiting from it does not correspond to the definition in the programme, or the benefits, the employment of which were to achieve, have not been achieved. For example, the project does not have measurable</p>

	<p>and specific objectives; it is not possible to demonstrate their achievement. The sustainability of the project results is not realistic.</p> <p>The outputs of the investment transactions are used only to a limited extent, and there is no reasonable expectation of their use in the future. The supported enterprise does not fulfil all the distinguishing characteristics of social enterprises, or according to the auditor’s professional judgment, the primary purpose of the enterprise is not “social” but “business”. For this evaluation, it is sufficient that, in accordance with the professional judgment of the auditor, even one distinguishing characteristic is not implemented in the enterprise while respecting its social principle.</p>
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2. Efficiency Evaluation

Level of project efficiency	Definition of efficiency level
<p>1. Project is efficient</p>	<p>All project activities were (are) necessary for the achievement of the project objective, and their costs were (are) minimal while maintaining reasonable quality. The size of the implementation team is not unreasonable, and the scope of its work is necessary for the project.</p> <p>Note: In funding the activity, the emphasis was (is) on both the least possible quantities as well as the optimum price, including rational planning of the resources needed.</p> <p>The costs per output unit (i.e. per supported person/FTE) used from public resources are reasonably comparable to the average costs of the operational programme for the given output unit. The scope of work and activities performed were in line with the planned schedule both in terms of time and substance.</p> <p>All the direct funds spent were directly related to the implementation of the project and were necessary for the achievement of the project objectives (in terms of substantive content).</p> <p>The activities and services were performed at usual market prices at the given time and place; the prices were not inflated in relation to the outputs for which they were paid (price comparison of the selected audited projects).</p> <p>There is no “double funding”, i.e. one activity/performance is not funded by multiple support providers (e.g., both from the OPEm and the IROP); in the case of several projects, there is a clear boundary. The implementation of the project does not deviate significantly and adversely from the business plan in an unjustifiable manner.</p>
<p>2. Project is efficient with minor shortcomings</p>	<p>Some of the prerequisites of efficiency (see the first level of efficiency evaluation) are not fully met; however, as a whole, the project can be expected to bring adequate performance at a reasonable cost. For example, the vast majority of activities was (is) necessary to meet the objective (with a few minor exceptions), and at the same time, the costs of most activities were (are) not significantly above regular market prices (or exceeded them only rarely and not in a significant way). Such a partial and insignificant expenditure had no demonstrable link to the achievement of the project objectives. The size of the implementation team was only slightly disproportionate and/or the scope of its work necessary for the project with minimum reservations. The costs per output unit (i.e. per supported person/FTE) used from public resources are slightly above the average costs of the operational programme for the given output unit.</p> <p>The implementation of the project deviates from the business plan only insignificantly.</p>
<p>3. Project shows limited efficiency</p>	<p>Some of the prerequisites of efficiency (see the first level of efficiency evaluation) are significantly challenged. There was (is) a significant proportion of activities in the project, the relevance of which for the achievement of the project objective is limited, and/or the cost of some activities clearly exceeded (exceed) the usual market prices. The number of target people benefiting from the project was lower than expected without a corresponding reduction in costs; therefore, the costs per one person benefiting from the project are significantly higher.</p> <p>Several costs were found to be uneconomical, or the wastefulness of some of them is significant. More expenditures incurred as a part of the project had no direct link to the achievement of their objectives.</p> <p>The size of the implementation team was significantly disproportionate, and/or the scope of its work on the project was redundant. The costs per output unit (i.e. per supported person/FTE) used from public resources are significantly above the average cost of the operational programme for the given output unit.</p> <p>The implementation of the project significantly deviates from the business plan.</p>

