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## SOCIAL ENTERPRISES LEADING AS THE WAY IN THE CIRCULAR ECONOMY IN UKRAINE

### СОЦІАЛЬНЕ ПІДПРИЄМНИЦТВО ЯК ОСНОВА ДЛЯ ПЕРЕХОДУ ДО ЦИРКУЛЯРНОЇ ЕКОНОМІКИ В УКРАЇНІ

*In the article shows that due to the introduction of martial law and hostilities in a significant territory of Ukraine, there is a rapid increase in unemployment, an increase in the number of vulnerable categories of the population, and a weakening of their social protection. It is shown that under these conditions, social entrepreneurship can smooth out several pressing issues in society, as well as speed up their resolution. The activities of social enterprises contribute to solving the problems of socially vulnerable people, their employment, and social adaptation. In the article, the author defined social entrepreneurship as an innovative entrepreneurial activity to obtain profit, which is aimed at solving/mitigating social problems and achieving positive changes in society. The author shows that social enterprises play one of the most relevant roles in the process of transitions from a linear to a circular economy. Such companies use innovative strategic thinking to reduce environmental impact and create higher added value to society because the core business mission is a social one; special attention to sustainability is given by the stakeholders who must be involved in the transition process, such as policymakers, technology, and innovation centers, researchers. In the article, the author investigated the achievement of the mission of social enterprises is in various ways: the sale of goods of own production, the support of various projects (social, cultural, sports), and the employment of representatives of vulnerable groups of the population. In this case, one enterprise can engage in different activities at the same time. Social entrepreneurship is a business solution to acute social problems. This concept differs from charity and traditional business in its way of independence from financial donors and external one's sources of funding and the opportunity to have status non-profitability, as it is not created for the sake of benefits or power preferences.*

**Keywords:** social enterprises, circular economy, social and environmental problems.

*У статті показано, що у зв'язку з введенням воєнного стану та проведенням бойових дій на значній території України спостерігається стрімке зростання безробіття, збільшення чисельності незахищених категорій населення, послаблення їх соціального захисту. Показано, що за цих умов соціальне підприємництво може згладити ряд нагальних проблем суспільства, а також прискорити їх вирішення. Діяльність соціальних підприємств сприяє вирішенню проблем соціально незахищених верств населення, їх працевлаштуванню та соціальній адаптації. У статті автор визначив, що соціальне підприємництво – це інноваційна підприємницька діяльність з метою отримання прибутку, яка спрямована на вирішення/пом'якшення соціальних проблем та досягнення позитивних змін у суспільстві. Автор показує, що соціальні підприємства відіграють одну з найбільш актуальних ролей у процесі переходу від лінійної до циркулярної економіки. Такі компанії використовують інноваційне стратегічне мислення, щоб зменшити вплив на навколишнє середовище та створити більшу додану вартість для суспільства, оскільки основна місія бізнесу є соціальною; особлива увага до сталості приділяється зацікавленими сторонами, які повинні бути залучені до процесу переходу, такими як політики, технологічні та інноваційні центри, дослідники. У статті автор дослідив, що досягнення місії соціальних підприємств здійснюється різними способами: продажем товарів власного виробництва, підтримкою різноманітних проектів (соціальних, культурних, спортивних), працевлаштуванням представників вразливих верств населення. У цьому випадку одне підприємство може займатися різними видами діяльності одночасно. Соціальне підприємництво – це бізнес-вирішення гострої соціальної проблеми. Від благодійності та традиційного бізнесу ця концепція по-своєму відрізняється незалежністю від фінансових донорів та зовнішніх джерел фінансування та можливістю мати статус неприбутковості, оскільки вона створюється не заради пільг чи владних переваг.*

**Ключові слова:** соціальні підприємства, циркулярна економіка, соціальні та екологічні проблеми.

**Formulation of the problem in general.** In many countries, social entrepreneurship is used as one of the effective tools for solving urgent social and environmental problems. This applies especially to those problems that,

for various reasons, are not solved or not fully solved by the state. And commercial business ignores them due to low profitability or no profit at all from such activities. The European integration processes of Ukraine are

closely related to the internal processes that shape the state's modern development policy capable of ensuring national interests. Current areas of state regulation are the provision of the ecological and social components along with economic development [5]. Russia's military actions against Ukraine requires the state to review its approaches to the creation and practical implementation of its own strategy for sustainable socio-economic development.

