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SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report
LATVIA
Lāsma Līcīte

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Latvia based on available information as of May 2018. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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SOCIAL ENTERPRISES AND THEIR ECOSYSTEMS IN EUROPE

Country report
LATVIA

Lāsma Līcīte

This report provides an overview of the social enterprise landscape in Latvia based on available information as of May 2018. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Lāsma Līcīte from the Latvia University of Life Sciences and Technologies was responsible for the revision of the report.

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Countries included in the three social enterprise mappings by the European Commission

		TYPE	2014	2016	2018-19
1	Albania	Fiche			
2	Austria	Report			
3	Belgium	Report			
4	Bulgaria	Report			
5	Croatia	Report			
6	Cyprus	Report			
7	Czech Republic	Report			
8	Denmark	Report			
9	Estonia	Report			
10	Finland	Report			
11	France	Report			
12	Former Yugoslav Republic of Macedonia	Fiche			
13	Germany	Report			
14	Greece	Report			
15	Hungary	Report			
16	Iceland	Fiche			
17	Ireland	Report			
18	Italy	Report			
19	Latvia	Report			
20	Lithuania	Report			
21	Luxembourg	Report			
22	Malta	Report			
23	Montenegro	Fiche			
24	The Netherlands	Report			
25	Norway	Fiche			
26	Poland	Report			
27	Portugal	Report			
28	Romania	Report			
29	Serbia	Fiche			
30	Slovakia	Report			
31	Slovenia	Report			
32	Spain	Report			
33	Sweden	Report			
34	Switzerland	Report			
35	Turkey	Fiche			
36	United Kingdom	Report			

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List of acronyms

- > **CSR** Corporate Social Responsibility
- > **ESF** European Social Fund
- > **EU** European Union
- > **EUR** Euro
- > **GAiN** Global Aid Network
- > **ICT** Information communication technologies
- > **LatBAN** Latvian Business Angel Network
- > **LIAA** Investment and Development Agency of Latvia
- > **NGO** Nongovernmental organisation
- > **PEST** Political, economic, social and technological factors
- > **SAL** Samaritan Association of Latvia
- > **SBI** Social Business Initiative
- > **SIC** Social Innovation Centre
- > **SME** Small and medium-sized enterprise
- > **VAT** Value Added Tax
- > **WISE** Work integration social enterprise

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Executive summary

Background

Social enterprise is still rather a new concept in Latvia, yet these organisations are developing quickly, raising interest from all sectors and stakeholders. Even though social movements existed already as of the middle of the 19th century when Latvians united to tackle essential societal problems, social enterprises only began to develop in the last decade, mainly initiated by the activities of associations and foundations. Therefore, social enterprises in Latvia emerged from the non-profit sector despite the fact that the ruling power hampered the functioning of associations in Latvia in various periods of time (e.g. the authoritarian regime of Karlis Ulmanis or the Soviet Union regime). However, associations and foundations prevailed due to their strong roots and traditions.

Concept, legal evolution and fiscal framework

An essential turning point in the development of social enterprises took place on 1 April 2018 when the *Social Enterprise Law* was adopted. The Law stipulates that a social enterprise is a limited liability company with a special status. In order to obtain this social enterprise status, the company must fulfil certain criteria, including an obligation to have a positive social aim as the main purpose of the company, as well as restricting profit distribution to company owners. The company must either reinvest its profits internally or in order to reach its social aim. Amendments and changes in other laws followed the Social Enterprise Law, including changes in the *Public Procurement Law*, which considered social enterprises as reserved contract subjects.

Work integration social enterprises (WISEs) constitute an important type of social enterprise although they represent only one way in which social enterprises can operate. It is not obligatory for social enterprises to employ individuals at risk of social exclusion; indeed, they may also promote the accessibility and quality of education, environmental protection, cultural diversity, social and health care, a more civic society and other fields.

Mapping

It is estimated that up to 200 social enterprises operate in Latvia. However, no official statistics exist on the size of the sector and little research has clearly specified their characteristics. There are no statistics available on the aggregate annual turnover of social enterprises. Most social enterprises are relatively new, having established themselves only within the last three to seven years, and usually do not employ more than 10 people.

Ecosystem

The Social Entrepreneurship Association of Latvia plays an essential role in the ecosystem of social enterprises, which functions as a national level organisation representing the interests of social enterprises at national and local levels. It also cooperates with policy makers and decision makers in order to establish a well-functioning ecosystem for social enterprises. To successfully foster the development of social enterprises in Latvia, it is important to promote cooperation among local authorities, enterprises and educational institutions, as well as to provide financial support for social enterprises.

Social enterprises need financing to cover operational costs in the form of capital and loans. While important during the creation phase, these needs become even more pressing in periods of growth and development. A practice of granting loans at a low interest rate or interest-free has not yet emerged in Latvia. The Latvian Business Angel Network and the European Latvian Association could provide important social impact investment in the future.

Nevertheless, various support programmes for new entrepreneurs in Latvia have emerged, such as competitions for start-up capital or business expansion and a grant programme for social enterprises. In 2016, The Ministry of Welfare in cooperation with ALTUM, a state-owned development finance institution, launched a grant programme, whereby funds from the European Social Fund are allocated to prospective social enterprises. It is the first and only programme of this kind so far, so its results and impact will form significant factors in the development of Latvian social enterprises. The 12 million EUR programme will run until 2022 and will potentially create a basis for a future long-term comprehensive support system for social enterprises.

Social enterprises do not experience any official discrimination; nevertheless, within the framework of “regular” business support instruments, they are treated like any other business company and the social impact does not play any crucial role in the evaluation process. Other business support instruments (including municipality business support) are available for social enterprises if they register as business companies.

Perspectives

Various factors affect the development of social enterprises, the most important ones pertaining to the enterprises' entrepreneurial abilities and to the challenges faced when employing socially vulnerable groups of people. The main challenges social enterprises will face in the future include: market and society recognition, scaling up, diversification of working fields, social impact measurement and fragmented social impact investment market.




1

BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

The roots of social movements in Latvia extend to the middle of the 19th century, when Latvians united to confront essential problems in society. However, social enterprises only began developing in recent decades and mainly through the activities initiated by associations and foundations.

Social enterprises play an essential role in tackling social and environmental problems and their evolution has received strong influence from the profound economic, social and political changes occurring in the country. The Soviet Union occupied and incorporated Latvia during the periods 1940–1941 and 1945–1990. Following the restoration of independence, after the long period of planned economy, the political system became increasingly favourable for private enterprise development. The reintroduction of the market economy and other political changes opened up new opportunities for private entrepreneurship and civil society.

Although social enterprises in Latvia operated earlier, the Social Enterprise Law adopted on 12 October 2017 (effective 1 April 2018), has contributed to a social enterprise ecosystem that had been forming in recent decades. Key actors involved in this ecosystem include governmental institutions, municipalities, and education institutions.



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In Latvia, social enterprises are a new phenomenon. Yet, their roots can be traced back to the 19th century social movements, through which Latvians started to unite to tackle essential societal problems. In that period, social movements emerged with the aim of promoting the development of education, cultural life and charity, and awakening national self-awareness, which led to the foundation of a new state on 18 November 1918.

Over the following decades (including the authoritarian regime of Karlis Ulmanis in 1934-1940, the Soviet Union regime in 1940-1941 and the 1945-1990 period), Latvian associations greatly struggled to function due to the ruling powers. Nevertheless, Latvia's regained independence in 1991 promoted their revitalisation. Although the *Social Enterprise Law* was only adopted on 12 October 2017 (effective 1 April 2018), social enterprises in Latvia operated earlier, mainly through the legal forms of associations and foundations.

In recent decades, a social enterprise ecosystem has started to emerge. Key actors include governmental institutions, municipalities, and education institutions.

1.1. Beginnings of Latvian social movements (19th century–early 20th century)

In the second half of the 19th century, Riga became the centre of different Latvian organisations (associations and foundations). The first attempts to establish a Latvian association failed in the 1860s because both the German community and the ruling Russian tsarist administration suspected the self-organisation of Latvians. Indeed, an administrative permit was necessary to establish a foundation or an association. Unexpectedly, this bureaucratic barrier dissolved as the result of a very poor crop harvest in 1867 and 1868 followed by famine in the neighbour country of Estonia. In this context, “Latvian assistance association for starving Estonians” stated the wish to help northern neighbours and was founded on 2 March 1968. During its founding year, the association transformed into an organisation known as the Riga Latvian Association, and the number of members soon exceeded a thousand. One of the key objectives in the Riga Latvian Association statute intended to provide assistance for starving individuals.

At the end of the 19th century and the beginning the 20th century, nearly all important social activity for Latvians was associated itself the Riga Latvian Association, which made a tremendous contribution to the development of Latvian education and culture. The Riga Latvian Association served as an example for other Latvian associations

founded in other parts of the country, and their number increased in a geometric progression.

Self-organisation movements contributed to addressing important problems already in the 19th century. This phenomenon drove further developments of the state and consolidated the key role of associations in contributing to tackling social problems. Later on, social enterprises would emerge from these early associations.

1.2. Period of the first independence of Latvia (1918–1934)

After the establishment of the Republic of Latvia, the *Law on Associations, Unions, and Political Parties* regulated associations starting in 1923. In 1928, ten years after proclaimed statehood, 8,035 associations bustled in Latvia, mostly involved in the cultural field. Their sources of income were diverse: donations, membership fees, interest on capital and income from real property, lectures delivered and events held.

A broad network of non-profit organisations (NPOs) emerged during the parliamentary period of the Republic of Latvia. In the early 1930s, one non-profit organisation existed per 230 inhabitants. The number of NPOs rose by 3,000 until the beginning of the dictatorship established by Karlis Ulmanis in May 1934 (Laganovskis 2018). Ulmanis eliminated all citizens' self-determination rights and liquidated all the elected representative structures: the parliament, local governments and hundreds of social organisations, including parties and trade unions likely to dissent to his regime. The others were subject to control implemented by the Ministry of Public Affairs. During the dictatorship period, trade chambers supervising associations in their fields functioned in Latvia. New associations could be founded only if permitted by the relevant chamber.

1.3. Latvia in the Soviet Union (1940–1990)

From 1940 to 1990 the Soviet Union occupied Latvia, and its economy became completely sovietised (Pārsla 2011). The historical situation affected the overall development of the country, including the emergence and growth of social enterprises in a later period.

In Latvia, unlike elsewhere in the world, social enterprises emerged mainly from associations, not cooperatives. Such evolution was largely due to the negative

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consequences left by the Soviet Union in relation to collective farming where farmers were forced to join collective farms (*kolkhozes*) and state farms (*sovkhozes*).¹

The later negative experience of cooperatives was further influenced by reforms initiated by M. Gorbachev in soviet domestic and foreign policies in the late 1980s (known as *perestroika*), including the introduction of cooperative entrepreneurship. In the Soviet Union era, cooperatives operated under privileged conditions, maximising profits, exploiting cheap state-owned resources and corrupt activities and bribing government officials. Consequently, many cooperatives failed after Latvia restored its independence, while some successful cooperatives turned into private enterprises doing business in the fields of trade, finance and services.

After the collapse of the Soviet Union, a misleading public image of cooperatives began to form due to their past failure. The attitude toward cooperatives was largely influenced by the collective management style typical of the Soviet Union and it had a negative impact on existing and future cooperatives. Though today successful forms of cooperation begin to emerge in the agricultural sector, this has not been the historical norm.

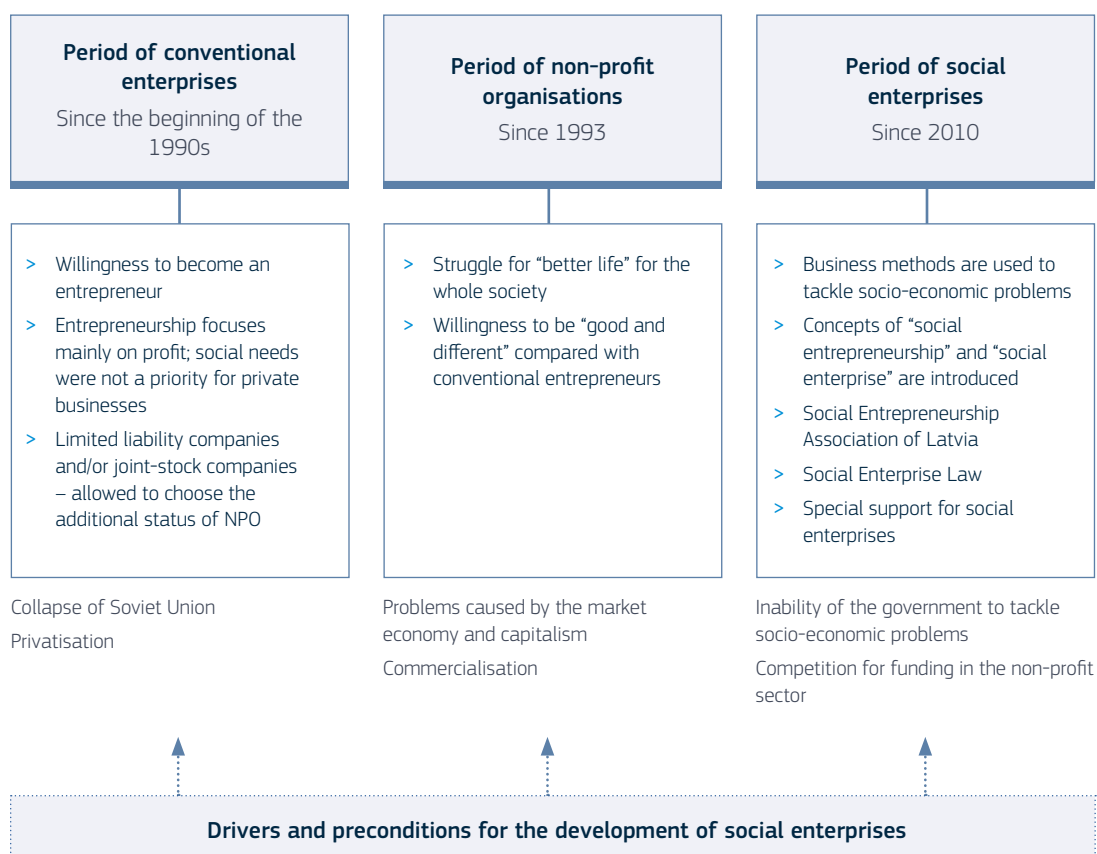
In 1991, when Latvia left the Soviet Union, it had to make a radical transition from a planned economy to a market economy. This transformation involved the privatisation of state-owned property. In this context, the Soviet Union era involved the progressive suppression of the entrepreneurial spirit of people so engaging in business creation was not an easy task for Latvian citizens after the country regained its independence.

(1) *Kolkhozes* are agricultural cooperatives forcibly established in the Soviet Union by liquidating private farms and *sovkhozes* are state-owned agricultural enterprises established in the Soviet Union.

1.4. Emergence and development of social enterprises (1990–2018)

The emergence of social enterprises was considerably bolstered by the development of associations, foundations and conventional enterprises after Latvia regained its independence. Figure 1 presents social enterprise roots, drivers and the preconditions for their emergence in Latvia.

Figure 1. Historical evolution of social enterprises, including drivers and preconditions for their emergence in Latvia after 1990



Source: *Līcīte 2018*.

Development of conventional enterprises (since 1990s)

In the early 1990s, the key institutions making monetary and market-economy policies were established in Latvia. As a result, conventional entrepreneurship began developing but people lacked knowledge and skills in business and communication (including foreign language skills). It took time and funds to develop the knowledge and skills, and

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losses were incurred due to mistakes made (Pārsla 2011). Besides, at the beginning of the 1990s, entrepreneurship mainly focused on profit and sometimes danced between criminal and legal activities. Social needs were not a priority for private businesses.

To foster economic activity in the private sector, thereby meeting the needs of society, a specific status or form of business organisation, the “non-profit organisation”, was introduced, which existed along with the conventional ones until 5 May 2006. Limited liability companies and/or joint-stock companies were allowed to choose the additional NPO status. In accordance with the law *On Non-profit Organisations* (not effective after the *Commercial Law* came into force), a NPO constituted “a form of business organisation, a single owner enterprise with the rights of a legal entity or a public organisation”. The purpose of establishing such organisations stemmed from the first part of the law: “an organisation founded for non-profit service, charity, and production of products or other purposes, the intention of the members of which is not profit-making”. One can conclude that this law provided an opportunity to grant the special status of NPO to business entities (enterprises and companies) engaged in economic activity and with no purpose of making profits. However, it created a situation where the legal form did not match the content. Effectively, the *Law on Entrepreneurship* (active before the *Commercial Law* came into force) stipulated that entrepreneurship was an economic activity aimed at making profits, and therefore special entities, enterprises and companies had to be established to do business.

In contrast, the law *On Non-profit Organisations* stated that a NPO was an entity established for other purposes than making profits. The legislators believed that by granting the NPO status to enterprises and companies, a link between the legal form (and its name) and the economic activity no longer existed; i.e., an enterprise (company) with the status of NPO could not be engaged in business. After the law was amended, most of the enterprises and companies founded as NPOs had to make a choice: either to become conventional enterprises in accordance with the *Commercial Law*—thus losing their NPO status—, or to re-register as associations—thus continuing their activities aimed at achieving their social goals and reducing their economic activity).

The NPO legal form could be partly compared with that of a social enterprise, as it intended the production of products, activities for charity or for other purposes, and profit-making was not a priority. However, based on the real practices of that period, it becomes apparent that this legal form was mainly chosen by state-owned enterprises. Only a low proportion of NPOs formed associations or foundations, the purpose of which was not social entrepreneurship (Lešinska *et al.* 2012). It means that from the perspective of the legislation, this legal form could be regarded as a “predecessor” of social enterprises in Latvia, yet the practical implementation was not consistent with the Social Business Initiative (SBI) operational definition.

Development of non-profit organisations (since 1990s)

Many NPOs (mainly associations and foundations) emerged in Latvia in order to tackle different social and economic problems caused by free market capitalism. According to Lursoft² data, in 1991 there were 56 registered associations and foundations, and the number rose astronomically to 996 in 1993. In June 2018 in Latvia, according to data available in the Register of Enterprises, there were 23,961 associations and foundations (on average, 10 NPOs per 1,000 capita). However, only about half of the registered organisations actively submitted annual financial reports.