<p>4. Project is not efficient</p>	<p>Some of the prerequisites of efficiency (see the first level of efficiency evaluation) are fundamentally challenged. For example, approx. half of the activities in the project were (are) not necessary at all to achieve the project objectives, and/or the costs of a number of activities clearly significantly exceeded (exceed) the usual market prices. The size of the implementation team was disproportionate, and/or the majority of its tasks on the project was redundant.</p> <p>The proportion of target persons benefiting from the project was substantially lower than expected without a corresponding reduction in costs – the costs per target person are therefore several times higher than originally projected. There are doubts about whether the project should have been supported from public funds; there are doubts concerning the need of the project for the target group; or the project would have been implemented without public support. The costs per output unit (i.e. per supported person/FTE) used from public resources are several times above the average costs of the operational programme for the given output unit.</p> <p>Double funding occurs, or there is no clear boundary between activities funded from other projects. The implementation of the project completely deviates from the business plan in an unjustifiable way. Social enterprise is not viable. The project is always rated as inefficient if it is evaluated as ineffective.</p>
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Definition of the principles of social entrepreneurship in the IROP

The specific rules for the applicants and beneficiaries in Chapter 2.2 elaborate on the definition of the principles of social entrepreneurship by characterising social, economic, environmental and local benefits:

“Social Benefit” Principle

- a) Conditions of employment and social inclusion of persons from the TGs
 - the minimum percentage of employees from the TGs is 30% of the number of employees of the social enterprise;
 - the employee from a TG must have a contract of employment or contract for work concluded;
 - the minimum required employment equivalent of a person from the TG is 0.4 FTE.
- b) Participation of employees in the direction of the enterprise

The employer informs the employees on the operation of the enterprise and the fulfilment of socially beneficial objectives. Persons from TGs are involved in the decision-making process and participate in it if they are interested and eligible to do so, taking into account the type and extent of their disadvantage.

In the Business Plan (hereinafter “BP”), the applicant describes how the employees will be informed and how the employees from the TGs will be involved in the decision-making process regarding the direction of the social enterprise.

- c) Emphasis on the development of work competencies of disadvantaged employees

The MoRD recommends that the employers provide the employees from the TGs with training that takes into account their individual capabilities. If the employer intends to comply with this recommended principle, the employer shall describe the topics, extent and participants of the training in their BP.

“Economic Benefit” Principle

- a) Profit is primarily used for the development of the social enterprise

More than 50% of the profits are reinvested in the development of the social enterprise. The applicant shall describe the use of the profit (after tax) in the BP.

- b) Independence in managerial decision-making and management with respect to external founders

Independence means autonomy in managerial decision-making and management. If there is no external owner or founder, the condition is automatically fulfilled.

- c) At least 30% of the revenues of the social enterprise shall be generated by the sale of its own products or the provision of its own services. The applicant shall describe the implementation of the principle in the BP.

“Environmental Benefit” Principle

- a) Taking into account the environmental aspects of production and consumption

The enterprise has formulated environmentally friendly business principles, e.g., the use of recycled toners, paper, ecological cars, water or air purifiers, recyclable packaging, energy-

efficient buildings and appliances, environmentally friendly products. The applicant shall describe these principles in the BP.

“Local Benefit” Principle

- a) Prioritising the needs of the local community and local demand

The enterprise focuses its activities on local needs; its customers are from the same or neighbouring region. The range of goods and services meets local needs.

- b) Prioritising the use of local resources

The enterprise preferentially employs local residents or purchases from local suppliers. The applicant shall describe this principle in the BP.

Set of distinguishing characteristics for work integration social enterprise (WISE) according to call No 129 of the OPEm

The distinguishing characteristics of a work integration social enterprise are binding for the beneficiaries in their entirety and will be monitored during the implementation of the project. The applicant shall specify all the principles of social entrepreneurship, including the characteristics and specific fulfilment of the distinguishing characteristics of the social enterprise, in the founding documents no later than as at the date of completion of project implementation (in the case of (g) type activity, as at the date of submission of the application). The documents shall be published by companies on www.justice.cz, by self-employed individuals, e.g., via a statement on the organisation’s website or at another publicly and easily accessible location, by non-governmental non-profit organisations, in the relevant register according to the legal form of the organisation. Applicants are advised to incorporate the social entrepreneurship principles into the founding documents when establishing the company.