#### **Analysis of recent studies and publications.**

A large number of scientists pay attention to the issues of social entrepreneurship, including: Jan-Urban Sandal [1], S. Chugaievska, O. Rusak [2], I. Tkachuk [3], T. Lunkina [4], K. Alter [5], J. Mair [6]. General aspects of the circular economy have been studied by many domestic and foreign researchers' scientists: N. Millar, P. Van Leeuwen, T. Berger, D. Carrez, Z. Yuan, P. Savage, Y. Moriguychi, M. Varfolomeev, O. Churikanova [7] and others. However, until today, scientists did not consider the issue of combining social entrepreneurship and the circular economy as an opportunity for the recovery of Ukraine's economy.

**Formulating the purposes of the article** consists in determining the role of social entrepreneurship in the transition to a circular economy and highlighting the features of social entrepreneurship in Ukraine.

**Presentation of the main research material.** The term "social entrepreneurship" appeared in USA. Bill Drayton literally coined the term "social entrepreneur" when he founded the nonprofit back in 1980, almost 50 years ago. In England, the term social entrepreneurship means a business that solves social problems of society. In Ukraine, social entrepreneurship has existed since 2009 and combines social entrepreneurship the direction of activity with an entrepreneurial approach and is on the border of entrepreneurship and charity.

A social enterprise is defined as a business entity formed by legal entities and/or natural persons, the priority of which is to achieve social results in the field of health care, education, science, culture, the environment, the provision of social services and the support of socially vulnerable groups population (unemployed, low-income, elderly, disabled and other persons established by law) [9].

Jan-Urban Sandal [1] determined that social entrepreneurship is a special form of management whose purpose is to run a production function in such way as to ensure increased value for all the interested parties in that function. The main objective of social entrepreneurship is to make the world a better place for everyone. This process of change is carried out by the individual person who is designated a social entrepreneur.

After analyzing several definitions of Ukrainian scientists, I see it as appropriate to make my own definition of social enterprise. Social entrepreneurship is an innovative entrepreneurial activity with the purpose of obtaining profit, which aimed at solving/mitigating social problems and achievements positive changes in society.

For further research, it is worth determining the historical aspects of the emergence of the concept of circular economy. The historical background to the emergence of the circular economy is related to the debates caused by the works of scholars such as Thomas Malthus and Henry George ("Progress and Poverty"), who highlighted the issues of scarcity and poverty and identified the role of innovation in cycles of economic growth and depression.

Ideas about circularity began to appear in Kenneth Boulding's essay "The Economics of the Future Spacecraft Earth" (1966), Stachel and Read-Mulvey's proposals for a closed-loop economy appeared in 1976 [8].

Von Bertalanffy (a theoretical biologist) hypothesized that organization is a component of the organism and thus a concept to be studied by theoretical biology.

Howard T. Odum (1996) introduced the concepts of feedback and cycles in ecology. Herman Daly (the founder of ecological economics) introduced the idea that the size of the economic system is limited by the size of the ecosystem. Stachel and Redey-Mulvey (1976) also see the circular economy as a means of solving the "social problem" of maladjusted workers, that is, the fact that even though more unskilled labor was employed in industrial production in France in the 1960s and 1970s, people did not want these jobs, industry increasingly hired immigrants, and unemployment rose. The term circular economy came into use in the 1990s (derived from environmental economics and industrial ecology and increasingly involving business and management research).

The Ellen MacArthur Foundation and their first report *Towards a Circular Economy* gave us a definition for the first time: a circular economy is an industrial system that is restorative or regenerative in intent and design. It replaces the concept of "end of life" with recovery, moves to the use of renewable energy, eliminates the use of toxic chemicals that prevent reuse, and aims to eliminate waste through excellent design of materials, products, systems, and within this business model [9].

The entities involved in the various chains of the circular economy can be divided into government, business and civil society or NGOs at the local, national, and supranational levels. These actors have different levels of influence and may have common or conflicting interests. Table 1 presents international stakeholders in repair, reconstruction, recycling, and incineration schemes.

For example, the World Economic Forum, which represents multinational companies, collaborates with the United Nations, the European Union (governments), and the Ellen MacArthur Foundation (ECF) [9] to promote the idea of a circular economy. Another approach to the circular economy, which involves the involvement of the informal sector in repair and recycling at the local level, is the alliance of local national NGOs and international NGOs.