As market economy consolidated, the private sector did not consider the worth in addressing social problems, so while free markets and commercialisation contributed to the wellbeing of certain social groups, they also generated inequalities and poverty. As a response to the growing social problems in the society, more and more NPOs emerged.

Before the *Associations and Foundations Law* came into force (30 October 2003), there was no definition for NPOs. For instance, public organisations and private NPOs were both considered NPOs. As a result, no accurate statistics were available on the entire non-profit sector in Latvia as a whole. On 15 December 1992, the *Law on Public Organisations and Associations Thereof* (no longer in force) was passed, which did not provide a definition of public organisations.

The Law stipulated that a public organisation is established on the basis of community goals and it may not include profit-gain, or any economic activity, as its purpose and nature. This was how the for-profit sector distinguished itself from the non-profit sector. The *Law on Public Organisations and Associations Thereof* considered public organisations as well as their associations, political parties, public mutual funds, professional creative organisations, professional associations, and public sport organisations and their associations to all fall under the umbrella of public organisations. This law and related legal contradictions in relation to social enterprises became the main reasons why Latvia created a separate law to regulate social enterprise operations. Moreover, this provided the most important reason why the *Social Enterprise Law* allowed social enterprises to operate only under the legal form of limited liability companies.

Already in 1995, non-profit sector managers as well as Saeima deputies admitted that the *Law on Public Organisations and Associations Thereof* and the *Law on Non-profit Organisations* did not meet the needs of the sector. On 30 October 2003, the *Associations and Foundations Law* was adopted, which divided all public organisations as specified by the *Law on Public Organisations and Associations Thereof* into two categories, associations and foundations, giving a particular definition for each one. An association is defined as a voluntary union of persons founded to achieve the goal specified

(2) Lursoft (<https://www.lursoft.lv/?l=en>) includes extensive and legally valid database containing all companies, associations and enterprises, as well as foreign representations that are registered in Latvia.

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in the articles of association, which necessarily shall not entail a profit-making nature. A foundation (also a fund) acts as an aggregate of property set aside for the achievement of a goal specified by the founder, which shall not have a profit-making nature.

The *Associations and Foundations Law* distinguishes political organisations from associations and foundations by stating that other laws shall regulate the activity of political parties, religious organisations, trade unions, professional organisations, autonomous entities, and funds. The *Associations and Foundations Law* also prescribes that organisations have the right to make revenue-generating transactions. Since philanthropy had not yet taken off, and since state and foreign contributions decreased, this provision was included in the Law so that an organisation could maintain itself and achieve its primary public benefit goals. Nevertheless, economic activity may not become the primary goal of the organisation—it is an auxiliary activity that assists its key public benefit goals. Second, no part of this revenue may be distributed either directly or indirectly; it has to be used for achieving the primary goal of the NGO.

In Latvia, most NPOs acquire funding for a certain period; it is acquired from EU-funded projects through open or, in some cases, closed (directly financed) project proposal competitions held by the national or local governments. Nevertheless, an increasing number of organisations perform economic activity, thereby providing fixed-term jobs for a few employees in the non-profit sector.

In addition, the *Public Benefit Organisation Law* came into force on 1 October 2004; the Law prescribes that the public benefit organisation status may be granted for activities significantly benefiting part of society, especially if the public benefit activities are oriented towards charity; human and individual rights protection; the development of a more civic society; the promotion of education, science, culture, public health and disease prevention; support for sports; environmental protection; assistance provision during catastrophes and emergencies; and raising the standard of living of the population's least protected groups. The Law prescribes that associations and foundations may qualify as public benefit organisations if they indicate public benefit activities as a goal in their statutes, constitutions or regulations. Religious institutions also qualify if they use their income for non-commercial activities and direct it toward ensuring public benefit activities.

In the late 1990s, up to 80% of the budgets of the financing sources for NPOs were comprised of funding provided by foreign foundations and embassies. At the same time, Latvia underwent its transition towards the European Union, providing a sign for foreign donors that Latvia had reached a sufficient level of development and that assistance of this kind was no longer needed.

After the EU accession in 2004, Latvia turned from an aid recipient into a donor for less developed countries. This change meant that foreign funding had to be replaced with

EU funds and donations ensured by domestic donors—enterprises and private persons. These changes set a number of prerequisites for acquiring funds. Namely, in order to apply for EU funding, the organisation had to write and implement a project proposal, covering part of the expenditure in advance from its budget.

The underdeveloped private and corporate charity sector in Latvia made it quite difficult for organisations to acquire funding, coupled with a lack of skills to successfully attract donations and to administer them. Today, however, the three major sources of funding for NPOs in Latvia include donations, market activity and grants.

Overall, one could conclude that the development of NPOs contributed to the emergence of social enterprises because they pursued the explicit social aim of serving the community or a specific group of people that shared a specific needs as well as having inclusive governance-ownership. However, foundations and associations, in accordance with the *Social Enterprise Law*, may not be regarded as social enterprises.

The economic activity of the mentioned organisations is restricted by the *Law on Associations and Foundations* that allows it only as an auxiliary activity. However, economic activity is one of the most essential criteria for a social enterprise to effectively tackle socio-economic and environmental problems in the long-term. If economic activity becomes the organisation's main activity, a court decision can liquidate it. However, the *Law on Associations and Foundations* has not given a definition of main activity; therefore, discussions on the concept and the criteria for identifying the main activity remain open, particularly when an organisation's main activity is based on the principles of entrepreneurship.

In practice, the goals set in an organisation's statute confronts the boundary between main or auxiliary activity (Pūķis 2012). After the new *Social Enterprise Law* became effective, many organisations (associations and foundations) continued identifying themselves as social enterprises, as their activity often met the basic criteria for a social enterprise, yet legally this status might not have been valid due to their legal form (association and foundation). Only limited liability companies are allowed to acquire social enterprise status.

Development of social enterprises (since 2010)

The terms “social entrepreneurship” and “social enterprise” were first introduced in Latvia around 2009 by the social enterprise pioneers in the country, Second Breath (*Otrā elpa*), a charity shop operated by “Partners in Ideas Fund” (an independent charitable foundation in Latvia) and MAMMU, a well-recognised social enterprise (since 2010 it held the status of association, and formed an additional organisation in 2012, MAMMU Production, to effectively perform economic activity). This time period also marks when social enterprises started to gain the attention of the largest NPOs (e.g.,

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Soros Foundation Latvia, PROVIDUS Foundation, Latvian Civil Alliance) and think tanks in Latvia, and when the first Social Entrepreneurship Forum (in 2009) launched.

So far, little research has been conducted to understand the roots, drivers and dynamics of social enterprises. The development of social enterprises in Latvia owes thanks to civil society organisations, which have provided the expertise, research and funds needed to take this industry further (Ūlande 2016). Still, the gap in scientific findings about the social impact of social enterprises and their ecosystems remains cavernous. The first map of social enterprises and their ecosystems in Latvia was made in 2014.

The establishment of the Social Entrepreneurship Association of Latvia in 2015 considerably influenced social enterprise development, which is a national level association that principally strives to promote social enterprise development in Latvia.

One must consider social enterprises in Latvia within the context of municipalities, and understand the role of local government and support mechanisms in maintaining the social enterprise ecosystem alive (Pūķis 2012, Lukjanska *et al.* 2017a). The Latvian Association of Local and Regional Governments and Dynamic University Ltd. composed a study in 2016 on “Social Entrepreneurship Opportunities of Municipalities and Opportunities to Utilize Private Social Entrepreneurship in order to Fulfil Objectives of Municipalities”. The latest analytical review of existing or possible cooperation and partnerships between social enterprises and municipalities in Latvia surfaced in 2017 by the Social Entrepreneurship Association of Latvia—“Social Enterprises and Municipalities: Cooperation, Partnerships and Synergies” (Lis *et al.* 2017).

In view of the trends in EU policies (e.g., Communication from the European Commission “Social Business Initiative Creating a Favourable Climate for Social Enterprises, Key Stakeholders in the Social Economy and Innovation”) and developments in the public sector, social enterprises attracted the attention of the national government. Since 2014, policy makers have discussed the development of social enterprises in Latvia. As a result, the Saeima adopted the *Social Enterprise Law* on 12 October 2017, taking effect on 1 April 2018.³ The objective of this Law, by creating economic environments that assist social enterprises, supports the increase in societal quality of life and promotes employment for groups at risk of social exclusion.

In conclusion, activities related with social enterprises take place in many different spheres: in scientific research, government policies, education, the commercial sector, and the social service sector where social enterprises operate. Social enterprises have become an important tool for tackling socio-economic problems so various perspectives begin to appear.

(3) *Social Enterprise Law*, available in English at https://static1.squarespace.com/static/5103d40fe4b065d4a1c32d90/t/5a157febec212d9bd34ff07a/1511358445125/Social+Enterprise+Law_Latvia_ENG_FINAL.pdf


2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

On 1 April 2018 the *Social Enterprise Law* came into effect. It defines a social enterprise as a limited liability company with a special social enterprise status. In order to obtain this status, the company must fulfil certain criteria, including an obligation to have a positive social aim as the main purpose of the company while restricting profit distribution to company owners. Profits must be either reinvested in the company or invested in reaching the social aim. The social enterprise's employees or target group individuals must participate in the management of the enterprise.

Before the *Social Enterprise Law*, entities and individuals used various organisational and legal forms for social enterprises: associations, foundations, and "regular" limited liability companies, sometimes combining different legal forms in order to reach their goals. Since the *Social Enterprise Law* came into force, associations and foundations can only perform as de facto social enterprises; they do not qualify for legal acknowledgement as social enterprises.

Amendments and changes in other laws and fiscal policies followed the *Social Enterprise Law*, including changes in the *Public Procurement Law*, which included social enterprises as reserved contract subjects. Limited companies with a social enterprise status are 100% exempt from the enterprise income tax if they invest their profits in the enterprise and/or in the social goal.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders
- > which uses its surpluses mainly to achieve these social goals
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension
- > a social dimension
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways. The balance of their combination matters most when identifying the boundaries of the social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined for the purpose of the current phase of the study (see Appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in Latvia

The concept of social enterprise is rather new in Latvia. Policy makers, academics and other stakeholders more commonly use the term “social entrepreneurship” even though they unknowingly refer in practice to the concept of social enterprise. The term “social business” is also sometimes used to refer to social enterprise in public discourse.

Social enterprises tend to be sometimes confused with Corporate Social Responsibility practices, which refer to complementary corporate activities rather than the company’s essential purpose. Furthermore, quite often there is a mistaken perception that social enterprises are primarily concerned only with Work Integration Social Enterprises (WISEs).

In 2012, a study funded by the Soros Foundation that sought to launch a discussion on social entrepreneurship and social enterprise in Latvia, and proposed a concept inspired by different conceptual approaches: Professor Muhammad Yunus, the EMES Network and the EU SBI developed the criteria. It describes social entrepreneurship as: “a process by which an entrepreneur produces goods or provides services with the aim of solving a social problem rather than providing profit to the owners”. Even though the definition is very general, it differs from the EU operational definition of social enterprise. Nevertheless, it could be viewed as one of the first attempts to identify social entrepreneurship actors in Latvia. According to the study, a “social enterprise” can encompass company, sole trader, self-employed person, farmer or farm and a cooperative that:

- > aims to solve social problems by producing measurable and useful public benefit,
- > reinvests its profits in pursuit of its social aim,
- > organises its activities according to a business model as long as specific laws do not provide restrictions,
- > bases its governance and ownership are based on democratic and participatory principles.

Until the *Social Enterprise Law* came into effect, entities and individuals used various organisational and legal forms for social enterprises: associations, foundations, and “regular” limited liability companies, sometimes combining different legal forms in order to reach their goals. However, after the *Social Enterprise Law* came into force on 1 April 2018, only limited liability companies can acquire social enterprise status, which means that existing associations and foundations will have to decide on how to continue operating. Associations and foundations can only perform as *de facto* social enterprises; they do not qualify for being legally acknowledged as social enterprises. Nevertheless, a majority of them meet the criteria set by the SBI operational definition and are hence regarded as *de facto* social enterprises. Table 1 presents an overview of *de jure* and *de facto* social enterprise models in Latvia.

Table 1. Overview of the *de jure* and *de facto* social enterprises in Latvia

Main indicators	Association	Foundation	Limited Liability Company with social enterprise status
Definition	An association is a voluntary union of persons founded to achieve the goal specified in the statutes of the organisation, which has a not-for-profit nature.	A foundation is an aggregate of property set aside for the achievement of a goal specified by the founder, which has a not-for-profit nature.	A limited liability company can be awarded the status of social enterprise pursuant to <i>Social Enterprise Law</i> that performs operations with a positive social impact (provision of social services, creation of an inclusive civic society, promotion of education, support of science, environmental protection and conservation, animal protection, or safeguarding of cultural diversity and work integrations (in this case, they are commonly referred to as WISEs).
Key national legislation governing the legal form	<ul style="list-style-type: none"> > Associations and Foundations Law. > Public Benefit Organisation Law. 	<ul style="list-style-type: none"> > Associations and Foundations Law. > Public Benefit Organisation Law. 	<ul style="list-style-type: none"> > Commercial Law. > Social Enterprise Law.
Social dimension (aim)	<ul style="list-style-type: none"> > An association is established to perform public benefit activities or to serve the needs of its members. For the association to obtain public benefit organisation status (to allow it to collect donations, for example), it is obliged to perform public benefit activities. > The social goal is set in accordance with the Law and is integrated into the association's statute. 	<ul style="list-style-type: none"> > A foundation's main aim is to accumulate financial resources to support different initiatives and activities. To obtain the status of public benefit organisation (status that grants possibility to get donations and for donors to receive tax deductions), the foundation has to provide a significant benefit to society or a part of it. > The social goal is set in accordance with the Law and is integrated into the statute of the foundation. 	<ul style="list-style-type: none"> > The main aim is to support the betterment of the society's quality of life and to promote employment for groups at risk of social exclusion. > The social goal is set in accordance with the Law and is integrated into the statute of the social enterprise. > The main aim of WISEs is to support the betterment of the society's quality of life and to promote employment for groups at risk of social exclusion. > Cabinet Regulation Regulations regarding Population Groups at Risk of Social Exclusion and the Procedure of Granting, Registering and Controlling the Status of Social Enterprise specifies 11 groups at risk of social exclusion that fall within the scope of activities of work integration social enterprises.* > In WISEs, beneficiaries must represent at least 50% of the total employees.** > No less than 30% of total services must be provided for the target group intended to receive services from a social enterprise.

* Entitled beneficiaries include the followings: persons with mental disabilities; persons identified as having a poor family/person status; the unemployed who have dependents; the unemployed aged 54 and older and the long-term unemployed; the Roma; imprisoned individuals and those released from imprisonment; addicts (alcohol, drugs, toxic, gambling or computer games); persons whose declared place of residence is a night shelter; human trade victims; persons granted the status of refugees, an alternative status or the status of stateless persons in the Republic of Latvia; orphans and children without parental care aged 15 and older as well as adults up to the age of 24 who belong to this social group.

** A target group individual is employed at a newly created job or at a job where a person not belonging to the target group has not been employed at least four months before the day a target group individual has begun working.

Main indicators	Association	Foundation	Limited Liability Company with social enterprise status
Economic dimension	<ul style="list-style-type: none"> > An association can perform a number of economic activities – but only as complementary activities to its main purpose. If these economic activities grow to become the main activities of the association, then it must establish its own business company and divide its activities into the two legal forms. > Economic activities should pertain to the maintenance and utilisation of the association's property or must further the goals of the association or foster its achievement. There are no specific restrictions regarding ability to trade or do other economic activities if they do not exceed this principle. > Not all associations, however, produce goods or provide services consistently over time. Several depend on donations and grants. Therefore, only a sub-set of associations meet this criterion. 	<ul style="list-style-type: none"> > A foundation can perform economic activities – but only as complementary activities to its main purpose. If economic activities grow to become the main activities of the foundation, then it must establish its own business company and divide all activities into the two legal forms. > Economic activities should pertain to the maintenance and utilisation of the foundation's property, to further the goals of the foundation, or foster its achievement. No specific restrictions regard the ability to trade or engage in other economic activities if they do not exceed this principle. > Not all foundations are however, produce goods or provide services consistently. Several depend on donations and grants. Therefore, only a sub-set of foundations meet this criterion. 	<ul style="list-style-type: none"> > No restrictions regard a limited liability company's ability to engage in economic activities. > Employs paid staff. > Has the right to attract volunteers to perform tasks other than its main operations, managerial duties and accounting, that aim to attain the objectives defined in the company's articles of incorporation.
Inclusive governance ownership dimension	<ul style="list-style-type: none"> > An association must have a board. > The board has several duties including: overseeing and managing the association's affairs, managing the association's property and disposing its funds, organising the association's accounting in accordance with regulatory enactments. > If several board members preside, a members' meeting elects the chairperson. > All members of an association have the right to participate in the members' meeting. 	<ul style="list-style-type: none"> > A foundation must have a board. > The board has several duties including: overseeing and managing the association's affairs, managing the association's property and disposing its funds, organising the association's accounting in accordance with regulatory enactments. > Any changes in the board can be made in accordance with the procedures specified in the articles of the foundation. 	<ul style="list-style-type: none"> > The <i>Social Enterprise Law</i> stipulates that the enterprise's employees or target group individuals must be involved in the enterprise's management. The Law does not specify the ways to do it, thereby allowing the enterprise's owners to decide on the best and most effective mechanism, which must form part of the statute. > Involving target group individuals in the management of the social enterprise (e.g. establishing an expert council, an expert group or any other advisory institution contributing to the operation of the social enterprise), could ensure its democratic management > Since a target group may not always be involved in decision-making for objective reasons, the involvement of the target group could be ensured by, e.g. involving a NPO representing the target group or experts of the particular field in the management of the social enterprise.
Profit distribution	<ul style="list-style-type: none"> > Distribution of profit is not applicable to legal form. > The law restricts the distribution of all incomes between founders, members of board or other administrative institutions (if applicable), and requires the use of incomes to directly or indirectly obtain a benefit. 	<ul style="list-style-type: none"> > Distribution of profit is not applicable to legal form. > The law restricts the distribution of all incomes between founders, members of board or other administrative institutions (if applicable), and requires the use of incomes to directly or indirectly obtain a benefit. 	<ul style="list-style-type: none"> > The company's profits are reinvested in attaining the objectives defined in its articles of incorporation.