Principle/ /description	Distinguishing characteristic	Proof
1. Socially beneficial objective		
a) the socially beneficial objective of employment and social inclusion of disadvantaged persons on the labour market is defined in the founding documents	1a1. the enterprise has a socially beneficial objective of employment and social inclusion of disadvantaged persons on the labour market, which is defined in the founding documents, and such documents are publicly available	The founding documents are published in a public register; in the case of self-employed individuals, other binding documents are published on the organisation’s website or other publicly and easily accessible location.
	Comment: Companies shall publish the documents in the Commercial Register at www.justice.cz . In the case of self-employed individuals, public and easily accessible location, e.g., at the place of business. Non-governmental non-profit organisations shall publish the documents in the relevant register according to the legal form of the organisation.	
2. Social Benefit		
a) integration of people from disadvantaged groups	2a1. the percentage of people from disadvantaged groups (PDG) is more than 30% of the employees, and the	Proof of employment for all employees of the enterprise. In the case of persons cooperating with self-employed individuals, the beneficiary shall provide tax returns or an affidavit confirming that the taxpayer has paid the income tax. Evidence of belonging to PDG.

	information is publicly available	
	<p>Comment: The ratio of employees from disadvantaged groups to the total number of employees is expressed in average annual FTEs, which include employees with employment contracts, agreements to perform a job or contracts for work; self-employed individuals, including any persons cooperating with them, prove the extent of their involvement (the extent of involvement will be expressed in jobs or hours worked over a certain period) through information provided in the project implementation reports. The category of disadvantaged groups includes the groups defined in the call. Only information on the percentage of people from disadvantaged groups is publicly available, not the evidence of employment relationships and belonging to PDG.</p>	
	2a2. the enterprise uses HR and integration tools supporting the development and integration of employees from target groups	<p>Evidence of the employment relationship (employment contract, agreement to perform a job or contract for work) and the job description of the person managing the integration HR services, or evidence of the provision of the service and its nature (in the case of external support).</p> <p>Integration HR tools supporting the development and integration of the target group of employees (the form of processing is up to the beneficiary, e.g., internal regulation, methodology, individual plans).</p>
	<p>Comment: HR and integration instruments: the set of all the tools of the social enterprise that are needed to prepare and perform the jobs; these include the tools that enable the employees to perform the work tasks and contribute to addressing their specific individual needs. This may include individual employee development plans, which summarise the professional and personal goals of the employee that the employee wishes to achieve with the help and cooperation of the integration HR specialist so that the provision of service aims towards the employee's empowerment and integration.</p>	
b) Participation of employees and members in the direction of the enterprise	2b1. employees and/or members are regularly and systematically informed about the operation of the enterprise, economic results and achievement of socially beneficial objectives; employees and/or members are involved in the decision-making process regarding the direction of the enterprise	It may be substantiated by one of the following ways: employee involvement strategy, internal newsletter, minutes of the relevant meetings, results of questionnaire surveys, or other demonstrable methods.
	<p>Comment: The employer has drawn up a strategy for the involvement of employees in the decision-making processes according to their individual capabilities and has defined areas where the employees are involved (operation, sales, PR). The information is processed in a way so that all employees can understand it. The level of involvement may vary, but it always involves only the members and/or employees who are eligible to participate with respect to the extent and type of their disadvantage; there must be room for the employees and/or members to participate with regard to the direction of the enterprise if they wish to do so. Cooperatives fulfil this distinguishing characteristic automatically, provided that the employees from disadvantaged groups are members of the cooperative.</p>	
3. Economic Benefit		
a) any profits are used primarily for the development of the social enterprise and/or	3a1. at least 51% of any profits are reinvested in the development of the social enterprise and/or fulfilment of its declared socially beneficial objectives, and the	The financial statements and notes to the financial statements for the preceding completed calendar year are published at www.justice.cz . Self-employed individuals in the form of an affidavit.