In Ukraine, the main circular economy program documents are the following:

- National waste management strategy until 2030;
- National waste management plan until 2030;
- Strategy of the state environmental policy of Ukraine for the period until 2030;
- The concept of implementation of state policy in the field of climate change for the period up to 2030 and its implementation plan;
- Low-carbon development strategy of Ukraine until 2050, etc. [11, p. 9].

In general, the policy of Ukraine in the sphere of circular economy should be formed and implemented at all three levels:

- National – at the state level. Effective transition programs need to be developed of Ukraine from the traditional linear model of the economy to the economy of the closed cycle, to form relevant performance indicators.

Table 1

Subjects involved in many cycles of the circular economy			
	Business	Government	NGOs
<b>Repair and reuse circuit</b>	Small business, traders of secondhand products	Local government mostly	Local and national level NGOs few international NGOs like GAIA
<b>Refurbishing circuit</b>	Private medium-sized companies	Local and national governments	Local and national NGOs promoting refurbishing
<b>Formal recycling circuit</b>	Large corporations with agreement with formal recyclers	Local, national and supra-national governments like UN. European Union	NGOs like World Economic Forum, EMF
<b>Informal recycling circuit</b>	Small informal sector recyclers	Local and national governments	NGOs at local and national level in addition to few international NGOs
<b>Incineration circuit</b>	Waste management companies charging for waste incinerated to generate power or reduce volume of waste	Local, national and supra-national governments like UN. European Union	NGOs like World Economic Forum, EMF

Source: [10]

– Regional – at the level of cities and regions. It is necessary to promote the implementation of the policy and the introduction of tools for reducing the volume of waste, emissions of polluting substances, reduction consumption of resources, their processing and reuse.

– Local – at the enterprise level.

Peter Lacy [12] stimulated the global economy up to 2050 and discovered there is significant value at risk if current production and consumption patterns continue to drive resource depletion an excess demand. By 2030, supply disruptions, price increases and volatility could cost the global economy between \$3 trillion and \$6 trillion of growth with the expected impact at \$4,5 trillion (Fig. 1).

This cost rises to somewhere between \$10 trillion and \$40 trillion by 2050, with the upper end of the range being a worst-case scenario that includes a major shortage of critical energy and material inputs and a lack of low-cost substitutes (Fig. 2).

Some authors stress that social enterprises play one of the most relevant roles in the process of transitions from a linear to a circular economy. Such companies use innovative strategic thinking to reduce environmental impact and create higher added value to society because

the core business mission is a social one; special attention to sustainability is given by the stakeholders who must be involved in the transition process, such as policymakers, technology, and innovation centers, researchers, etc. (Culcasi, 2014).

Moreover, practitioners suggest that in developing economies where green and social problems are on the Government agendas, the start-ups which use circular economy must be given incentives and support to have a strong sense of social aim (Perella, 2015).

There are recommendations that a sustainable strategic approach must be used by organizations that want to be sustainable and responsible at the same time (Johansson and Larsson, 2015).

Social entrepreneurship is a relatively new concept and business model; however, its origins come from the earliest entrepreneurship theories. During that time different schools and streams appeared and characterized entrepreneurship. In his research, Bula (2012) summarizes different theories of entrepreneurship, based on diverse literature sources.

There are 2.8 million social economy entities in Europe that employ 13.6 million people, and which offer solutions to key challenges in our societies. They span a diverse