2.2. Legal evolution

The *Constitution of the Republic of Latvia* states that Latvia is a socially responsible state. One duty of a socially responsible state is to ensure a decent standard of living and social protection in case of risks as well as to promote social justice, equality and solidarity in society. The sources used for developing the legal framework for social enterprises in Latvia are presented in Figure 2 and 3.

Figure 2. The basis of the legal framework of social enterprises in Latvia



Source: *Līcīte 2018*.

Figure 3. The basis of the strategic documents of social enterprises in Latvia



Since 2014, significant changes in the legal framework have determined the operation and development of social enterprises.

In Latvia, the concept of social enterprise is integrated into strategic policy documents—in the *Sustainable Development Strategy of Latvia until 2030* and in the *National Development Plan of Latvia 2014–2020*, in which it is defined as one of 98 options to implement the activity of “decent work”. Even though the available funding is not

large, it at least forms a basis for starting up economic activities in the field of social entrepreneurship in Latvia. Also worth note, on 30 October 2014, the Cabinet of Ministers approved the *Concept paper about the implementation of social entrepreneurship in Latvia*. It aims to “recognise and appreciate the potential of social enterprise, to launch a full and effective support system and to create a legal framework for the development of social entrepreneurship, to offer definitions and eligibility criteria, as well as the directions of support for social enterprises”.

After that the *Social Enterprise Law* adopted on 12 October 2017 came into effect on 1 April 2018. **The Law stipulates that a social enterprise is a limited liability company with special social enterprise status.** In order to obtain this status, the company must fulfil certain criteria, among which include:

- > an obligation to have a positive social aim as the organisation’s main purpose
- > the staff’s consent and adoption of the social enterprise status. The decision is deemed adopted if at least two thirds of the votes represented in the meeting are cast in favour, unless the articles of incorporation require more votes for adopting such a decision,
- > a restriction on profit distribution to company owners; profits must be either reinvested in the company or invested in reaching the social aim,
- > the company employs paid staff,
- > a representative of the target group acts in the organisation’s executive or supervisory body. The representative may also hail from associations and foundations representing the target group, or a relevant expert may act in the company’s consultative body (if it has one) (Social Enterprise Law 2018).

According to the law, social enterprises may act to integrate individuals at risk of social exclusion in their workforce. Social enterprises can additionally engage in other sectors, e.g., education, environmental protection, cultural diversity, social and health care, civil society. The activities of a social enterprise with regard to certain social groups could take the following forms:

- > engaging certain social group individuals (except children) in employment relationships to acquire work experience or permanent jobs (e.g., if employing only individuals with sight impairment or individuals released from imprisonment);
- > integrating certain social group individuals into society through economic activities (e.g. selling needlework items made by single pensioners or scarves made by young mothers);
- > providing support (e.g., psychological, material) to certain social groups (e.g., psychological support to victims of violence against women);
- > educating some social groups (e.g., teaching the Latvian language to refugees);

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- > promoting other activities directly or indirectly focused on improving the quality of life of social group individuals (e.g., printing books, magazines and newspapers for people with sight impairment).

If an enterprise aims to perform important activities for society that create a long-lasting positive social impact, they must assess which kind of social goals the enterprise wishes to engage in, such as the formation of an inclusive and civic society, environmental protection and preservation, animal protection, the promotion of cultural diversity, etc. The activities of the social enterprise with regard to tackling other problems essential for the society could be carried out in different ways (i.e. the production of goods and services directly or indirectly related to the achievement of the operational goal of the social enterprise).

A grant programme to support social enterprises has been implemented in parallel with the introduction of the *Social Enterprise Law*, and any social enterprise regardless of its field of activity can apply for funding.

With the *Social Enterprise Law* coming into force, the Ministry of Welfare's Register of social enterprises became the only fully operational single register. Before the Law came into force, a social enterprise could be registered in the prototype register under the Support Measure of the Ministry of Welfare and ALTUM (see section 4.2.3.), yet this register applied only to the support programme, and before the Law had become effective, social enterprise status was not granted as prescribed by the Law. Upon its creation, the social enterprises included in the Register can now use the opportunities provided by the support programme. However, the social enterprises registered according to the Law receive additional benefits provided by the Law, e.g., tax relief and other benefits from the public entities.

The *Social Enterprise Law* does not oblige the existing associations and foundations to establish a new limited liability company and/or stop economic activity, as it is up to every organisation to decide which way to choose and how to continue operating strategically. The associations and foundations have two potential directions within the scope of social enterprise:

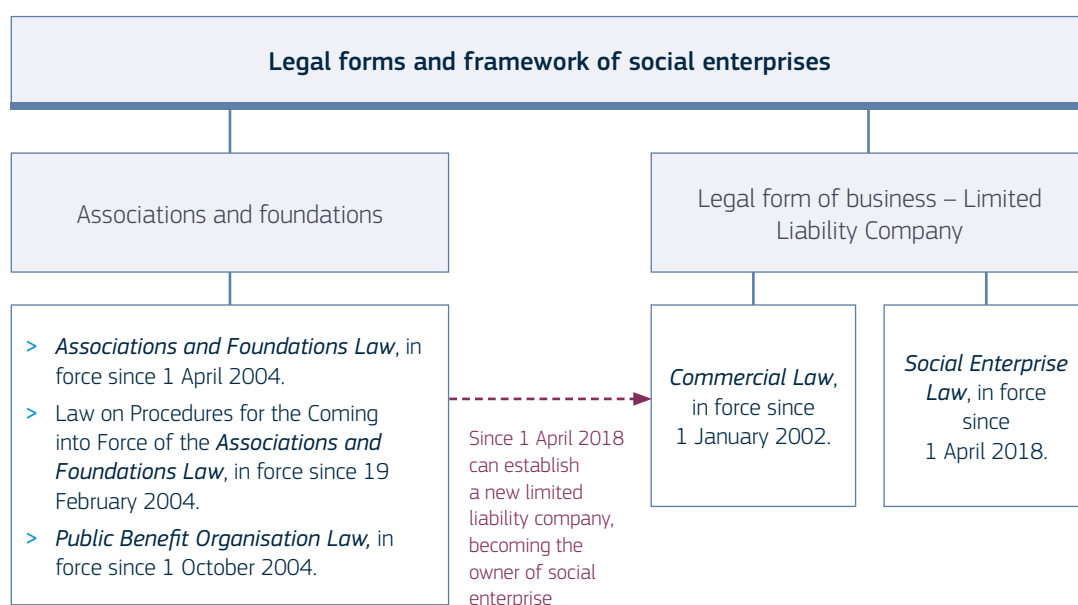
1. To establish a new limited liability company, becoming its owner. The current social enterprise activities of an association or foundation are transferred to the new limited liability company. The new limited liability company can use all the opportunities prescribed by the Law and the Ministry of Welfare and ALTUM support programme.
2. To perform economic activities as separate projects. If the economic activity does not reach a significant proportion, or is transitory (based on specific non-permanent projects), there is no need to establish a limited liability company. However, in this case, the Ministry of Welfare and ALTUM programme do not provide support for

continuing and expanding a social enterprise if the association or foundation has not applied for the programme (the deadline was 1 March 2018).

The new *Social Enterprise Law* does not force the acquisition of social enterprise status, as the legislators allow economic activity to be performed only in the form of additional activity. However, economic activity comprises one of the most essential criteria for identifying a social enterprise, as it attempts to ensure that socio-economic problems are tackled in the long term. Given the economic activity restrictions, associations and foundations are not considered appropriate for obtaining social enterprise status according to new *Social Enterprise Law*.

Figure 4 presents the legal forms of social enterprises and related legal framework.

Figure 4. Main legal forms and framework of social enterprises in Latvia



Source: *Līcīte 2018*.

2.3. Fiscal framework

In accordance with the *Enterprise Income Tax Law*, if the main aim of an association is not to maximise profit or increase its members' capital, it does not need to pay the income tax. A limited liability company with social enterprise status is 100% exempt from the enterprise income tax if it reinvests its profits in the enterprise and/or social goal. Additionally, taxation does not apply to the social enterprises' following expenditures:

- > recreational and social inclusion activities for social enterprise employees representing the target group;
- > integrating persons from the target group into the labour market and the enhancement of their life quality;
- > purchasing assets that contribute to the achievement of goals set in the statute of a social enterprise;
- > social integration of persons from the target group;
- > donating to public benefit organisations for purposes that match the goals set in the statute of the social enterprise (if the donation recipient provides information on the donation's use to the donor until the end of the reporting year).

This prerequisite about income tax intended to relieve social enterprises occupying the legal status of limited liability company, yet on 1 January 2018, amendments to the Enterprise Income Tax Law became effective; the amendments stipulate that conventional enterprises also do not have to pay the enterprise income tax if they do not distribute their profits or if they invest their profits in their business expansion. For this reason, the planned "benefits" from the tax policy in relation to social enterprises lost their importance. However, the remaining income tax relief opportunities mentioned above pertain to only social enterprises—they do not bind with conventional enterprises.

A law *On Enterprise Income Tax Relief for Companies of Associations of the Disabled, of Medicine-related Foundations and of other Charity Foundations* applied to WISEs until 1 January 2018, and income tax relief became available for limited liability companies established by associations and foundations. The law specified 14 companies owned by associations of people with disabilities, medicine-related foundations and other charity foundations (e.g., *LNS Surdotehniskās palīdzības centrs Ltd* of the Latvian Association of the Deaf, *Asni – Madona Ltd* of the Latvian Association of the Disabled, *LNS Rehabilitācijas centrs Ltd* of the Latvian Association of the Deaf). Each company had exemption from the enterprise income tax if they transferred a sum to their founder associations that measured larger than the enterprise income tax calculated for the taxation year. This legal provision changed after amendments to the

Enterprise Income Tax Law came into force. Specifically, if limited liability companies, established by associations and foundations and specified by the above-mentioned law, have transferred their profits (of no less than 15%) to shareholders in the reporting year (beginning in 2018), then they do not have to pay the calculated enterprise income tax in the reporting year.

In accordance with the *Value Added Tax Law*, the value added tax (VAT) does not apply to services provided by social service providers in Latvia. This means that if a social enterprise provides social care, professional and social rehabilitation, social assistance and social work services, the VAT is not applicable. However, it does pertain to associations, foundations, limited liability companies with social enterprise status, and all conventional enterprises that deliver the listed welfare service. Additionally, the Law prescribes that if an annual turnover from economic activity amounts to less than 40,000 EUR (before 1 January 2018, 50,000 EUR), an association, foundation or enterprise does not have to register as a VAT payer. This means that the same tax relief applies to diverse legal forms with regard to the VAT.

The law *On Immovable Property Tax* prescribes that immovable property tax relief could be granted if municipal immovable property is rented out or donated for the provision of medical or social care services. However, any association or foundation, as well as any enterprise with the status of social enterprise, may apply for this relief. In addition, local governments may issue binding regulations that prescribe relief for some categories of immovable property taxpayers.

Associations, foundations and religious organisations may be granted public benefit organisation status if they significantly benefit the society or some part of it (see above, Section 1.1.4). Organisation sponsors or donors also receive a positive benefit from this, as they can access tax relief stipulated in laws based on the organisation's status. Individuals who make donations to associations, foundations and religious organisations that have acquired the public benefit organisation status in accordance with the *Public Benefit Organisation Law* are exempt from the income tax. Starting in 2018, in accordance with the amendments to the *Enterprise Income Tax Law*, a taxpayer wishing to make a donation can access one of three kinds of enterprise income tax relief:

- > to not include the donated amount in the base taxable with the enterprise income tax in the taxation period but not more than 5% of the profits from the previous reporting year after the calculated taxes;
- > to not include the donated amount in the base taxable with the enterprise income tax in the taxation period but not more than 2% of the total gross work remuneration calculated for employees in the previous reporting year from which state social insurance contributions have been made;

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- > to reduce the enterprise income tax, calculated on the dividends reached for the reporting year in the taxation period, by 75% of the donated amount—but not exceeding 20% of the calculated amount of enterprise income tax on the calculated dividends.

The models developed for donation provide broad opportunities for enterprises; this way, the enterprises are encouraged to pay social insurance contributions. In general, however, the new enterprise income tax model in conjunction with the personal income tax model makes more funds available to the entrepreneur.

In Latvia, this tax relief for donors manifests as indirect government support for NPOs with the status of public benefit organisation, compared with enterprises that have no such rights. However, an enterprise with the status of social enterprise, in accordance with the *Social Enterprise Law*, may receive donations (the enterprise income tax is not applicable to the donations) for purposes that match the goals set in the statute of the social enterprise if the donation recipient has given information on the use of the donation to the donor until the end of the reporting year.

The only kind of tax relief available to employers that hire individuals with disabilities in Latvia is the relief on employer and employee social insurance contributions (employee mandatory social insurance contributions: the general rate is 11%, while for people with disabilities it is 10.12%; employer mandatory social insurance contributions: the general rate is 24.09%, while for employees with disabilities—22.52%), which slightly reduces labour costs. The relief applies to all the legal forms. However, the relief is not sufficient to motivate enterprises to integrate workers with disabilities.

To promote the integration of people with disabilities into the labour market and motivate employers for their hire, the State Employment Agency offers employers a support programme, or subsidised jobs. Under the programme, employers that hire people with disabilities are provided with the following kinds of financial assistance:

- > monthly wage subsidy for unemployed persons equal to 50% of the total wage costs, but it cannot exceed the minimum monthly wage set by the government (430 EUR in 2018). For the unemployed with disabilities, monthly wage subsidy may not exceed 150% of the minimum monthly wage and the wage can be fully covered by the subsidy;
- > coverage of expenses for work supervisors (50% of statutory minimum wage) and the subsidy for supervision is granted to employer. Supervisor can coach no more than 2 employees at the same time;
- > one-time subsidy for the purchase of equipment and devices, as well as for the production and purchase of technical aids to adapt a workplace to the employees with disabilities. The subsidy is granted according to a workplace adaptation cost

estimate submitted by the employer, based on a report by an ergotherapist, but amounts to no more than 711 EUR per workplace;

- > services provided by sign language interpreters, assistants, ergotherapists and other specialists if the services are provided to employ people with disabilities;
- > reimbursement of expenditures on health checks for the unemployed with disabilities if stipulated in the legislation on mandatory health checks.

Subsidised jobs are available both to social and conventional enterprises.

A social enterprise has the right to attract volunteers to perform tasks other than managerial duties, accounting, or main operations. Use of volunteers may be considered indirect fiscal support for social enterprises, as the government does not pay state social insurance contributions and labour taxes on these workers.

Table 2. Fiscal benefits for social enterprises compared with conventional enterprises

Tax relief		Association	Foundation	Limited Liability Company with social enterprise status	Conventional enterprises
Enterprise income tax is not paid if:	Profits are not distributed or used for business expansion	+	+	+	+
	<ul style="list-style-type: none"> > recreational and social inclusion activities for employees representing the target group; > integration of persons from the target group into the labour market and the enhancement of their quality of life; > purchase of assets that contribute to the achievement of goals set in the statute; > social integration of persons from the target group; > donations for public benefit organisations for purposes that match the goals set in the statute if the donation recipient has given information on the use of the donation to the donor until the end of the reporting year. 	-	-	-	-
Value added tax is not paid if:	social care, professional and social rehabilitation, social assistance and social work services are provided	+	+	+	+
	if an annual turnover from economic activity is less than EUR 40,000 (not registered as a VAT payer)	+	+	+	+
Exempt from the immovable property tax if municipal immovable property is rented out or donated for the provision of medical or social care services, and if the tax is not applicable to buildings or part thereof (rooms) used for educational, health and social care purposes.		+	+	-	-
Tax relief for donation recipients and donors.		+	+	+	+
		(if the enterprise has public benefit organisation status)	(if the enterprise has public benefit organisation status)		
Tax relief on employer and employee social insurance contributions if employing the disabled.		+	+	+	+

Source: *Līcīte 2018*

One can conclude that no significant tax relief is available for social enterprises compared with conventional enterprises. The following table summarises the fiscal treatment of social enterprises in Latvia.

Table 3. Fiscal framework for social enterprises in Latvia

Reduced social security contributions / costs	Tax exemptions and lower rates	Tax reductions to private and / or institutional donors
WISEs attain tax relief on employer and employee social insurance contributions	Exempt from the enterprise income tax. Exempt from the value added tax if providing social care, professional and social rehabilitation, social assistance and social work services; if an annual turnover from economic activity amounts to less than 40,000 EUR.	Tax relief for donation recipients and donors

Even though tax relief for social enterprise remains relatively little, social enterprises considerably contribute to the national and local governments. Social enterprises pay mandatory social insurance contributions and the personal income tax on all their employees, as well as the value added tax (only some exceptions) and the state fee of business risk. By employing socially vulnerable individuals, the social benefit burden on the government lowers (i.e., the amount of unemployment benefits paid). The social benefit burdens on local governments also decrease, as socially vulnerable individuals often receive the guaranteed minimum income and housing benefits.

3


MAPPING

It is estimated that up to 200 social enterprises operate in Latvia. However, the Ministry of Welfare Register of social enterprises only began functioning on 1 April 2018; therefore, no comprehensive data can yet draw representative conclusions on the social enterprises meeting the criteria set by the *Social Enterprise Law*.

Most social enterprises are relatively new, having established themselves only within the last 3 to 7 years, and usually do not employ more than 10 people. Social enterprises operate in various sectors including social services, production of goods, health services (including prevention), charity shops, environmental protection, cultural diversity and heritage, education, consulting, information, and communications. Some of the social enterprises actively pursue work integration.