fulfilment of its socially beneficial objectives	information on the use of profits is publicly available	
	Comment: If the enterprise shows loss, it is not relevant. Each year, the company's supreme body approves the transfer of at least 51% of after-tax profits to the accounts established for monitoring profit management (account examples: 428 Retained earnings of previous years, 423 Socially responsible reinvestment fund, in the balance sheet line A.III.2 Statutory and other funds, A.IV.1 Retained earnings of previous years). The notes to the financial statements shall include information on the transactions on those accounts, including a statement of where the profit has been reinvested.	
b) independence (autonomy) in managerial decision-making and management with respect to external founders	3b1. the managerial control of the enterprise is independent of any external founder or owner	Founding documents and binding internal rules of the organisation. If there is no external owner or founder, the condition is automatically fulfilled.
	Comment: Independence means autonomy in managerial decision-making and management. Independence is assessed in terms of the following areas: management structure, decision-making powers, disposition of signatory power and approval processes. If one of the founders is a municipality, its total ownership interest in the enterprise must be less than 50%. If more than one municipality are founders, the ownership interest of each of these municipalities must be less than 50%. The founding documents of the social enterprise define a degree of independence with respect to such municipalities that is based on the principles of democratic governance and broad participation, and none of these municipalities has a majority of decision-making rights. The founder may be a voluntary association of municipalities, which is composed of at least three municipalities, and none of them has a majority of decision-making rights. The statutes of the association of municipalities enshrine the independence of decision-making bodies of the association, which is ensured by the observance of the principles of democratic management, and its decision-making is not based on the amount of capital shares. The statutes of the association of municipalities define the degree of independence from the association of municipalities and the individual municipalities.	
c) at least the minimum proportion of revenues from the sale of goods and services to the total revenues	3c1. the revenues from the sale of products and/or services amounts to at least 30% of the total revenues of the enterprise.	Profit and loss account of the enterprise for the last 12 months of project implementation or cash book for the last 12 months of the project implementation (in the case of private individuals keeping tax records in accordance with Act No 586/1992 Coll., on income tax, as amended, or apply expenses as a percentage of income – flat-rate expenditure and do not keep accounting records).
	Comment: For the purposes of this distinguishing characteristic, investment subsidies are not included in total revenues. This distinguishing characteristic is monitored over the last 12 months of project implementation.	
4. Environmental Benefit		
a) taking into account the environmental aspects of production and consumption	4a1. the enterprise has formulated environmentally friendly business principles, which are publicly available, and implements these principles in practice	Evidence of implementation in practice through documents: 3 accounting documents substantiating the use of environmentally friendly products (recycled toners, paper, certified environmentally friendly products, BIO products, Fairtrade products, etc.), building energy performance certificate (energy label) A or B, EMS/EMAS environmental certificate, etc.
Comment: Implementation into practice can also be demonstrated on-site: above-standard economical use of materials and elimination of waste, use of energy-efficient appliances, method of waste sorting and subsequent disposal, use of environmentally friendly packaging and cleaning agents, etc.		

5. Local Benefit		
a) Prioritising the needs of the local community and local demand	5a1. the enterprise focuses its activities on local needs	Accounting documents of three customers established or operating in the same or neighbouring region (cross-border region) no older than 12 months.
	Comment: "Same or neighbouring region or cross-border region" is evaluated with respect to its main establishment or any of its branch establishments. The accounting documents must show that the main establishment or branch establishment is located in the same or neighbouring region (cross-border region). If the enterprise does not meet this characteristic, it must demonstrate that it is not relevant.	
b) prioritising the use of local resources	5b1. the enterprise preferentially uses local resources: a) employs local residents; b) purchases from local suppliers	a) Evidence of the employment relationship (employment contract, agreement to perform a job or contract for work) and, where applicable, other documents proving residence in the same or neighbouring region (cross-border region) for at least 50% of employees; b) accounting documents of three different suppliers of the enterprise, which have their main establishment in the same or neighbouring region, not older than 12 months.
	Comment: In complying with this principle, the social enterprise must follow the rules on competition and non-discrimination in employment relations. "Same or neighbouring region or cross-border region" is evaluated with respect to its main establishment or any of its branch establishments. The accounting documents must show that the main establishment or branch establishment is located in the same or neighbouring region. If the enterprise does not meet either of these two characteristics, it must prove that they are not relevant.	
c) cooperation of social enterprise with local actors	5c1. the enterprise communicates and cooperates with local actors	Two documents of cooperation with local actors not older than 2 years.
	Comment: Possible evidence of cooperation: cooperation agreement, partnership agreement, media report on involvement in public activities, reference contract details for personal verification. Local actors include, for example, local authorities, LO CR, schools, other organisations with similar socially beneficial objectives, thematic work groups, etc.	