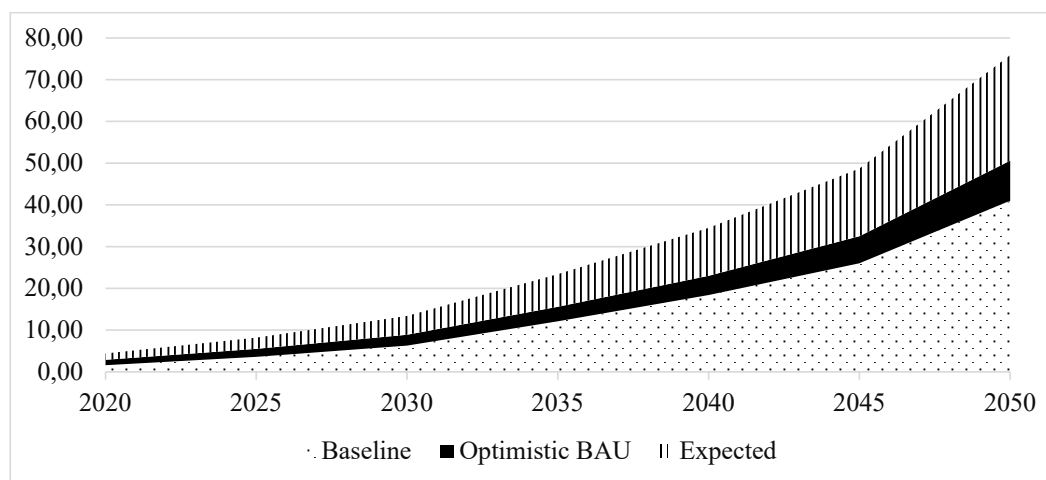


Fig. 1. Additional economic growth output enabled by circular economy business models globally (GDP, \$trn 1990 GK, Selected years)

Resource: Modified by the author on the [12]

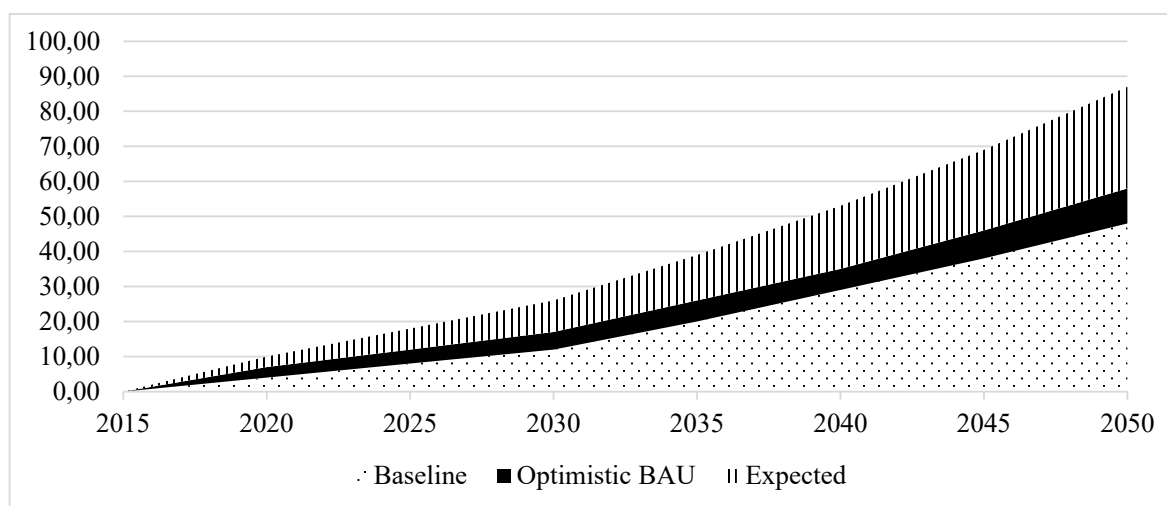


Fig. 2. Excess demand for constrained natural resources including energy (DMC, bn tonnes, 2015–2050)

Resource: Modified by the author on the [12]

range of sectors and forms, from care services to recycling; from cooperatives to social enterprises [13].

Scientists suggest the following business model elements be considered by social enterprises aiming to implement the circular economy principles:

**1. Desired social and environmental vision.**

**2. Value proposition:** comprises the social impact and benefits offered to the customers for bringing back used products.

**3. Alignment of the organization to the strategy and acceleration of change through executive leadership implication**

**4. Financial sustainable perspective:**

a) increase financial resources, b) manage costs.

**5. Stakeholders perspective:**

a) customers segments – people who pay for goods and services, being acknowledged about the circular use of value proposition and about the impact they have on the environment and other people;

b) users – people who use products or services;

c) employees – mainly people involved into the operations of the business;

d) community beneficiaries;

e) channels;

f) customer relationships – relationships with community partners when recycling is implemented, with high social and environmental impact;

g) key partnerships – based on choosing and cooperating with partners, along the value chain, which supports the circular economy with a high social and environmental impact.

**6. Internal process perspective:**

a) processes necessary to use the circular economy principles;

b) impact measurement and key activities;

c) internal and external communication.

**7. Resources perspective:**

a) networks;

b) skills on circular principles and social impact;

c) information and technologies.