In terms of geographical scope, a lot of social enterprises operate in the capital city, Riga. However, thanks to different social programmes supporting regional development and new entrepreneurs, social enterprise initiatives also find support in other areas in the country. Some enterprises start their activities in the capital and then spread afterwards into other regions, or vice versa.

Social enterprise governance models can follow flexible designs based on the participation of different stakeholders in governance. Actors ranging from a natural person, a legal person (e.g., a limited liability company), an association or a foundation, as well as a local government can all found social enterprises.



3.1. Measuring social enterprises

The GEM first undertook research on measuring social enterprises in Latvia in 2009. The report contains information only on the nature and prevalence of social entrepreneurship in Latvia. Social entrepreneurship was understood as “individuals or organisations engaged in entrepreneurial activities with a social goal.” In 2009 the social entrepreneurship activity (SEA) rate in Latvia ranked at 1.9%, while only 0.2% of the population combined social entrepreneurship and business activities. The report also looks at the gender composition of social entrepreneurs. In 2009, 46% of social entrepreneurs were males and 54% were females, however one must first consider the national gender ratio before reaching any conclusions.

The 2014 research study titled “Pilot Project for the Identification of Social Enterprises and the Assessment of Economic Impacts thereof in Latvia”, showed that only 3% of the total 1,296 surveyed commercial entities identified as social enterprises, amounting to approximately 39 total. The research study found that key areas of the social enterprises related to environmental protection and enhancement, pollution reduction (57.4%), education promotion (38.5%), job opportunities for those at risk of social exclusion (33.8%) and poverty reduction (28.9%). An analysis of the number of individuals employed by the social enterprises revealed that most enterprises (69%) employed less than nine people, 22% employed 10-49 people, and 9% provided cases with over 50 employees.⁴

In 2014, the think tank PROVIDUS carried out a survey of social enterprises operating as associations and foundations. The purpose of the survey was to identify potential social enterprises and the spectrum of their activities. They analysed 25 completed questionnaires from the associations and foundations that regarded themselves as social enterprises. The survey revealed that most social enterprises in Latvia performed activities related to public education or in-service training services for certain social groups, yet none of them engaged in the production of goods. The survey further showed that all social enterprises involved volunteers in their activities, and only a few had permanent employees.⁵

The Association of Social Entrepreneurship of Latvia also provides some information on social enterprises. In 2018 it has counted 88 social enterprises among its members.⁶

(4) These statistical data can be explained by the fact that research included only social enterprises operating in legal form of commercial entities.

(5) This situation with many volunteers and few permanent employees can be explained by the fact that this research included only social enterprises operating in the legal form of associations and foundations.

(6) Members of Association of Social Entrepreneurship of Latvia are social entrepreneurs, social entrepreneurship support organisations (e.g. social entrepreneurship incubator “Reach for Change”, social

In view of the fact that *de facto* social enterprises often function under the legal form of associations and foundations, an analysis based on Register of Enterprises data gives the characteristics of associations and foundations. As of 1 June 2018, 23,961 associations and foundations operated in Latvia, yet not all of them fit to EU operational definition of social enterprise.

Given that many associations prioritise providing social services, this report includes data on social service providers that listed in the Register of Social Service Providers of the Ministry of Welfare. In 2108 in Latvia, according to the Register, 210 associations, foundations and their organisational units provided social services (home care, a crisis centre, a day-care centre, social rehabilitation, a special residential house etc.). Thus, only 210 associations and foundations out of 23,961 provided social services.

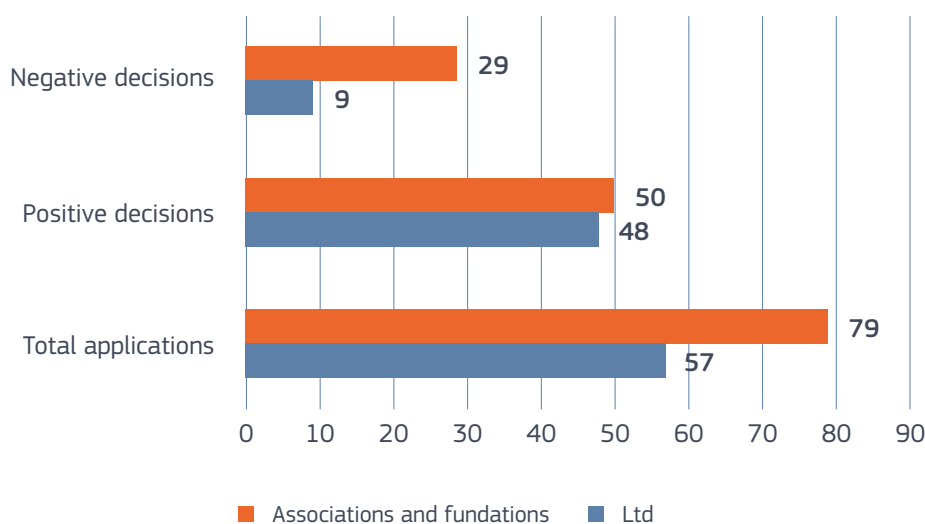
Table 4. Statistics on social enterprises in Latvia

Number of social enterprises	Number of employees	Annual turnover	Workforce
Around 200	Not more than 10 full-time employees; many operate without a single full-time employee	A wide range from 2,000 EUR to 2 million EUR, depending on the size and the scope of the enterprise	Do not employ more than 5–10 people

The Ministry of Welfare provides statistical data on the number of social enterprises in its summary report on applicants to the grant programme “Support for Social Entrepreneurship”. Before 1 March 2018, organisations of diverse legal forms—associations, foundations and companies—could apply for a social enterprise grant. Even though the aggregated statistical data presented in the next figures do not encompass all social enterprises in Latvia, the data may begin to accurately identify and account for social enterprises.

enterprise accelerator “New Door”, Social Innovation Centre, Foundation for Open Society DOTS etc.), social enterprise ambassadors and individuals who are interested in social entrepreneurship.

Figure 5. Number of applications under the social enterprise grant programme (statistical data as of 1 March 2018)



Source: Ministry of Welfare.

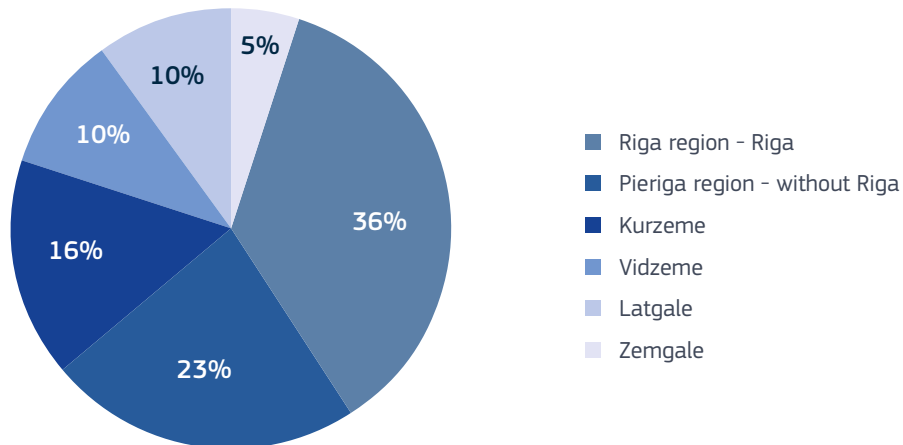
One can conclude that a slightly higher number of associations and foundations applied for the social enterprise grant programme, compared to the number of companies. The most important reasons for refusal were as follows:

- > no social goal was defined in the statute,
- > employees were not employed under an employment contract,
- > enterprises that had been registered in the Register of Enterprises of the Republic of Latvia for more than 12 months did not use at least 50% of their previous-year profit balances for achieving their social goals,
- > enterprises that had been registered in the Register of Enterprises of the Republic of Latvia for more than 12 months had at least one member of the executive body or the management with no full-year experience in managing social impact-related processes,
- > associations and foundations in the Register of Enterprises of the Republic of Latvia for more than 12 months did not have a previous-year revenue from economic activity in the range from 10 to 50%.

One must note that the last three prerequisites are not effective from 1 April 2018 onwards, which allows companies that do not meet the third and fourth criteria to apply for the status of social enterprise.

When broken down by planning region, an analysis of the project participants reveals that of they represent every region of the country (Figure 6).

Figure 6. Percentage breakdown of the participants under the social enterprise grant programme by planning region in Latvia (statistical data as of 1 March 2018)

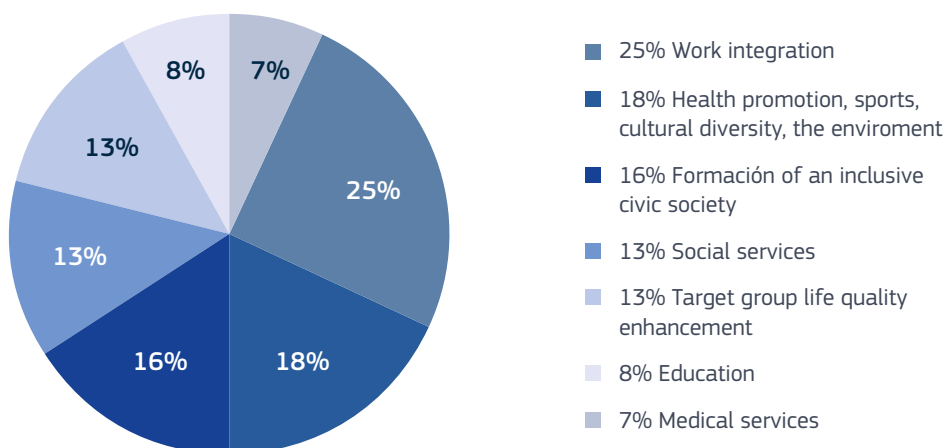


Source: Ministry of Welfare.

One can conclude that the largest number of participants came from the regions of Riga and Pieriga (one of the six statistical regions in Latvia, located near Riga), which indicated higher activity among social enterprises around the capital city in particular. Encouragingly, companies, associations and foundations from the other regions of Latvia also applied for the social enterprise grant program.

In Figure 7, an analysis of the participants' fields of activity reveals that most engaged in work integration (25%) along with health promotion, sports, cultural diversity and the environment (18%).

Figure 7. Percentage breakdown of the applications under the social enterprise grant programme by field of activity in Latvia (statistical data as of 1 March 2018)

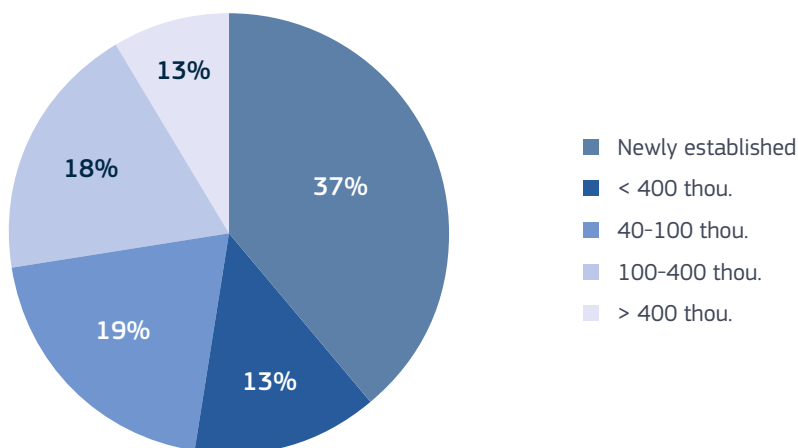


Source: Ministry of Welfare.

Economic performance. No available statistics analyse the aggregate annual turnover of social enterprises, but it is likely not significant. The turnover of individual enterprises varies widely from a few thousand to a few million EUR annually, depending on the size and the scope of the enterprise. Notably, most social enterprises are relatively new, having been established only within the last 3 to 7 years, and usually do not employ more than five people. The social enterprises that are members of the Association of Social Entrepreneurship of Latvia yield a probable representation of the distribution of activities across different sectors (Lis *et al.* 2017).

An analysis of the participants in the project of the Ministry of Welfare and ALTUM by annual turnover reveals that the largest segment consisted of newly established entities (37% or 25 total).

Figure 8. Percentage breakdown of the participants of the project by annual turnover (statistical data as of 1 March 2018)



Source: Ministry of Welfare.

Scale of activity. After examining various social enterprises in Latvia, one can conclude that their scale of operation is mainly localised within a region, a city, or a municipality; fewer enterprises operate at the national level and hardly any operate at the global level. In Latvia, it is important to promote social entrepreneurship in the context of global export ambitions, so that the social enterprises can be competitive in the global market.

3.2. Social enterprise characteristics

Although several studies about social enterprises in Latvia exist, little literature provides detailed information on the specific characteristics of social enterprises. A research report “Social enterprises and municipalities: cooperation, partnerships and synergies” analyses the main characteristics of social enterprises. Also, the 2014 version of this report identifies the characteristics of 14 organisations in Latvia found to meet the EU operational definition of social enterprise. Though these organisations do not represent the full spectrum of social enterprise in Latvia, they do provide insight into social enterprise characteristics.

Some of the social enterprises in Latvia are very well known and recognised, while others are less known because of their smaller scale or the geographic focus of their activity in regions outside the capital city. Occasionally, organisations do not even recognise themselves as social enterprises. Many of these less known or “hidden” social enterprises were identified through publicly available lists of successful grant applicants of relevant programmes that are supporting SMEs or innovative ideas from young people.

An attempt was made to map social enterprises by distinguishing their legal forms. In 2013, the Latvian Chamber of Commerce and Industry conducted a study, “Single Methodology for Examining Social Enterprises”, which identified and surveyed social enterprises registered as companies. The research revealed that out of 1,296 companies surveyed (associations and foundations were not included in the survey), only 34 total or 3% regarded themselves or could be considered as social enterprises (Bikse and Linde 2013). And a survey conducted by the think tank PROVIDUS within a research project “Social Enterprises – Nongovernmental Organisations in Latvia” identified even fewer, only 25, associations and foundations that regarded themselves as meeting social enterprise criteria. Even though neither survey (carried out by the Latvian Chamber of Commerce and Industry and the think tank PROVIDUS) reached all potential and existing social enterprises in Latvia, there is reason to believe that the number of social enterprises in Latvia lays around 200.

Given the availability of only general statistics on social enterprises in Latvia, as well as the small number of such enterprises, it is not useful to perform detailed mapping based on the legal forms of social enterprises (legal forms of business, NPOs and social enterprises that acquired *de jure* status in accordance with the *Social Enterprise Law*). Therefore, understanding social enterprise characteristics requires considering the overall context in Latvia. The Ministry of Welfare Register of social enterprises merely came into action on 1 April 2018; therefore, no comprehensive data are available to draw representative conclusions on the social enterprises meeting the criteria set by

the *Social Enterprise Law*. Many social enterprises that actually meet the criteria set by the law have not yet applied for the status of social enterprise.

Fields of activity

Social enterprises operate in various sectors including, but not limited to, social services, production of goods, health services (including prevention), charity shops, environmental protection, cultural diversity and heritage, education, work integration, consulting, information, and communications (Lis *et al.* 2017). A significant part of social enterprises in Latvia engages in the services sector (providing social and health care services in particular) rather than in the production sector.

The social enterprises operating under the legal form of associations or foundations actively engaged in the following fields:

- > promoting education, in-service training, the improvement of professional competences;
- > providing services to socially unprotected individuals;
- > cultural, art and musical activities with groups at risk of social exclusion;
- > integrating socially unprotected individuals into society (Lešinska 2014).

None of the organisations surveyed within the research project “Social Enterprises–Nongovernmental Organisations in Latvia” (2014) engaged in the production of goods or manufacturing. This is logical, as their legal form—an association or a foundation—was not intended or appropriate for active entrepreneurship.

However, one can conclude that many activity fields of social enterprises overlap; indeed, they contribute to the needs of the civil society through charity, and giving advice and assistance to the long-term unemployed, families, youth and citizens with disabilities. Therefore, one cannot conclude that social enterprises in Latvia clearly focus on one important problem for society. The Social Entrepreneurship Association of Latvia also confirms this when providing data about its members’ activities. It indicates that the target audiences often overlap and cannot be strictly distinguished; although members mainly tackle problems related to families (children and youth) they also focus on various audiences with disabilities, the education sector and social and cultural projects (Lis *et al.* 2017).

Regarding the activities of social enterprises, a strong trend aims to integrate socially sensitive groups in creating products of design.⁷ Social entrepreneurs particularly seem to seek ways to engage with these groups’ productivity. Often, needlework and other

(7) E.g., people with disabilities: mental disabilities; physical disabilities; visually impaired people, individuals released from imprisonment, pre-pension- or pension-age individuals.

simple but rewarding activities provide methods of employing individuals from socially vulnerable groups.

The development of design products could also be explained by the fact that the Latvian market is small, and entrepreneurs seek to develop high value-added design products rather than focus on marketing consumer products. Social enterprises such as BlindArt, Wings of Hope (*Cerību spārni*), DP Production and many others provide good examples of design production endeavours. Even though they are able to provide good quality products, many of these enterprises struggle with marketing, sales and access to global markets (Lis *et al.* 2017).

Labour characteristics

Overall, the number of employees in social enterprises when they start operating varies from one to two people, yet as the enterprises develop, they can typically employ over five permanent personnel. Job creation progresses relatively slowly, and most social enterprises do not employ more than 10 full time workers (Dobele 2014). Moreover, many operate without a single full-time employee, meaning that work at the enterprises combines with duties at other organisations, or involves volunteers. The budgets of associations and foundations may explain this, as only a few of them can develop services that yield revenue. Most revenues for social enterprises operating under the legal form of associations consist of funding from projects won in competitions. For this reason, the small number of permanent employees is understandable. If the amount of revenue earned were larger, social enterprises would plan their activities accordingly and therefore would hire more employees (Lešinska 2014). In view of the provisions included in the Social Enterprise Law in relation to social enterprises, opportunities do exist now, as the legislation does not restrict the economic activity of social enterprises, meanwhile associations and foundations may only engage in auxiliary economic activity.