Set of distinguishing characteristics for environmental social enterprise according to call No 129 of the OPEm

The distinguishing characteristics of an environmental social enterprise are binding for the beneficiaries in their entirety and will be monitored during the implementation of the project. The applicant shall specify all the principles of social entrepreneurship, including the characteristics and specific fulfilment of the distinguishing characteristics of the social enterprise, in the founding documents no later than as at the date of completion of project implementation (in the case of (g) type activity, as at the date of submission of the application). The documents shall be published by companies on www.justice.cz, by self-employed individuals, e.g., via a statement on the organisation's website or at another publicly and easily accessible location, by non-governmental non-profit organisations, in the relevant register according to the legal form of the organisation. Applicants are advised to incorporate the social entrepreneurship principles into the founding documents when establishing the company.

Principle/ /description	Distinguishing characteristic	Proof
1. Socially beneficial objective		
<p>a) the enterprise is established to fulfil a socially beneficial objective, which aims to solve a specific environmental issue³² and to employ and socially integrate persons disadvantaged on the labour market; this goal is formulated in the founding documents and fulfilled through business activities; both aspects of socially beneficial objective, i.e. to solve a specific environmental issue and to employ and socially integrate disadvantaged persons, must be clearly defined in the project application and the business plan; at the same time, the project application and the business plan must indicate through which activities will these objectives be implemented</p>	<p>1a1. the enterprise has a socially beneficial objective, which is to solve a specific environmental issue and to employ and socially integrate persons disadvantaged on the labour market; this goal is formulated in the founding documents, and these documents must be publicly available; both aspects of socially beneficial objective, i.e. to solve a specific environmental issue and to employ and socially integrate disadvantaged persons, must be clearly defined in the project application and the business plan; at the same time, the project application and the business plan must indicate through which activities will these objectives be implemented</p>	<p>The founding documents are published in a public register; in the case of self-employed individuals, other binding documents are published on the organisation's website or other publicly and easily accessible location.</p>
	<p>Comment: Companies shall publish the documents in the Commercial Register at www.justice.cz. In the case of self-employed individuals, public and easily accessible location, e.g., at the place of business. Non-governmental non-profit organisations shall publish the documents in the relevant register according to the legal form of the organisation.</p>	
2. Social Benefit		
<p>a) integration of people from</p>	<p>2a1. the percentage of people from disadvantaged groups (PDG) is more than 30% of the</p>	<p>Proof of employment for all employees of the enterprise. In the case of persons cooperating with self-employed individuals, the beneficiary shall</p>

³² An environmental issue is defined as a problem caused by human activity with negative consequences for the environment. Environmental social enterprise activity is a means of remedying these negative consequences. An environmental issue must be defined in concrete terms in direct relation to the applicant's business activities.