In the Ukrainian business environment, social entrepreneurship develops at a rather low pace since it has not yet passed legalization procedures at the legislative

and regulatory levels, even though it already exists in practice. Certain regulatory and legislative acts of Ukraine reveal certain aspects of social entrepreneurship. Still, the foundations of their activity have not been fully consolidated in the legislative field of the country at this time. Thus, the Law of Ukraine "On Charitable Activities and Charitable Organizations" No. 5073-VI dated July 5, 2012 [14] discloses the content of only one characteristic of social entrepreneurship, which takes the form of charity. However, according to this Law, charitable organizations are exclusively non-profit organizations and therefore cannot receive and distribute profits a priori. Social entrepreneurship can also be created in the form of a public association and in accordance with the Law of Ukraine "On Public Associations" No. 4572-VI dated March 22, 2012 [15] such associations may, if provided for by their charter, carry out entrepreneurial activities. However, for the public association to directly become a subject of social entrepreneurship, the main goal of its activity should be the solution of social problems in the territory of its location. That is, we conclude that both regulatory documents cannot fully ensure the guaranteed protection of the rights of social entrepreneurs and determine the specifics of their activity. Since due to the military aggression of a neighboring state in Ukraine, there is a catastrophic aggravation of social problems, which will require various tools for their solution in the future, the regulatory legalization of the activities of social entrepreneurship entities will significantly improve the social situation in the country and accelerate the moment of its exit from the crisis state.

The unemployment rate in Ukraine is about 30%, the work is looking for 2 million Ukrainians in the middle of the country, and another 2.7 million people who went abroad but are ready to return to work (Fig. 3).

As of the end of 2022, according to the analytical report for the EU4YOU project, there are about 1000 enterprises in Ukraine that can be attributed to social ones. Over the last 6 years, there has been an increase in their number by 82% [16].

The achievement of the mission of social enterprises is in various ways: the sale of goods of own production, the support of various projects (social, cultural, sports), and employment of representatives of vulnerable groups

of the population. In this case, one enterprise can engage in different activities at the same time (Fig. 4).

Most social enterprises are engaged in employment of socially disadvantaged sections of the population, generating finances for social activity, for reinvestment in their own activities [16]. In addition, in their activities, they pay great attention to the involvement of young people, solving gender issues, and so on. In this case, there is no rigid distribution by type of activity among social enterprises – one enterprise can engage in different types of activity at the same time.

**Conclusions.** Social entrepreneurship is a business solution to acute social problems. This concept differs from

charity and traditional business in its way of independence from financial donors and external one's sources of funding and the opportunity to have status non-profitability, as it is not created for the sake of benefits or power preferences.

Until now, there isn't been consolidation in Ukraine's legal status of a social enterprise and entrepreneurship. For your social development, the enterprise can use available resources that are not interesting to traditional businesses. The state for the development of domestic social entrepreneurship must be recognized as socially responsible desirable behavior and develop a set of incentives and measures for its dissemination and popularization in society.



Fig. 3. The situation in the labor market in Ukraine

Source: Built by the author based on the Ukrainian statistics website

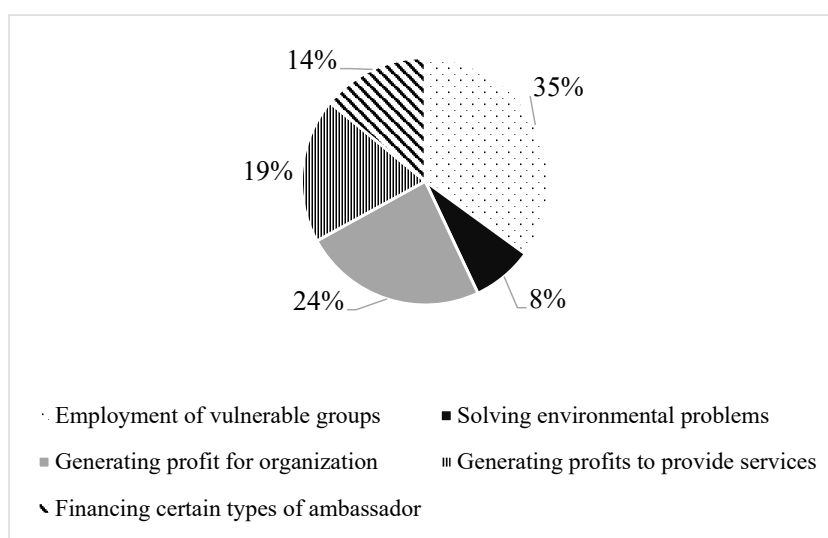


Fig. 4. The main activities of social enterprises in Ukraine, 2020

Source: Built by the author based on the [13]

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