When characterising the labour force at social enterprises, an essential aspect relates to volunteers. Until the new Law became effective, the workforce composition of social enterprises varied depending on the legal form: limited liability companies cannot have volunteers; hence, 100% of their employees are paid workers. On the other hand, NPOs (associations and foundations) can have volunteers. The proportion of paid and unpaid workers within these organisations varies. For instance, the Samaritan Association of Latvia engages approximately 300 volunteers while Nearby (*Tuvu*) engages 28 (both social enterprises are included as exploratory case studies in Appendix 3). The number of volunteers varies according to the project and so does the nature of the work required, e.g. Wings of Hope involves volunteers for implementing different projects (e.g. the design of the interior of the charity shop). However, for managerial tasks paid workers are preferred over volunteers.

According to studies of associations and foundations, the managers of social enterprises comprised mainly of women aged from 30 to 50 with higher education (Lešinska 2014). In contrast, the survey done by the Latvian Chamber of Commerce and Industry showed that most of the social entrepreneurs working under the legal forms of business were men aged 40-60 with higher education (Bikse and Linde 2013).

The labour availability and subsequent performance of social enterprises is affected by the current national economic situation. For example the WISE-kiosk of *Ziedot.lv* was established in 2009 to give jobs to people from social risk groups during the economic crisis. The enterprise asked needlewomen in particular to bring their needlework and receive remuneration for it. Purchases at the kiosk provided jobs and donations for local craftspeople and charity projects. Ten individuals attained a job with the WISE during a five-year period. However, once the national economic and social situations significantly improved, the kiosk was no longer considered necessary and closed. The kiosk *Ziedot.lv* simply could not compete with green markets and conventional enterprises after paying taxes. At the same time, however, the goods and services produced by social enterprises did meet quality requirements and were competitive in the market.

Target groups

Some social enterprises are active in the field of work integration. Mostly, they work with vulnerable people from the following social groups: single mothers, people with disabilities (including mental, physical, visual impairment, etc.), elderly people, children and youth, parents and teachers, former inmates and their families. This is the case of BlindArt and Wings of Hope (included in Appendix 3): the former employs visually impaired people while the latter provides social services to adults and children with functional impairment.

In view of the target audiences, social enterprises often need a longer period for employee training, and since labour productivity also yields lower, the working environment must be adapted, resulting in higher total production cost. Regardless of the limiting factors, social entrepreneurs point out that they can hire loyal and motivated employees in the long-term. Besides, a high supply for jobs among socially sensitive groups positively affects competition (Dobele 2014).

Regional context

In terms of geographical scope, no specific pattern could be identified. Several activities take place in the capital city, Riga, but thanks to different social programmes supporting regional development and new entrepreneurs and business incubators, social enterprise initiatives are also supported in other areas of the country.

Some social enterprises start their activities in the capital and then spread outward into other regions. The charity shop Second Breath (*Otrā elpa*), for example, started in Riga

and later expanded to Liepaja. However, the opposite trend was observed as well: the charity shop Nearby (*Tuvu*) commenced its activity in Jelgava, then opened a shop in Tukums and later on in Riga.

Governance models

Different social enterprise governance structures exist based on the participation of varying stakeholders in the governance of the organisation. A social enterprise may be founded by a natural person, a legal person (e.g., a limited liability company), an association or a foundation, as well as a local government.

An association or foundation can found a social enterprise under the legal form of Limited Liability Company, thereby maintaining control as the owner. Accordingly, the social entrepreneurship activities of the association or the foundation transferred to the new limited liability company.

The local governments can become co-owners of social enterprises as well. First, a limited liability company can acquire the social enterprise status, and can then cooperate with the local government under the following conditions: that one or several public persons will not have a majority of votes if the enterprise aims to employ target audiences as its main social goal (e.g. labour WISEs). This provision of the *Social Enterprise Law* will only be effective until 1 April 2021. This means that, although a local government may establish social enterprises, it can only act as a co-owner with no majority of votes, and only for labour WISEs; additionally, the local government must “exit” the social enterprise before 1 April 2021.

In order for a social enterprise to quickly and effectively respond to problems while simultaneously creating a sense of community and belonging for employees from social risk groups, the enterprise must adopt an inclusive form of governance. This governance extends to democratically involving employees as well. By integrating the knowledge, resources and needs of the participants into the process, inclusive governance creates new pathways to untangle problems that are specific and important to the local society. However, the *Social Enterprise Law* does not specify particular ways in which they must be governed, permitting the owners of the enterprise to decide on the most effective involvement mechanism:

- > involving an individual from the target group in the enterprise’s executive or supervisory body;
- > involving an individual from the target group or an expert in the particular field in the enterprise’s advisory body (if established).

Individuals from a social risk group effectively and democratically influence the enterprises’ governance by establishing expert councils, expert groups or any other advisory bodies. Since individuals from a social risk group sometimes cannot make

decisions (e.g., if the target group is composed of minors, imprisoned individuals or individuals with health problems), entities like NPOs or experts in the field represent them and ensure that their voices get heard.

4

ECOSYSTEM

The Social Entrepreneurship Association of Latvia plays an essential role in the social enterprise ecosystem, which represents the interests of social enterprises at the national and local levels. The ministry responsible for the promotion of social enterprises in Latvia is the Ministry of Welfare. The promotion of social enterprises additionally depends on particular local governments and their support, accelerators and business incubators, investors and intermediaries, and educational institutions.

Before the *Social Enterprise Law* came into effect, the support system for social enterprises was quite fragmented and not associated with any particular institution, though various support mechanisms were available for social enterprises according to their legal form. Social enterprises need financing to cover operational costs, for capital, and for investment loans. These needs prove important not only at the time of creation but even more so in periods of growth and development.

Private investors have begun to express a very cautious interest about social enterprises. A practice of granting loans at a low interest rate or interest-free has not yet emerged in Latvia. The Latvian Business Angel Network and European Latvian Association could provide important social impact investment in the future. Nevertheless, social entrepreneurs do not refer to the unavailability of funds as an essential problem, as various support programmes for new entrepreneurs, competitions for start-up capital or business expansion, as well as a grant programme for social enterprises all exist in Latvia. In 2016, the Ministry of Welfare in cooperation with ALTUM, a state-owned development finance institution, launched a grant programme that is the first support system directly addressed to social enterprises. Available grants vary from 5,000 up to 200,000 EUR.

4.1. Key actors

The Ministry of Welfare is responsible for promoting social enterprises in Latvia. In 2013, the Ministry of Welfare commenced working on the legal framework for social enterprises. To assess the situation in relation to social enterprises in Latvia as well as to make proposals for fostering their development, the Ministry of Welfare established a work team to tackle the problems associated with the social enterprises. The work team consisted of representatives of sectorial ministries, nongovernmental sector experts, social entrepreneurs and researchers. On 14 October 2014, the Cabinet of Ministers approved *The Concept Paper About the Implementation of Social Entrepreneurship in Latvia* designed by the Ministry of Welfare; in addition, the Ministry, together with ALTUM, implemented the project “Support for Social Entrepreneurship.” The Ministry of Welfare is the key policy driver with regard to social enterprises.

The promotion of social enterprises depends on any particular **local government** and its interest in supporting and developing these projects, since they have various helpful instruments and mechanisms at their disposal. In accordance with the *Social Enterprise Law*, local governments may support social enterprises in various ways: privileged public procurement procedures, immovable property tax relief, and free use of municipal property, as well as movable property of a public person that can transfer into the ownership of the social enterprise free of charge. Local governments have the right to introduce special grant programmes or support social enterprises by means of infrastructure: premises, office equipment, Internet connections, transport, etc. The Law does permit but does not oblige local governments to do this, so that they can develop their local support systems for social enterprises.

Social enterprises often cooperate with the **State Employment Agency**, supervised by the Ministry of Welfare. This cooperation often takes the form of employing the unemployed under various programmes aimed at reducing unemployment among particular target groups (people with disabilities, long-term unemployed individuals, unemployed youth, etc.).

Social enterprises often cooperate with **municipal social services institutions** in order to jointly find solutions to social problems in the particular region.

Important actors for the social enterprise ecosystem include **social enterprise networks** (mentors, advisors and supporters), especially the **Social Entrepreneurship Association of Latvia** that functions as a national-level organisation representing the interests of social enterprises at national and local levels, and cooperating with policy makers and decision makers in order to establish a well-functioning ecosystem for social enterprises.

Relevant players in this field are also the Social Innovation Centre, as well as **accelerators and business incubators**. A business incubator proves particularly useful in the first years of operation of a social enterprise, as it provides necessary assistance: premises, business support services (legal advice, accounting services, expertise in business activities and marketing). In Latvia, business incubators are funded by the Investment and Development Agency of Latvia, which also offers a number of support programmes for both conventional and social enterprises. To date, however, no social enterprises have participated with business incubators, which may be largely due to their lack of sufficient business skills and since business incubators are ill-suited to the needs of social enterprises. Nevertheless, despite their limited presence in traditional business incubators, social enterprises have received support from a specific organisation named “New Door.” So far, the only incubator devoted to the needs of social enterprises is Reach for Change.

Potential investors and intermediaries play an essential role in the formation of an ecosystem for social enterprises. Latvian Business Angel Network is cautious and reserved, but interested in future social impact investment. They feel open to social enterprises if they comply with their rules and criteria and are willing to share knowledge and expertise with them. Also, the European Latvian Association (an association for Latvians living abroad) provides a good resource for potential private investment contacts in the future.

Educational institutions play an essential role in contributing to the development of social enterprises, as they inform and educate the public. A number of universities research social enterprises in Latvia; several deliver courses, produce research papers and implement study programmes with regard to social entrepreneurship (for instance, the Latvian Christian Academy is elaborating a professional masters study programme, Management of Social Entrepreneurship). Linking theoretical knowledge at the university with the practical activities at social enterprises provides essential synergies, as social enterprises could become the first stage for students’ practical training or employment opportunities. Simultaneously, social enterprises could benefit from trainees, as they research the social impacts of the social enterprises and other important matters.

Social enterprises can cooperate with **conventional enterprises**. Such cooperation might take several forms. It may involve the delegation of certain functions of a conventional enterprise to a social enterprise. A social enterprise operates as an autonomous and independent entity, but can sell its products to a conventional enterprise, thus reducing sales risk. This cooperation pattern does not exclude social enterprises from other activities; in fact, diversifying goods and services evades the risk of selling the same products. Also, conventional enterprises may become social investors, perhaps even taking part in designing the operational strategy of the enterprise.

Table 5 provides a snapshot of main actors involved in the ecosystem for social enterprises in Latvia.

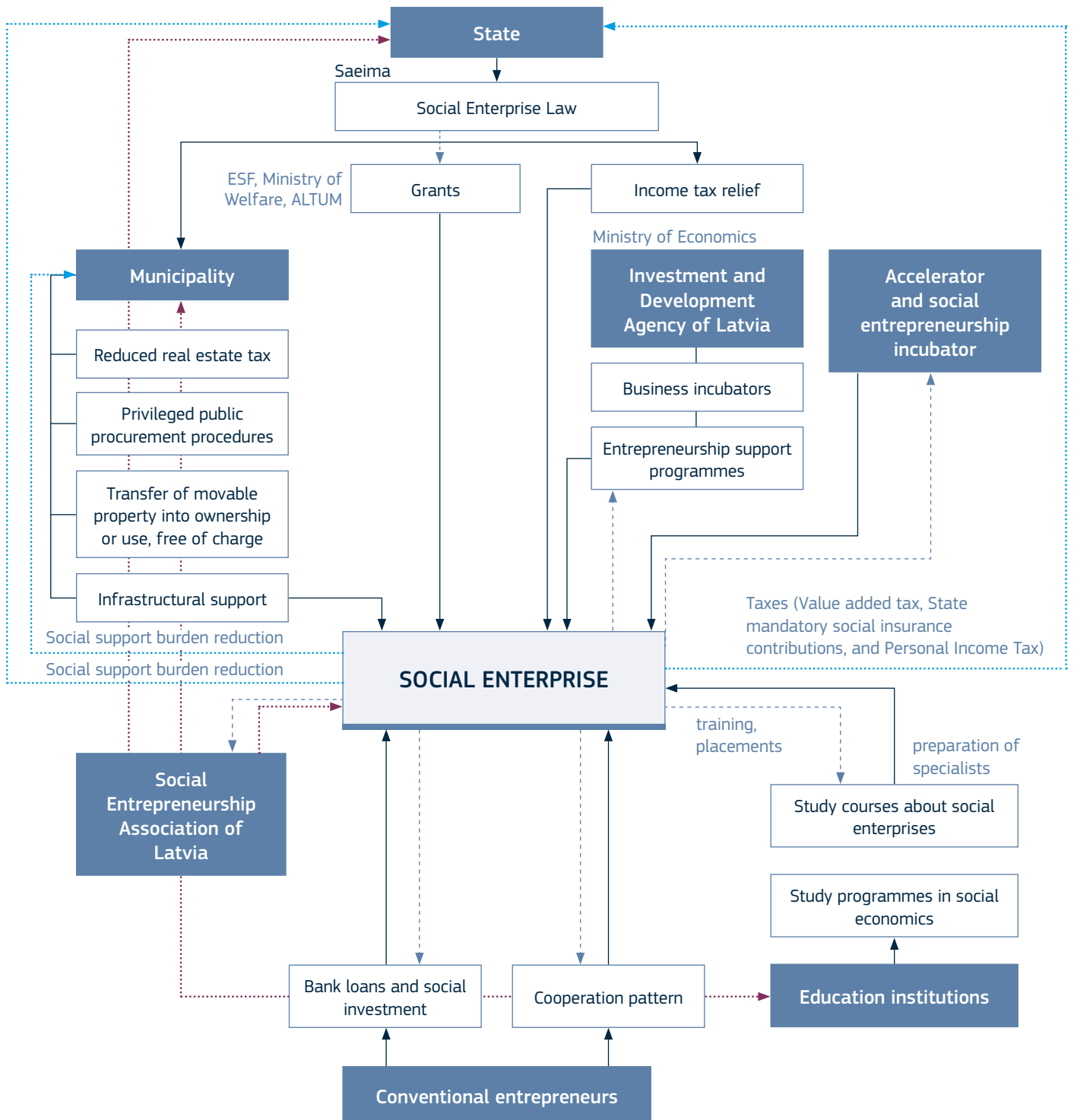
Table 5. Main actors for the social enterprise ecosystem in Latvia

Actors of the social enterprise ecosystem	Organisations in Latvia involved in the social enterprise ecosystem
Governmental departments / institutions	<ul style="list-style-type: none"> > Ministry of Welfare > Investment and Development Agency of Latvia > Local authorities > Development Finance Institution ALTUM
Authorities designing and enforcing public procurement legislation	<ul style="list-style-type: none"> > Ministry of Welfare > Investment and Development Agency of Latvia > Local authorities > Development Finance Institution ALTUM
Authorities designing and enforcing legal, fiscal, and regulatory frameworks	<ul style="list-style-type: none"> > Ministry of Finance
Social enterprise networks – mentors, advisors, supporters	<ul style="list-style-type: none"> > Ministry of Finance > Ministry of Economics
Accelerators and Incubators	<ul style="list-style-type: none"> > Social entrepreneurship association of Latvia
Potential investors and financial intermediaries	<ul style="list-style-type: none"> > Social Entrepreneurship Association of Latvia > Latvian Business Angel Network > European Latvian Association (an association for Latvians living abroad)
Institutions promoting social enterprise education and training	<ul style="list-style-type: none"> > Social Innovation Centre > Latvian Christian Academy > Stockholm School of Economics in Riga > Latvia University of Life Sciences and Technologies > Riga Business School

To effectively develop a social enterprise ecosystem in Latvia, several consecutive activities must flow together. Complex interactions and cooperation among various stakeholders (local authorities, conventional enterprises and educational institutions) will all foster the development of social enterprises in Latvia.

Figure 9 demonstrates an existing ecosystem of social enterprises in Latvia.