disadvantaged groups	employees, and the information is publicly available	provide tax returns or an affidavit confirming that the taxpayer has paid the income tax. Evidence of belonging to PDG.
	Comment: The ratio of employees from disadvantaged groups to the total number of employees is expressed in average annual FTEs, which include employees with employment contracts, agreements to perform a job or contracts for work. Self-employed individuals, including any persons cooperating with them, prove the extent of their involvement (the extent of involvement will be expressed in jobs or hours worked over a certain period) through information provided in the project implementation reports. The category of disadvantaged groups includes the groups defined in the call. Only information on the percentage of people from disadvantaged groups is publicly available, not the evidence of employment relationships and belonging to PDG.	
	2a2. the enterprise uses HR and integration tools supporting the development and integration of employees from target groups	Evidence of the employment relationship (employment contract, agreement to perform a job or contract for work) and the job description of the person managing the integration HR services, or evidence of the provision of the service and its nature (in the case of external support). Integration HR tools supporting the development and integration of the target group of employees (the form of processing is up to the beneficiary, e.g., internal regulation, methodology, individual plans).
Comment: HR and integration instruments: the set of all the tools of the social enterprise that are needed to prepare and perform the jobs; these include the tools that enable the employees to perform the work tasks and contribute to addressing their specific individual needs. This may include individual employee development plans, which summarise the professional and personal goals of the employee that the employee wishes to achieve with the help and cooperation of the integration HR specialist so that the provision of service aims towards the employee's empowerment and integration.		
b) democratic management structure of the enterprise	2b1. employees and/or members are regularly and systematically informed on the operation of the enterprise, economic results and achievement of socially beneficial objectives; employees and/or members are involved in the decision-making process regarding the direction of the enterprise	It may be substantiated by one of the following ways: employee involvement strategy, internal newsletter, minutes of the relevant meetings, results of questionnaire surveys, or other demonstrable methods.
	Comment: The employer has drawn up a strategy for the involvement of employees in the decision-making processes according to their individual capabilities and has defined areas where the employees are involved (operation, sales, PR). The information is processed in a way so that all employees can understand it. The level of involvement may vary, but it always involves only the members and/or employees who are eligible to participate with respect to the extent and type of their disadvantage; there must be room for the employees and/or members to participate with regard to the direction of the enterprise if they wish to do so. Cooperatives fulfil this distinguishing characteristic automatically, provided that the employees from disadvantaged groups are members of the cooperative.	

3. Economic Benefit		
a) any profits are used primarily for the development of the social enterprise and/or fulfilment of its socially beneficial objectives	3a1. at least 51% of any profits are reinvested in the development of the social enterprise and/or fulfilment of its declared socially beneficial objectives, and the information on the use of profits is publicly available	The financial statements and notes to the financial statements for the preceding completed calendar year were published at www.justice.cz .
	Comment: If the enterprise shows loss, it is not relevant. Each year, the company's supreme body approves the transfer of at least 51% of after-tax profits to the accounts established for monitoring profit management (account examples: 428 Retained earnings of previous years, 423 Socially responsible reinvestment fund, in the balance sheet line A.III.2 Statutory and other funds, A.IV.1 Retained earnings of previous years). The notes to the financial statements shall include information on the transactions on those accounts, including a statement of where the profit has been reinvested.	
1b) independence (autonomy) in managerial decision-making and management with respect to external founders	3b1. the managerial control of the enterprise is independent of any external founder or owner	Founding documents and binding internal rules of the organisation. If there is no external owner or founder, the condition is automatically fulfilled.
	Comment: Independence means autonomy in managerial decision-making and management. Independence is assessed in terms of the following areas: management structure, decision-making powers, disposition of signatory power and approval processes. If one of the founders is a municipality, its total ownership interest in the enterprise must be less than 50%. If more than one municipality are founders, the ownership interest of each of these municipalities must be less than 50%. The founding documents of the social enterprise define a degree of independence with respect to such municipalities that is based on the principles of democratic governance and broad participation, and none of these municipalities has a majority of decision-making rights. The founder may be a voluntary association of municipalities, which is composed of at least three municipalities, and none of them has a majority of decision-making rights. The statutes of the association of municipalities enshrine the independence of decision-making bodies of the association, which is ensured by the observance of the principles of democratic management, and its decision-making is not based on the amount of capital shares. The statutes of the association of municipalities define the degree of independence from the association of municipalities and the individual municipalities.	
c) at least the minimum proportion of revenues from the sale of goods and services to the total revenues	3c1. the revenues from the sale of products and/or services amount to at least 30% of the total revenues of the enterprise	Profit and loss account of the enterprise for the last 12 months of project implementation or cash book for the last 12 months of the project implementation (in the case of private individuals keeping tax records in accordance with Act No 586/1992 Coll., on income tax, as amended, or apply expenses as a percentage of income – flat-rate expenditure and do not keep accounting records).
	Comment: For the purposes of this distinguishing characteristic, investment subsidies are not included in total revenues. This distinguishing characteristic is monitored over the last 12 months of project implementation.	
4. Environmental Benefit		
a) the business activities of the enterprise through which the enterprise achieves its socially beneficial objective	4a1. the enterprise carries out a business activity that contributes to solving a specific environmental issue – the environmental benefit of the business activity is clearly communicated both	The environmental benefits of the business activity are clearly formulated in the founding documents. The founding documents are published in a public register; in the case of self-employed individuals, other binding documents are published on the organisation's website or other publicly and easily accessible location. The successful implementation of the environmental benefit

have an environmental aspect	publicly and internally, and the successful achievement of the environmental benefit of the business activity is evaluated regularly	is quantitatively and qualitatively evaluated in the enterprise's internal documents, which must be prepared within 12 months prior to the completion of the project. It must also be demonstrable during an on-site investigation and published on the organisation's website.
	Comment: The quantitative and qualitative evaluation of the impacts of the business activity DOES NOT REQUIRE a sophisticated evaluation method. The internal environmental review system may serve as a model, i.e. the analysis of environmental issues in the enterprise and the most significant environmental impacts/factors of the enterprise's activities used by the EMAS environmental management and audit system. The environmental benefits can be illustrated with specific examples, such as the number of environmentally friendly services provided, including their brief description, or contact and feedback from the client, or the specific impact of the enterprise's activities, such as increasing the purity of natural resources in the area, increasing biodiversity, reducing the amount of waste produced, etc. The nature of the environmentally beneficial impact is related to the entire business activity of the enterprise, i.e. to the subject of business as well.	
b) the integration of environmental aspects into all stages of business, i.e. in the production of products and/or provision of services, including environmentally friendly office management	4b1. the enterprise has formulated environmentally friendly business principles (including office management) that are publicly available and implements these principles into practice throughout the entire production process and/or service delivery process	Internal or other relevant rules are published on the organisation's website. Compliance with these rules must be demonstrable during on-site inspections. The rules are prepared within 12 months before the completion of the project.
	transport, etc. The principles of environmentally friendly business are automatically fulfilled by enterprises that operate in the organic agriculture regime, which is evidenced by a valid license pursuant to Act No 242/2000 Coll., on organic agriculture. In addition, these enterprises demonstrate the implementation of environmentally friendly office practices during on-site inspections (office supplies, paper and paper products, waste management, energy consumption, cleaning, interior furnishings, flooring and paint, water management, food – refreshments at meetings, canteen, transport, biodiversity protection, etc.).	
5. Local Benefit		
e) economic localisation = local production for local consumption, support of the local economy	5a1. meeting needs based on local demand and using local resources – use of local ingredients or materials/services – purchases from local suppliers	Accounting documents of suppliers and three main customers established or operating in the same or neighbouring region (cross-border region) no older than 12 months.
	Comment: An environmental social enterprise must observe the rules of competition in complying with this principle. "Same or neighbouring region or cross-border region" is evaluated with respect to its main establishment or any of its branch establishments. The accounting documents must show that the main establishment or branch establishment is located in the same or neighbouring region (cross-border region). If the enterprise does not meet this characteristic, it must demonstrate that it is not relevant. This distinguishing characteristic monitors the entire supply chain of the entire production cycle/service provided.	

b) the social enterprise employs local residents	5b1. the enterprise preferentially employs local residents	Evidence of the employment relationship (employment contract, agreement to perform a job or contract for work) and, where applicable, other documents proving residence in the same or neighbouring region (cross-border region) for at least 50% of employees;
	<u>Comment:</u> In complying with this principle, the social enterprise must follow the rules on non-discrimination in employment relations. "Same or neighbouring region or cross-border region" is evaluated with respect to its main establishment or any of its branch establishments. If the enterprise does not meet this characteristic, it must demonstrate that it is not relevant.	
c) cooperation of social enterprise with local actors	5c1. the enterprise communicates and cooperates with local actors	Two documents of cooperation with local actors not older than 2 years.
	Comment: Possible evidence of cooperation: cooperation agreement, partnership agreement, media report on involvement in public activities, reference contract details for personal verification. Local actors include, for example, local authorities, LO CR, schools, other organisations with similar socially beneficial objectives, thematic work groups, etc.	