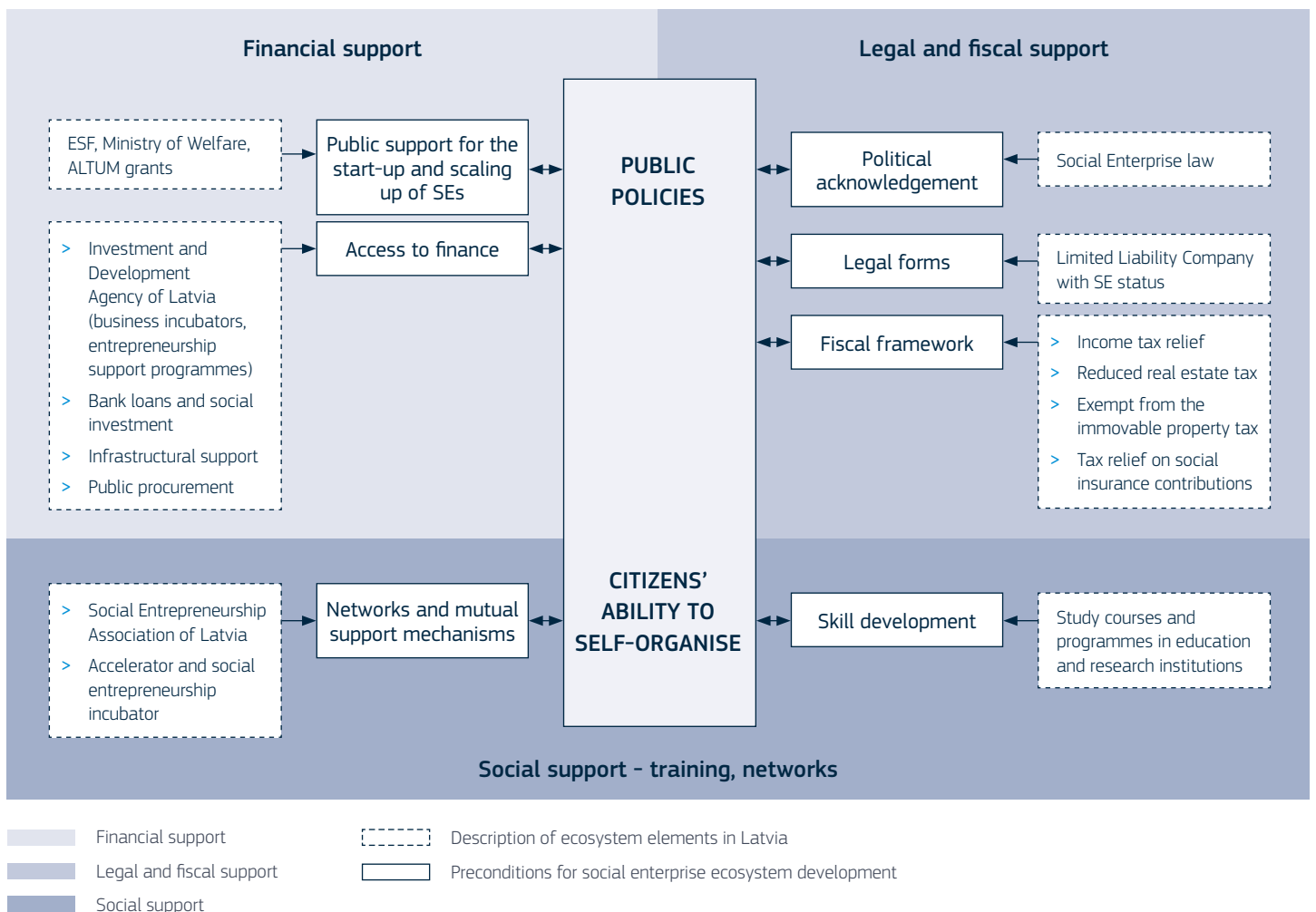
Figure 9. Functional ecosystem of social enterprises in Latvia



- Main actors / stakeholders for the social enterprise ecosystem in Latvia
- Benefits from social enterprise development in Latvia
- ➔ Stakeholders contribution to development of social enterprises
- Social enterprise cooperation with stakeholders
- Social Entrepreneurship Association of Latvia cooperation with main stakeholders to foster the development of social enterprises in Latvia

The overall social enterprise ecosystem is presented in Figure 10. It reveals that both public policies fostering social enterprise development and the citizens' ability to self-organise are crucial for creating a thriving social enterprise ecosystem. Public policy may foster social enterprise development by promoting, for instance, a law that acknowledges and regulates social enterprises in Latvia. A social enterprise law would help identify relevant legal forms and would pave the way to provide fiscal benefits that fully recognise how social enterprises address social responsibilities. Additionally, a combination of financial support (infrastructural support, loans, etc.) from the state, municipalities and traditional enterprises is needed. As for self-organisation, citizens and social entrepreneurs alike act as essential impulsors of initiatives and transformative dynamics within the ecosystem. As citizens create networks and mutual support mechanisms, this will reflect the general society's ability to self-organise. For various historical reasons, however, these connections so far remain weak in Latvia. An additional obstacle to fleshing out Latvia's social enterprise ecosystem lies in that many citizens' fear that they lack specific entrepreneurial and management skills.

Figure 10. Overall social enterprise ecosystem in Latvia



4.2. Policy schemes and support measures for social enterprises

Before the *Social Enterprise Law* became effective on 1 April 2018, the support system for social enterprises was quite fragmented and disassociated with any particular institution. And yet, various support mechanisms did exist for social enterprises according to their legal form; associations acting as public benefit organisations allowed their supporters to request tax relief, while government-guaranteed loans and business incubation programmes extended their services for limited liability companies.

In order to determine the most appropriate way to start new policy initiatives, the Ministry of Welfare planned to carry out a pilot project from 2016 to 2022 under the EU Funds Operational Programme “Growth and Jobs” (9.1.1. “Support for social entrepreneurship”). The pilot project intended to design and introduce a support system for social enterprises (characteristics, selection criteria, support instruments and application methodologies). In practice, however, the support programme began functioning almost simultaneously with the new *Social Enterprise Law*, which came into force 1 April 2018.

According to the *Social Enterprise Law*, social enterprises may automatically use specific support mechanisms designed for social enterprises: volunteer involvement, certain tax reductions, and access to EU funds. Furthermore, the new Law enables municipalities to create and implement their own local support instruments: reduced real estate tax, permission for social enterprises to use municipality property for free, special financial support schemes and privileged public procurement procedures for social enterprises. However, the support measures stipulated in the Law can only incentivise to an extent; several associations and foundations meeting the social enterprise criteria *de facto* still do not plan to change their legal form to a limited liability company in order to acquire this status.

Limited liability companies with social enterprise status can use the same support measures made available to conventional enterprises, such as business incubators or the state company Latvian Development Financial Institution (ALTUM) assistance programmes for young and experienced businessmen.

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and may benefit social enterprises)

Support of the Investment and Development Agency of Latvia for enterprises

- > **Business incubators.** Social enterprises, just as conventional enterprises, have access to the services provided by the Investment and Development Agency of Latvia (LIAA). This agency supports new and innovative enterprises at their initial stages of development, promotes the commercialisation of inventions, and prepares new and existing enterprises for investment attraction as well as entry and expansion into export markets. Currently 15 business incubators operate in Latvia, which provide support for natural and legal persons. They offer consultancy services, training, and activities; therefore, they contribute to the general ecosystem of entrepreneurship, while providing mentor support and grants needed for the start-up and development. Regional business incubators seem particularly appropriate for social entrepreneurs, as they can assist in developing business ideas at the pre-incubation stage and support the enterprises' progression.
- > **Creative Industries Incubator.** The LIAA Creative Industries Incubator provides 100% funding for activities and seminars held at the incubator and access to shared creative rooms, 50% co-funding for other services and a grant. This incubator proves important for social enterprises, as they often combine an innovative approach to art and business. It extends a hand so that social enterprises also can have access to Creative Industries Incubator.
- > **Innovation voucher support services.** If the idea of a social enterprise is deemed innovative, the organisation can seek innovation voucher support services provided by the LIAA. Innovation voucher support is provided for micro-, small and medium enterprises to finance their activities related to the development of new products and technologies, such as: technical and economic feasibility, industrial studies, experimental development (including prototype creation), product industrial design development, testing and certification of a new product or technology, and registration of ownership rights for industrial property objects (invention patents, designs and semi-conductor topography).

Support of the Development Finance Institution ALTUM for entrepreneurs

ALTUM supports entrepreneurship at different stages of development; programmes exist for beginners along with credit measures and access to acceleration funds. A special ALTUM calculator can now adapt a support programme to the needs of an entrepreneur, including for use by social enterprises. ALTUM offers several direct-financing government support programmes aimed at social enterprises:

- > *Start-up programme for business beginners*: for future and existing new or experienced entrepreneurs who start up a new business. Available funds range from 2,000 to 150,000 EUR for a period up to eight years. The entrepreneur's co-financing is set at 10% for projects of more than 7,000 EUR.
- > *Microcredit programme*: for the development or establishment of a small enterprise with less than 10 employees. Available funds reach up to 143,000 EUR for a period up to five years. The entrepreneur's co-financing is set at 10% for projects of more than 72,000 EUR.
- > *SME microcredit programme*: for micro-, small and medium enterprises to implement feasible business projects. Available funds reach up to 25,000 EUR for a period up to eight years. The entrepreneur's co-financing is set at 10% for projects of more than 7,000 EUR.

Business development and start-up competitions

Project proposal competitions aimed at business development hold important opportunities for social enterprises. Some local governments hold such competitions with different regularity, including initiatives such as:

- > *Take-off (Atspēriens)* is a grant competition held by the City Development Department of the Riga City Council twice a year. It aims to contribute to the development of small and medium enterprises in Riga as well as to the popularity of new businesses and products. The financial support granted under the programme helps entrepreneurs to establish infrastructure for starting up a successful business.
- > *Cup of Ideas (Ideju kauss)* is a business idea competition that gives an opportunity to train under the guidance of experienced entrepreneurs, collect valuable contacts for further business development and, in the end, compete for money prizes in order to finance the implementation of the idea. The competition is held by the Investment and Development Agency of Latvia.

LEADER support programme in the regions

The rural population living in various areas in Latvia have an opportunity to implement their project ideas by applying the LEADER approach. When implementing this approach, communities acquire funding from the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. Under the LEADER support programme, rural communities receive support to implement their initiatives aimed at contributing to their local sustainability, enhancing social conditions in rural areas, creating a favourable living environment and developing entrepreneurship.

This initiative requires that the impetus must come from local residents, complying with a "bottom-up" approach. This means that the local residents of a particular rural

territory determine their problems, set their priorities for rural development and goals as well as suggest the ways to improve their territory and life quality. After performing an analysis of the local territory, including a survey of the local residents, a public-driven strategy is designed. The strategy is coordinated and implemented by a local action group, and the local action group performs the initial assessment of projects submitted based on the strategy. In 2017, 35 local action groups organised in Latvia.

Support for persons from special target groups

The State Employment Agency supplies financial aid for employing persons that face difficulty in finding a job (i.e. persons with disabilities, long-term unemployed and persons aged 55 years and more). Support includes monthly wage subsidy, social insurance contributions and the costs of adapting workplaces to workers' needs. This kind of support is available both for conventional enterprises employing persons from special target groups and for social enterprises meeting these criteria.

4.2.2. Support measures targeting social economy/non-profit organisations (and which may benefit social enterprises)

In Latvia, NPOs are usually associations and foundations. They receive relatively little financial assistance (given the needs in the non-profit sector) from the central or local government budget. This funding is granted by means of various intermediary institutions (ministries, local governments, foundations etc.); additionally, they may participate in EU grant programmes focusing particularly on NPOs.

4.2.3. Support measures specifically addressed to social enterprises

European Social Fund project “Support for social entrepreneurship”

In 2018, the support measure of the Ministry of Welfare and ALTUM became the most important and only measure of its kind, as it aimed specifically to offer financial grants and develop social enterprises in Latvia. The project “Support for Social Entrepreneurship” took form under the European Social Fund’s operational programme “Growth and Employment”, with the specific objective 9.1.1. “Contribution to the inclusion of the unemployed in unfavourable situations into the labour market”, and activity listed in 9.1.1.3. “Support for social entrepreneurship.”

The total project budget reached around 15 million EUR, and the Ministry of Welfare in cooperation implemented the project with the JSC Development Finance Institution ALTUM. The period of project implementation spans from November 2015 to December 2022.

Until 2022, it intends to promote social enterprise development in Latvia through various support measures, including the establishment of new social enterprises that could potentially create fertile ground for a comprehensive, long-term support system. The project “Support for Social Entrepreneurship” intends to support up to 220 social enterprises and beginners in social entrepreneurship through granting *de minimis* aid in the form of financial grants.

The Ministry of Welfare coordinates the whole range of measures, while ALTUM administers the grant instruments of the programme. BlindArt became the first social enterprise to receive grant funding at the end of 2017 (see exploratory case study 2).

The size of a grant for a business project ranges from 5,000 to 200,000 EUR, and can serve both for the project’s establishment and expansion. First a business idea must prove its economic viability coupled with an essential and long-term social impact. Until 1 March 2018 the following entities could apply for a grant:

- > limited liability companies,
- > associations and foundations, if their revenue from economic activity toward achieving a social goal measured at least 10%,
- > business beginners (natural persons) that participated and became winners in idea competitions held by the Ministry of Welfare.

Labour integration qualifies as a social goal for enterprises that reach to the following categories of unemployed people: long-term, older workers (aged 54 and over), those with dependents, persons with disabilities, and persons with mental impairment.

However, after the *Social Enterprise Law* came into force on 1 April 2018, only social enterprises already in the Register could apply for a grant. This means that only a limited liability company that has acquired the social enterprise status may receive grants and other benefits. If an association or foundation wishes to become a social enterprise, it may found an entirely-owned limited liability company. If the association and owner of the new limited liability company seek resources from ALTUM, it will highly consider their experience and financial performance. If the association or the foundation acquired a participant status in the project (before 1 March 2018), it may apply for the ALTUM financial assistance (grant) before 31 December 2018. After this deadline, only social enterprises in the Register of Social Enterprises in accordance with the *Social Enterprise Law* may apply.

Tax reliefs

The *Social Enterprise Law* stipulates tax relief opportunities for social enterprises (see Section 2.3.).

Local government instruments

Although local authorities do not assume a special role in relation to social enterprises, the authorities can assist in many ways. The *Social Enterprise Law* allows local governments to design and introduce local support instruments: a lower immovable property tax rate, free use of municipal property, special financial support schemes, and privileged public procurement procedures.

Local authorities may offer funding intended for a particular target group and its integration into the labour market in the form of subsidies. Currently, many pilot projects underway have not yet summarised data to analyse the overall success of this initiative.

Local authorities that wish to support the social enterprise segment have a number of additional instruments at their disposal: they may rent out offices for free, grant immovable property tax relief, hold educational and training activities, advise individuals interested in founding social enterprises, and introduce special grant programmes.

In 2016, for example, the city of Riga's local government initiated, funded and implemented a grant programme for social entrepreneurs "Promotion of employment among groups at risk of social exclusion in Riga" (total funding of 36,000 EUR), focusing on WISEs. The goal of the programme was to begin, implement or stimulate the sustainable development of associations and foundations or businesses in order to ensure employment opportunities, including creating new or enhancing existing jobs for groups at risk of social exclusion.

The programme identified the following social groups at risk of exclusion: persons with disabilities and those with mental and functional impairment; persons from poor and low-income families; young parents, new families (particularly single-parent families and large families); unemployed persons (youth in particular); imprisoned persons and those released from imprisonment; persons addicted to drugs and/or psychotropic substances as well as computer games and gambling; persons who have suffered from violence or human trafficking; Roma people; persons aged 54 and older; persons with no place of permanent residence; refugees and migrants. The programme initially lasted from September 2016 to August 2017. A grant applicant could gain no more than 7,000 EUR, while 10% of the grant had to be provided by the applicant. However, the programme extended to 2018, with a budget of 34,000 EUR. It plans to grant funding to three social enterprises in 2018, increasing the size of a grant to 12,000 EUR per social enterprise.

4.3. Public procurement framework

Significant changes occurred in the field of public procurement owing to the integration of provisions of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement into the national legal framework. One of the greatest achievements concerns the transition from the application of lowest price criteria to the best bids in terms of price to quality ratio. The new Directive also offers several important changes with regard to the social entrepreneurs whose key goal focuses on the social and professional integration of individuals from deprived and socially unprotected groups.

The Latvian Ministry of Finance began transposing the work on the Directive at the beginning of 2014. They amended the *Public Procurement Law* and the *Law on Procurement by Providers of Public Utilities* in order to raise the efficiency of expenditures in the public sector, facilitate the participation of small and medium enterprises in public procurement tenders, and give an opportunity for public tender organisers to efficiently use public procurement to support common interests. However, as of today, no considerable results have yet manifested since the amendments passed pertaining to laws related to social enterprise.

Local governments play a significant role in supporting social enterprises in public procurement tenders. Since social enterprises directly improve the life quality of the public by performing functions traditionally assigned to government institutions, local governments may purchase services provided by the social enterprises. They may hold open tenders or, in case of no competition, simply delegate the responsibility to a social enterprise. Although social service procurement functions well, and has persistently developed in the last two decades, the procurement of other products, such as goods, has not highly expanded. Considerable growing opportunities exist, yet a current lack of good practices hinders progress in this area.

The *Public Procurement Law* prescribes privileged contracts reserved for suppliers that employ persons with disabilities who make up more than 30% of the total average number of employees. This kind of public procurement procedure is the same as the usual one, yet it includes a mandatory qualification requirement—the employment of persons with a disability.

If a procurement contract is made for the supply of services specified in the Law (health, social care and cultural services), the contracting entity may reserve the opportunity to participate in the procurement procedure only for applicants who (i) have been granted the status of social enterprise, (ii) provide the mentioned services and who have not been granted the right to conclude a procurement contract for the supply of the services

specified in Section 10 of the Law during the last three years from the day when a decision should be made on granting the procurement contract right.

The term of the procurement contract does not exceed three years. It means that not only WISEs, but also social enterprises engaged in the fields of health, social and cultural services could take advantages of privileged contracts. This prerequisite might hint toward progress in creating a support mechanism for social enterprises, giving them advantages in public procurement. But at present, practices in Latvia do not yet allow drawing conclusions on the effectiveness of applying this requirement in public procurement; in general, the lowest price criterion dominates in public tenders and privileged contracts have not become common practice.

Positive experience in public tenders is observed in relation to social service providers in municipalities. In this field, social enterprises have proven themselves competitive in public tenders. In reality, three kinds of cooperation occur with municipalities in public tenders. First, people with disabilities and families in immediate need of help receive assistance (provided, of course, within the existing legal framework and agreements). Second, public procurement may directly delegate the provision of services. It occurs if service providers do not compete amongst themselves, and if a local government directly delegates the provision of services to an enterprise. The Latvian Samaritan Association has proved that such cooperation is possible: it has crafted at least 30 such agreements with local governments. Third, a general public procurement procedure provides the setting in which social enterprises compete for local government funding. Social enterprises tend to espouse the first two procedures.

As social enterprises tend to provide specific services, they cannot encompass the entire scope of activity. Encouragingly, the *Public Procurement Law* stipulates the principle of joint agreement, whereby all candidates meeting the criteria for public procurement have the right to a procurement contract, yet the funding for specific needs is later distributed separately.

Green public procurement is important for social enterprises engaged in the environmental field. Green public procurement entails a procedure through which national and municipal institutions seek to buy goods and services making as small an impact on the environment as possible, and taking into account the life cycle cost of a product or a service. Through implementing green public procurement, companies and individuals can reduce environmental impacts, contribute to social enhancements and make savings in the budget. A green public procurement takes the following principles into consideration for goods and services:

- > they must be environment-friendly,
- > they must perform a life cycle cost analysis (beginning with the origin, production, supply and use of raw materials through the disposal and recycling of the good),
- > they must perform a comparison of environmental impacts.

A number of recently designed instruments can facilitate the application and practical implementation of green public procurement. For example, the government set criteria for green public procurement and defined the groups of products and services to which the criteria applied (office paper, printers, computers, catering services, cleaning products, indoor and street lighting and traffic signal equipment); in addition, stakeholders drew up document samples for certain product groups in advance in order to prepare the procurement documentation faster and more conveniently. In general, the practice of applying green public procurement remains new in Latvia, yet social enterprises may eventually consider it an important instrument.

4.4. Networks and mutual support mechanisms

Several organisations (all based in Riga) support the start-up and development of social enterprises and their ecosystem through information exchange, learning and networking.

Social Entrepreneurship Association

The Social Entrepreneurship Association functions as a national-level organisation representing the interests of social enterprises at the national and local levels, cooperating with policy makers and decision makers in order to establish a well-functioning ecosystem for social enterprises. Five founders established the association in the autumn of 2015: the Foundation for an Open Society DOTS, the public opinion research centre PROVIDUS, the Latvian Samaritan Association, the charity shop chain Second Breath (*Otrā elpa*), and the social entrepreneurship accelerator New Door. These founding “pioneers” of social enterprise have all performed integral work in the sector’s research and popularisation. The Association had 88 members as of June 2018 and articulated its three main priorities as follows:

1. *Advocacy work of interests at the local, regional and national levels.* The Association was represented in a work group of the Saeima that worked on the *Social Enterprise Law*. The Association draws attention of local authorities to social entrepreneurship opportunities on a national scale in Latvia, as well as working on the development of a support programme for social enterprises. It cooperates with other regional and national-level decision makers and policy makers to create a favourable environment for social enterprises in Latvia.
2. *Enhancement of the capacity of its members and the establishment of a platform for experience and knowledge exchange.* The Association helps its members to achieve their goals in various ways through holding joint activities and providing

fast and effective information exchange, the latest information about financial and cooperation opportunities, as well as advice.

3. *Awareness raising about social entrepreneurship.* The Association participates in various-level activities to inform as broad of a community as possible about the opportunities provided by social enterprises. Regular regional visits contribute to national-level public awareness. The Association has created and maintains a regional Social Entrepreneurship Ambassadors network—active community members who serve as local information and contact points for the local community about social entrepreneurship issues. The Association organises the annual Social Entrepreneurship Forum—the biggest social entrepreneurship related event during the year. The Association also maintains the largest source of information in the Latvian language about social enterprises (www.socialauznamejdarbiba.lv).

The Social Entrepreneurship Association offers an opportunity for social enterprises to get a one-time consultation on various issues: support opportunities for social enterprises, the legal framework and legal forms, establishment of a social enterprise, measurement and assessment of social impacts, social enterprise business models and establishment of partnerships.

Social Innovation Centre (SIC)

The Social Innovation Centre aims to strengthen and disseminate knowledge, promote international and national exchange of experience, and establish networks for social innovation and social enterprises. The centre, *inter alia*, provides training in the field of social entrepreneurship. Together with seven support organisations from the Baltic Sea region, it implements the project Development of Social Entrepreneurship throughout the entire region, which has established an online platform (among other tools), called Social Entrepreneurship Support Network in the Baltic Sea Region.

As explained above, two relevant organisations in the areas of business accelerator and social enterprise incubators are worth mentioning in Latvia. “New Door” is a social enterprise accelerator that helps to develop practical ideas in social enterprises. Active since 2013, it trains, promotes and inspires social business innovators. New Door helps newly established enterprises to transform their social initiatives into a sustainable social business, providing them with knowledge, domestic and foreign mentor advice, as well as an opportunity for consultation with experts in the field. New Door also holds social entrepreneurship forums and experience exchange activities. “Reach for Change” is a social enterprise incubator that helps social entrepreneurs to develop innovations that create a better world for children. The entrepreneurs can scale their innovations through seed funding and access to business expertise and networking opportunities.

Prizes and awards

Social entrepreneurs have an opportunity to acquire funds in various competitions. The charity shop Second Breath (*Otrā elpa*) gives an opportunity to participate in a quarterly scholarship competition where buyers select the winners by vote. One of the priorities listed aims to develop social entrepreneurship.

4.5. Research, education and skills development

A significant factor hindering the development of social enterprises is the insufficiency of information and knowledge about the effects of social enterprises on social and economic development. The public generally does not seem aware of social enterprises in Latvia, even with the promotional help of the 2015 Social Entrepreneurship Association of Latvia.

Encouragingly, higher education institutions (e.g., the Latvian Christian Academy, Latvia University of Life Sciences and Technologies, Riga Business School, BA School of Business and Finance, Latvia University, Rezekne Academy of Technologies, Rīga Stradiņš University) now offer courses in social entrepreneurship as well as new study programmes in social economics, the key element of which is social enterprise.

The Latvian Christian Academy made the internationally visible contribution to the field. They delivered an ERASMUS intensive lecture course, “Social Economics, Social Enterprise and Associative Democracy Theory”, in the autumn of 2011, in which 41 students and nine university teaching personnel from five countries participated (Kalve 2012). The Latvian Christian Academy also runs an accredited Masters programme on social business administration. The programme “links principles and methods of social work and social entrepreneurship in an interdisciplinary package”. The course curriculum, *inter alia*, covers the organisation and management of a social business and addresses the needs of socially sensitive groups of people.

Other universities also offer classes on social entrepreneurship, though not as a full programme. For example, since 2013 Latvia University of Life Sciences and Technologies has delivered a course in social entrepreneurship for master students. The University of Latvia and BA School of Business and Finance also deliver a course in social entrepreneurship. The Stockholm School of Economics in Riga (SSE Riga), has given information to a globally recognised comparative study (Bosma and Levie 2010), which involved research about social entrepreneurship in Latvia. SSE Riga also began holding a social entrepreneurship forum in Latvia, later taken over by the foundation DOTS and afterwards by the Social Entrepreneurship Association of Latvia.

Riga Technical University, RTU Riga Business School, Ernst & Young Baltic Ltd, and the Social Entrepreneurship Association of Latvia all engage in a project offering an example of successful cooperation aimed at developing social enterprises. The organisations have jointly developed a course in social entrepreneurship, Social Consulting Club, for undergraduate students focusing on management consultancy methods and approaches. Within the course, members of the Social Entrepreneurship Association of Latvia can access advice and support from students and teaching personnel as well as Ernst & Young Baltic advisors for the development of their business ideas. Such an approach gives students insight into jobs in the field of consulting and peaks their potential interest in starting careers in this field. Equally important, it gives support to social enterprises and therefore to the entire society by extension.

The first extensive study available in the Latvian language is “Latvia towards Social Entrepreneurship” from the foundation PROVIDUS and the Latvian Civil Alliance, published in 2012, which deeply analysed foreign experience in the field of social entrepreneurship and defined the basic principles of social enterprises. The researchers involved in this research have a few papers available on the Internet, which focus on the distinctive features of social enterprises and their role in tackling socio-economic problems in Latvia (Litvins 2012, Pīpiķe 2012, Lešinska 2014). Authors L. Ose (2011), I. Kalve (2012), L. Platace (2012), and I. Straustiņa (2012) also stress the urgency of social enterprise development in Latvia’s economic context, pointing out that social enterprise plays an essential role in simultaneously tackling social and economic problems in the country. Additionally, the following authors published scientific papers about the topicality of social enterprise: V. Bikse, B. Rivza and I. Riemere (2014), J. Dehtjare and V. Riashchenko (2015), L. Paula and A. Grinfelde (2017), R. Lukjanska, M. Leszczyna-Rzucidlo and J. Kuznecova (2017b).

In 2014 at Latvia University of Life Sciences and Technologies, L. Dobele defended the first and only doctoral dissertation to date on social enterprises: “Social Entrepreneurship Development Possibilities in Latvia.” Furthermore, she published the first book in Latvian about development of social enterprises and several scientific papers now available in international journals and databases.

Nevertheless, despite the opportunity for higher education institutions to enhance their knowledge and skills in establishing and managing social enterprises, an important factor affecting the development of social enterprises lies in the shortage of human resources with adequate skills and abilities, particularly in regions outside the capital. Interviews, social entrepreneurs often point out that they cannot implement many ideas and plans because of a shortage of adequate human resources, while non-central regions specifically cite a shortage of medium-level managers who could effectively take on the production process.

Funding shortage also provides a problem: social entrepreneurs often cannot pay competitive wages to their employees, especially at the initial stage of their activity. In addition, potential entrepreneurs fear taking this risk.

4.6. Financing

4.6.1. Demand for finance

No available research describes the nature and scale of demand for social finance in Latvia. Social enterprises need financing both to cover operational costs, capital, and investment loans. These funds play a critical role at the inception and (even more importantly) the growth and development of social enterprises. In information gathered from interviews, social enterprises have indicated that they have started their businesses with their own capital, with funds borrowed from friends or family, or with grants from international NPOs. Bank loans do not seem to provide a source of finance for the start-up of a social enterprise. Conventional banks perhaps do not consider social enterprises as profitable, as they embody more risk and less profit than conventional enterprises.

Second, the interviewees hesitated to take bank loans, fearing a dependence on external borrowing. This reluctance to take bank loans could find its roots in the public's general mentality: many entrepreneurs throughout Latvia fear to take a loan because of the risk of failure. For this reason, social entrepreneurs often prefer using their own funds or a grant programme to start-up a social enterprise.

Additionally, strict and bureaucratic rules also obstruct the available flow of public funding. For example, a social enterprise may struggle to access structural funding if the governance institutions fund only short-term projects. Also, the various complex national and international European programmes make access difficult for small structures such as social enterprises.

Nevertheless, social entrepreneurs persist despite few available funds, as various support programmes for new entrepreneurs in Latvia (ALTUM, LIAA) extend help, as does a grant programme for social enterprises and competitions for start-up capital or business expansion. A more prohibitive problem roots in the lack of knowledge and skills, hindering the establishment and development of efficient social enterprises in Latvia. During the creation of social enterprises, social entrepreneurs do not pay themselves wages but earn money elsewhere, focusing only on benefiting the society and ameliorating social problems.

4.6.2. Supply of finance

Theoretically, financial intermediaries include traditional banks, banks with a social orientation, and specialised providers. A practice of granting loans at a low interest rate or interest-free has yet to emerge in Latvia. Moreover, private investors continue to show a very cautious interest in social enterprises. Their fears may extend from the lack of successful business cases among social enterprises, a small market, and the fact that they cannot perceive where they can profit. Stereotypes and prejudices also run rampant about the work, management, and profitability of social enterprises (Aps *et al.* 2018).

Nevertheless, a private sector investment practice could contribute to the development of social enterprise in the future, especially after 2022 when the Ministry of Welfare and ALTUM grant support programme terminates. Currently, the Ministry of Welfare and ALTUM grants are the main form of external finance available to social enterprises.

Some philanthropic organisations and commercial banks do provide grants as part of their CSR agenda. The SEB Bank, as part of their CSR activities, provides mentoring and financial support for young entrepreneurs in a competition called the Cup of Ideas organised by the Latvian Investment and Development Agency. As part of this competition, participants receive business and financial advice, and possibilities to participate in different seminars and conferences. The three best ideas receive grants for business development. This competition does not particularly focus on socially oriented business ideas, but certain social responsibility and environment friendliness criteria apply in the selection of best ideas. SEB Bank also cooperates with the social entrepreneurship incubator Reach for Change through holding competitions for new social entrepreneurs, thereby supporting social enterprises in Latvia.

4.6.3. Social impact investment and financial intermediaries

The only national-level organisation for social enterprises, which serves as the connection point and cooperation platform, is the Social Entrepreneurship Association of Latvia. However, due to its lack of resources it cannot dedicate itself to a primary role as a social impact investment intermediary, and because its primary functions encompass advocacy and member capacity building—any extra or new focus requires additional resources. While it continues serving as a contact and cooperative platform, it also pays attention to the social impact investment sector: prioritising national and international networking, as well as creating publications and communications materials that inform and educate social enterprises and their potential investors (Aps *et al.* 2018).

The Latvian Business Angel Network (LatBAN) could also significantly invest in social impact. At the moment, they remain cautious but interested in social impact investment for the future. No concrete plans aim to address this situation in the short term. LatBAN

has a pitching/project presentation system within the Latvian Business Angel Network (joining with a few dozen investors) about how to bring investment-ready projects to their member network. They seem open to social enterprises that comply with their rules and criteria, and express interest in involving social enterprises in their existing activities and events.

European Latvian Association (an association for Latvians living abroad) provides another good resource for future contacts to potential private investors, as they seem highly willing and motivated to work together for social impact investment in Latvia (Aps *et al.* 2018).

4.6.4. Market gaps and deficiencies

Social enterprises face problems similar to those of any small and medium enterprises. Probably, the situation will change over the coming years as social enterprises expand their field of activities. Hence, the issue lies not so much in the lack of funding as in the lack of existing actors' growth prospects, hindered by a lack of business skills. Several funding initiatives aim to stimulate the emergence of social enterprises.

With regard to traditional business funding, social enterprises must demonstrate a solid economic footing, but internally and with regard to other stakeholders, they also need to combine their economic development with continuous social added value. This may be difficult to explain to traditional banks and financial institutions. As a result, when applying for support, social enterprises may end up with no support at all from traditional banks. This means that special funds for social enterprises are needed, as well as social enterprise incubators where they can develop and enhance their business skills.

5


PERSPECTIVES

Various factors clearly affect the development of social enterprises. Many enterprises feel most limited by economic factors that pertain to their entrepreneurial ability, and face challenges when employing socially vulnerable groups of people. Very often social enterprises cannot compete in traditional markets due to the relatively high price of its products or insufficient amount of production for export. Social enterprises in Latvia are mainly locally based, providing services or products for local demand.

A lack of knowledge and information on the nature and social value created by social enterprises limits its growth. The public commonly misinterprets social enterprises are primarily concerning themselves with work integration. The Social Entrepreneurship Association of Latvia works tirelessly to inform the public otherwise through various activities and communications.

Future challenges social enterprises will likely face include: market and society recognition, scaling up, diversifying the field of work, social impact measurement and a fragmented social impact investment market.

In the last decade social enterprises have become better recognised in Latvia. This trend can continue growing through potential labelling mechanisms once the enterprises have been certified and presented their positive-impact activities to the public. In addition, social enterprises may find opportunities to expand operations at a larger scale, further increasing their visibility.



5.1. Overview of the social enterprise debate at the national level

The stakeholders interviewed for the purpose of this study (see Appendix 5) discussed the legal framework and support instruments for social enterprises in Latvia. Many felt an important turning point in the development of social enterprises with the enactment of the *Social Enterprise Law*, which was highly anticipated; the result, however, took the form of a compromise for different stakeholder interests.

The role of local governments in the formation of social enterprises (especially in providing social services) was the topic most discussed during the process of making the Law. Consequently, the participants integrated a provision into the Law that local governments may not individually establish social enterprises (a local government could theoretically establish social enterprises, but it may only act as a co-owner with no majority of votes, and only for WISEs; additionally, the government must “exit” the social enterprise before 1 April 2021), yet they are given support instruments for social enterprises. The provisions of the Law have been designed in a way to make local governments delegate more responsibilities to social entrepreneurs, to carry out socially just procurement operations more frequently, and to be open to such procurement operations.

The second largest topic of discussion among stakeholders involved in the *Social Enterprise Law*-making process revolved around the legal forms of social enterprises. At present in practice, most social enterprises have the legal form of associations, yet the ministries and the Saeima stress that it is not a good idea to promote full economic activity through organisations designed to carry out social purpose activities. For this reason, participants identified and integrated the legal form of Limited Liability Company into the Law as the most appropriate form for social enterprises. Several stakeholders interviewed within this report, however, pointed out that the tax relief stipulated in the Law felt insufficient, and that associations and foundations would carefully analyse whether to reregister into a limited liability company in order to acquire the social enterprise status. Many preferred remaining a social enterprise *de facto*, retaining the existing legal form that gave them financial benefits, compared with a limited liability company with the status of social enterprise.

The “attractiveness” of the Social Enterprise Law reduced by the hand of the overall tax reform in the country that went into effect on 1 January 2018 with respect to reinvested profits. No social enterprises or conventional enterprises pay enterprise income tax on reinvested profits; therefore, this tax reform slightly reduced the initial value of the *Social Enterprise Law*.

One can conclude that the *Social Enterprise Law* and the grant programme do represent an opportunity and an additional instrument for those social entrepreneurs that already participate.

Stakeholders also stress positive aspects that arise from the *Social Enterprise Law*. A clear political move shows that social enterprises receive recognition in the country; they are necessary and it is important to contribute to their development. The Law clearly structures the field of activity of social enterprises, and clearly defines support instruments: reduced real estate tax rates, permission for social enterprises to use municipal property for free, special financial support schemes and privileged public procurement procedures for social enterprises.

Discussions at the national level delve into the grant programme for social enterprises implemented by the Ministry of Welfare and ALTUM. In interviews, the stakeholders pointed out that the shortage of funds for social entrepreneurs did not present the largest problem, and they even rated the grant programme very positively. However, some expressed worry that the grant created some risks; entrepreneurs may “adapt” the social problems they wish to address to the grant they apply for, just because it presents a financial opportunity.

Another risk lies in the ease for some social entrepreneurs to demonstrate an immediate social impact from their activities, just in order to participate in the grant programme. In contrast, it proves difficult for those planning to create long-term impacts on social problems to demonstrate their effectiveness or access grant funding. Furthermore, the grant programme strictly examines the business plans of social enterprises to verify the viability of the social enterprises in the long-term; on the one hand this aims toward positive longevity, but on the other hand, many good projects will not receive an opportunity to test the viability of their ideas.

Overall, a positive opinion on social enterprises begins to emerge among the public, as existing social enterprises promote positive stories; steadily, social enterprises have become new actors in the welfare system, as they attempt to untangle important problems for the society in the fields of environment, culture and education; and provide assistance to socially unprotected individuals including jobs for certain vulnerable groups.

As pointed out by the Ministry of Welfare, social enterprises play an important role because the government does not have the resources to solve all social problems; therefore, the development of social enterprises is important for the formation of a welfare system. However, there is a risk that the economic and social contribution made by social enterprises is not sufficiently appreciated, largely due to the fact that too few social enterprises exist and their impacts cannot be felt on a large scale, while the shortage of research cannot effectively reveal their impacts. In 2018, approximately

100 companies, associations, and foundations performed the functions of social enterprises. According to a projection by the Ministry of Welfare, that number was expected to grow to at least 200 social enterprises in the medium-term after the *Social Enterprise Law* came into effect.