Note: The Annex was taken over in its original wording from the MoLSA and the MoRD. The text of the Annex was not edited.

IROP Calls for the Support of Social Entrepreneurship

(in CZK)

Call ³³	Call title	Date of announcement	Financial allocation of the call	Issued subsidy decisions*	Total eligible expenditure
11	Social Entrepreneurship for Socially Excluded Localities	27 October 2015	133,000,000.00	83,314,459.09	80,331,232.22
12	Social Entrepreneurship	27 October 2015	88,000,000.00	27,462,914.71	24,998,119.68
43	Social Entrepreneurship II.	10 August 2016	130,000,000.00	83,294,845.44	80,791,046.81
44	Social Entrepreneurship for Socially Excluded Localities II.	10 August 2016	377,334,947.00	355,067,562.82	325,193,225.29
63	Social Entrepreneurship – ITI Integrated Projects ³⁴	2 December 2016	66,455,000.00	47,470,237.31	28,340,237.54
64	Social Entrepreneurship – ITDP Integrated Projects ³⁵	2 December 2016	33,000,000.00	20,692,065.61	14,132,885.68
65	Social Entrepreneurship – CLLD Integrated Projects ³⁶	2 December 2016	423,735,000.00	174,059,322.47	137,485,102.59
90	Social Entrepreneurship for a Coordinated Approach to Socially Excluded Localities	31 July 2019	60,000,000.00	38,405,734.06	0.00
Total			1,311,524,947.00	809,767,141.51	691,271,849.82

Source: MoRD, MS2014+, status as of February 2022.

Explanation: * Excluding incomplete projects – terminated by the beneficiary.

OPEM Calls for the Support of Social Entrepreneurship

(in CZK)

Call ³⁷	Call title	Date of announcement	Financial allocation of the call	Issued subsidy decisions*	Total eligible expenditure
15	Social Entrepreneurship Support	17 August 2015	100,000,000.00	69,170,912.75	66,257,518.91
16	Call for System Projects Implemented by the MoLSA – Social Entrepreneurship	27 August 2015	25,000,000.00	25,337,053.20	16,650,701.06
26	Coordinated Approach to Socially Excluded Localities (CASEL) 1st Call	23 September 2015	609,972,200.00	8,744,361.25	8,627,391.22
47	Call for LAGs to Support Community-led Local Development Strategies	29 April 2016	2,030,000,000.00	140,170,881.01	104,011,763.00
67	Social Entrepreneurship Support	31 May 2016	100,000,000.00	70,255,448.75	63,183,421.86
129	Social Entrepreneurship Support	30 June 2017	315,000,000.00	264,532,855.60	208,670,681.00
105	Social Entrepreneurship Support in Prague	1 April 2019	50,000,000.00	7,568,736.25	3,776,746.32
Total				585,780,248.81	471,178,223.37
Total for investment priority 2.1				445,609,367.80	367,166,460.37
Of which for investment priority 2.1, excluding call No 16				420,272,314.60	350,515,759.31
Total for investment priority 2.3				140,170,881.01	104,011,763.00

³³ The numbering of these calls in MS2014+ is as follows: No 11 – 06_15_005, No 12 – 06_15_010, No 43 – 06_16_060, No 44 – 06_16_061, No 63 – 06_16_064, No 64 – 06_16_065, No 65 – 06_074, No 90 – 06_19_112.

³⁴ ITI = Integrated Territorial Investments.

³⁵ ITDP = Integrated Territorial Development Plans.

³⁶ CLLD = Community-Led Local Development.

³⁷ The numbering of these calls in MS2014+ is as follows: No 15 – 03_15_015, No 16 – 03_15_016, No 26 – 03_15_026, No 47 – 03_16_047, No 67 – 03_16_067, No 129 – 03_17_129, No 105 – 03_19_105.

Source: MoLSA, MS2014+, status as of February 2022.

Explanation: * Excluding incomplete projects – terminated by the beneficiary.