5.2. Constraining factors and opportunities

In Latvia, social enterprises are still relatively young and forming their traditions while a few financially strong and influential “players” exist. No strong support structure exists yet, although it is starting to develop well.

Various principally economic factors affect social enterprise development the most, particularly the social entrepreneurs’ abilities and the challenges they face when employing socially vulnerable groups of people.

The main constraining factors affecting the development of social enterprises in Latvia are summarised in Table 6 and discussed below.

Table 6. Main constraining factors and opportunities affecting the development of social enterprises in Latvia, based on PEST analysis

Factors		The assessment of influencing factors		Characteristics of impacts on the social enterprise development
		+ (positive)	- (negative)	
Political factors	Legal framework	Important	-	Positive effects on the development of social enterprises, as from 1 April 2018 social enterprise is recognised as an economic entity and the term is integrated in the legislation.
	Support especially designed for social enterprises	Important, but motivates only partly to become a social entrepreneur	-	The new <i>Social Enterprise Law</i> stipulates a number of benefits for eligible social enterprises: volunteer involvement, certain tax reductions, and access to EU funds. Furthermore, the new Law enables municipalities to create and implement their own local support instruments: reduced real estate tax, permission for social enterprises to use municipality property for free, special financial support schemes or privileged public procurement procedures for social enterprises. Additionally, state subsidies are available to enterprises employing people with disabilities.

Factors		The assessment of influencing factors		Characteristics of impacts on the social enterprise development
		+ (positive)	- (negative)	
Economic factors	Support from commercial banks	-	Not often used	Restrictions on profit distribution and the employment of socially vulnerable groups often create a sense in creditors and potential investors that such enterprises are less profitable than others and, consequently, do not lend funds.
	Structural funding	-	Not often used	Strict and bureaucratic rules prevent social enterprises from using this kind of support; small structures struggle to access this support.
	Public procurement	Rarely used	-	<i>The Public Procurement Law</i> prescribes privileged contracts for suppliers that employ persons with disabilities who make up more than 30% of the total average number of employees. After the Social Enterprise Law comes into force, this paragraph will include a complementary provision regarding suppliers that have attained social enterprise status.
	Provision of social services for municipalities	Good initial activities	-	Risks and problems erupt in navigating this bureaucracy, yet this kind of support mechanism and cooperation continues developing and has proven to be successful in Latvia.
	Market size and competition	-	Significant	The production and market costs of social enterprises' products are usually high, due to employing socially sensitive groups of people; consequently, it is difficult to compete with the goods produced by conventional enterprises. Besides, social enterprises operate mainly locally and do not export their products.
Social factors	Information and knowledge about social enterprises	Becoming more widespread but still insufficient	-	The public still lacks knowledge and information on the nature and social value of social enterprises. They tend to be confused with Corporate Social Responsibility enterprises or social work. Also, a mistaken perception believes social enterprises only focus on work integration. For example, the Social Entrepreneurship Association of Latvia aims to inform the public on essential roles of social enterprise, namely, the Association initiated 80% of articles on social enterprise in the media in the last three years.
	Culture of benefit recipients	-	Strong influence	Individualism and the simultaneous culture of benefit recipients prevail in society, which do not contribute to solving socio-economic problems by themselves, nor toward establishment of social enterprises.
	Individualist culture and the capitalistic way of thinking	-	Strong influence	
	Creation of social enterprise networks and a platform	Strong influence	-	The Social Entrepreneurship Association of Latvia promotes cooperation among various stakeholders, thereby effectively addressing important problems in the ecosystem of social enterprises while establishing a more effective community, thus strengthening activity in this field.
	Human resources with adequate skills and abilities in the regions	-	Significant influence	Social enterprises (especially in the regions) lack human resources with adequate abilities and skills as well as medium-level managers who could effectively manage the work process or even establish social enterprise, due to fears of risk and failure.
	Lack of official statistics on social enterprises	-	Not available	No official statistics on the size of the sector exist and little research has clearly specified the characteristics of the industry.

Factors		The assessment of influencing factors		Characteristics of impacts on the social enterprise development
		+ (positive)	- (negative)	
	Change of generation values	Strong influence	-	The youth tend to show idealistic interest in achieving social goals not only benefiting themselves. This generation seeks to achieve its ideals and expresses interest in the establishment of social enterprises. The nature of the generation matches the system of their values.
Technological factors	Development of ICT	Strong influence	-	Internet availability and communication development positively affect the exchange of ideas and contributes to the expansion of social enterprises. Networks of social enterprises emerge, which increase their competitiveness.

Source: *Licīte 2018*.

Political factors. In promoting the development of social enterprises, the *Social Enterprise Law* plays an important role: now recognised as an economic entity, the term has officially integrated in the legislation. The new law also stipulates a number of benefits for social enterprises, including grant programmes. Since the grant programme of the Ministry of Welfare and ALTUM has been available for social entrepreneurs, the stakeholders noted in interviews that the availability of funds no longer presented a significant problem for the social entrepreneurs.

Economic factors. Even though social entrepreneurs can access a grant programme and privileged contracts in public procurement, other financial support instruments remain quite limited. Restrictions on profit distribution and employing socially vulnerable groups often make creditors and potential investors fear that such enterprises are less profitable and they hesitate to loan any funds to the enterprises.

Regarding WISEs, the stakeholders pointed out in interviews that they need more national support for the integration of target groups into society, e.g., refugees, drug addicts, homeless people, etc.

Competition and market size also influences the development of social enterprises. Very often social enterprises are not competitive due to their products' relatively high prices or their insufficient amount of production for export. Social enterprises in Latvia are mainly locally based, providing services or products for local demand; however, they may need to focus their activities more broadly because many of them provide quality products that could compete in the international market.

The poor or incipient managerial skills of social entrepreneurs also adversely affect their competitiveness. Many of these managers hail from associations and foundations that prioritise addressing social problems rather than entrepreneurial activity. Though

they provide good quality products, many of these enterprises struggle with marketing, sales and access to global markets, struggling to sustain themselves in the competitive business environment. Moreover, social enterprises often confront damaging societal misconceptions that vulnerable groups create worse quality products (Grigus *et al.* 2017).

Stakeholders involved in this research project stated that many social entrepreneurs (especially those from associations and foundations) did not know how to determine prices, develop a financial plan, or promote their products in the market. This problem is greatly associated with the next barrier: the social entrepreneurs' way of thinking "within the framework of charity and grants". The following phrase encapsulates this school of thought: "I cannot take money from people who are short of it". It seems humane and good-hearted, but from the business perspective, no viable alternative grants exist. On the other end of the spectrum, those social entrepreneurs who come from the business environment tend to lack an understanding of the social dimension.

As a solution to the lack of business skills, the stakeholders mentioned a need for mentors who could provide assistance in the initial stage. Even though business incubators are available, they stress that a *pre-incubation* programme holds particular importance. The programme would provide business guidance and training in order to more easily enter business incubators in the first place. The stakeholders also suggested establishing a knowledge centre for social enterprises that provides consultations, support, pre-incubation and acceleration support.

Additionally, some specific factors characteristic of WISEs affect this type of social enterprises' self-sustainability and competitiveness. Significantly, the labour productivity of individuals from socially sensitive groups differs with that of conventionally employed persons. A majority of social enterprises need to invest more time in appropriately training their employees, who may have insufficient work experience and qualifications. Additionally, social entrepreneurs admit they struggle to attract highly skilled employees because the salary package simply does not compete with other enterprises (at least in the initial stage).

If a number of factors negatively influence competitiveness and threaten prospects for self-sustainability in the long-term, social enterprises also experience positive benefits through their various social networks. Their cooperation with local authorities in providing social services, for example, benefits many actors involved directly and indirectly. Of course, these alliances involve certain risks and problems related to bureaucracy, but encouragingly this mechanism of support and cooperation continues to develop and succeed in Latvia.

Social factors. A broader consciousness needs to take root in society to better understand and appreciate the role of social enterprises as they continue to bravely

embrace societal problems and positively affect their surrounding ecosystem. A closer partnership with higher education institutions could help promote this.

Positive trends in public thinking have unfolded in recent years, largely due to the influence of generation Y (born from 1980 to 1995) whose values tend to differ from those of previous generations. Individuals of this generation seem more oriented towards general public benefit, seek jobs that have meaning, think more of how to exploit limited resources efficiently, and often are ready to work towards social goals at lower remuneration or even for free (Austruma 2012). Some individuals significantly changed their value system after the economic crisis of 2008, and increasingly understood the importance of cooperation in creating better conditions for the environment and society (Brakovska 2018). The youth are more idealistic and interested in achieving social goals, not only benefiting themselves (Kalve 2012). This indicates a change in the way of thinking about the value systems and needs in society demonstrates that this generation strives to achieve its ideals. Therefore, they display strong interest in establishing social enterprises. Throughout Latvia, the young individuals owning and managing these organisations confirm this pattern.

Technological factors. Internet availability and communication development positively affect the exchange of ideas and contribute to social enterprise expansion. The ambassadors' network of the Social Entrepreneurship Association of Latvia organises different events in the regions, advertising them in social media and other Internet websites. During these events, the social entrepreneurs often find new partners to introduce new products or expand their businesses, thus increasing their competitiveness and relevance.

Also, social entrepreneurs highlight their inability to attract highly skilled employees because the salary package they can offer is not competitive with other enterprises, at least in the initial stage.

Technological factors. Internet availability and communication development positively affect the exchange of ideas and contribute to the expansion of social enterprises. The ambassadors' network of the Social Entrepreneurship Association of Latvia organises different events in the regions, placing information about them in social media and other Internet websites; this results in successful information exchange. During the events, the social entrepreneurs often find new partners for introducing new products or expanding their businesses, thus increasing their competitiveness.

5.3. Trends and future challenges

Social enterprises in Latvia face numerous trends and challenges. Instead of an exhaustive overview, the report focuses here only on market and society recognition, scaling up, diversification of working fields, social impact and social impact investment. These trends are highlighted based on the stakeholder interviews as the most important trends and challenges for social entrepreneurs in Latvia.

Market recognition. In view of the fact that social entrepreneurs mainly step forward from associations and foundations, and since the Ministry of Welfare remains responsible for the promotion of social enterprises, they are not always considered as “true businesses” in spite of their important economic relevance. The public tends to regard them as a new form of charity, only with a new name. But social entrepreneurs point out that they need to innovate even more than conventional businesses to find a balance between the social goal and the business approach. The social enterprises and their supporters face the daily challenge of legitimacy and recognition as genuine enterprises that contribute to the broader economy.

Society recognition. Overall, social enterprises have received little recognition in Latvia, and the public has lacked an understanding of their activity. But the Social Entrepreneurship Association of Latvia, with its support structures and network of ambassadors in the regions, make an enormous effort to educate the public about the importance and relevance of social enterprises, and plan to continue these activities to include more stakeholders as well.

However, the broader public still seems to lack awareness of the quality products created by social enterprises (WISEs and others). For this reason, stakeholders suggested implementing a labelling or recognition mechanism after social enterprises receive certification. However, many existing social enterprises do not have any spare funds to pay for this process.

Establishing a third-party certification mechanism could prove challenging since participation fees for an unrecognised label might initially discourage would-be participants. The participants would need to consider the initiative as a long-term investment (Grigus *et al.* 2017). Furthermore, no criteria or social enterprise evaluation tools are available for the public in Latvia, and no third party organisations work with social enterprise issues that have prior experience with issuing labels. The interested parties must also consider whether products and services or enterprises themselves should receive certification or labelling in the first place. With time, this process could become more inclusive as more enterprises express interest in participation and recognition.

Contrarily, this approach might also generate negative consequences, creating a confusing or “weak” message: regular enterprises could attempt to participate in it

even though most of their operations have nothing to do with social entrepreneurship. This risks the label being used for “greenwashing” purposes in order to improve the reputation of the whole enterprise even if its other products or services have a neutral or negative social impact.

Scaling up. Social enterprises in Latvia are just beginning their establishment and development. The market is small and the population faces limited purchasing power, and, competition with existing products and services has proved tough. At present, most social enterprises operate locally (within a city, town or municipality).

Business diversification. Social enterprises operate in various sectors, though their activities relate to providing health and social services, producing goods, running charity shops, environmental protection, cultural diversity and heritage, education, work integration, consulting, information, and communications (Lis *et al.* 2017). Additionally, a strong trend looks to integrate socially sensitive groups into creating design objects. One of the least developed but still important directions lies in WISE production of consumer goods (e.g., products for educational, municipal and national institutions). To date no high activity among social enterprises has related to agriculture, which may become a valuable activity for WISEs.

Social impact. Another challenge for social enterprises lies in measuring and demonstrating their social impact. Funders and other stakeholders increasingly require social enterprises to demonstrate precisely what added value they can bring in developing solutions to social needs. This may be a complex and costly process for social enterprises taken individually. At present, a few social entrepreneurs in Latvia seek to assess impacts of their social enterprises, (e.g., the Samaritan Association of Latvia, the charity shop Nearby [*Tuvu*]), but this practice has remained rare due to lack of human and other resources (time, knowledge, skills, etc.).

Need for investment in demand. Most social enterprises, regardless of their age, products or services, need investments in one form or another for various reasons: to expand the territory they work in; developing new services or products; scaling their work; digitalising their work; growing their revenue. They also need investments for equipment, building renovation and construction, long-term non-material equipment and workforce expenses. Most social enterprises would require financial investments from 10,000 to 50,000 EUR (Aps *et al.* 2018).

However, most social enterprises can only receive investments in the form of a donation or grant. Only a few can readily accept loans or equity investments. Most social enterprises have tried to obtain investments in the form of a grant or a donation as NPOs, but this has become increasingly difficult due to the lack of funding for NPOs and strong industry competition. Some plan to apply for an ALTUM social entrepreneurship support grant.

As previously discussed, the main obstacles mentioned for attracting and obtaining investments include: a lack of general understanding about what social enterprises do; low capacity and no resources to invest in working with potential investors; and no knowledge about how to approach investors and where to look for them. Most social enterprises have expressed the need for a strong intermediary or a support organisation/system that could assist them with attracting investors (Aps *et al.* 2018). The intermediaries and support organisations have only begun to emerge and much work remains for actual investments in the industry to be made.

Social impact investment. As awareness and interest among key stakeholders rises in Latvia, the social investment industry begins its early stages of development. Meanwhile, actual activity and focus on impact investment have yet to blossom (Veigure and Zorina 2017). The private investor ecosystem functions fragmentally, based on private initiative and networks. Cautious understanding and interest about social entrepreneurship and social impact investment has sprouted. Private investors do not yet consider social enterprises as a distinct target group, largely due to distrust in their commercial viability, along with stereotypes and prejudices about their work, management, and profitability (Aps *et al.* 2018).

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Entrepreneurial/ economic dimension	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises ⁽⁸⁾ .	<ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. 	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).

(8) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Social dimension (social aim)	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. “Social” shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs’ action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. 	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what “public benefit” means in her/his country.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Inclusive governance-ownership dimension (social means)	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p>	<ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). 	<p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs).

Appendix 2. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Associations & foundations (de facto SEs)	Research project "Social Enterprises-NGOs in Latvia" Survey covering specific samples	PROVIDUS Think tank	2014 No updates	✓	✓	✓	3 - Sample is very small (25 organizations). However, the research shows the overall tendencies.
Associations and foundations (all)	Register of Enterprises Administrative register	Register of Enterprises Government institution	2018 Monthly	✓	N.A.	N.A.	1 - Not all of associations and foundations fit to EU operational definition. However, not a single statistical register provides reliable information about how many associations and foundations out of 23,961 fit the concept of SEs.
Associations, foundations (SE de facto) and companies	"Social entrepreneurship development possibilities in Latvia" Doctoral dissertation	Lāsma Dobele Scientist	2013 No updates	✓	✓	N.A.	4 - The number of SEs was determined based on the forecasting method, taking into account potential support mechanisms for SEs. However, since the support mechanisms were not introduced in 2014 as planned, the trend of creation of SEs was slower than expected.
SEs registered as companies (mainly limited liability companies)	Research study "Pilot Project for the Identification of Social Enterprises and the Assessment of Economic Impacts thereof in Latvia" Survey covering specific samples	Latvian Chamber of Commerce & Industry in cooperation with the Central Statistical Bureau Representative body	2013 No updates	✓	✓	N.A.	3 - The identification of potential SEs is not very clear and it does not include all SEs that fit the EU operational definition.

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Associations, Foundations and Limited Liability Companies that applied to the social enterprise grant programme	Participant applications to the SE grant programme Administrative register	Ministry of Welfare & ALTUM Government institution	2018 Replaced by the Register of Social Enterprises (see below)	√	N.A.	√	4 – Data are publicly available. The register includes data on associations, foundations and limited liability companies granted with financial support under the measure "Support for social entrepreneurship". With the entering into force of the Social Enterprise Law, applicants did not automatically acquire the status of social enterprise.
Ex lege SEs (Limited Liability Companies)	Register of Social Enterprises Administrative register	Ministry of Welfare Government institution	2018 Regular updates	√	N.A.	N.A.	5 - The register was established on 01/04/2018 (Social Enterprise Law). Only limited liability companies can register. At the time when the report was written, data were limited and not publicly available, therefore this database has not been taken into consideration for quantifying social enterprises in Section 3.1.

Appendix 3. Exploratory case studies

Exploratory case 1

The Samaritan Association of Latvia

The Samaritan Association of Latvia (SAL) is one of the largest social enterprises in Latvia, employing more than 700 paid employees and involving more than 300 volunteers. It is one of the establishers of Social Entrepreneurship Association of Latvia. SAL is a certified provider of social services, a medical and educational institution that provides medical and care services to representatives of various social exclusion groups (seniors, young people with intellectual disabilities, endangered children and women, etc.), and also manages targeted activities such as the crisis centre for children and women Mara Centre (*Māras Centrs*), the social care centres in Rīga and Ventspils, group apartments and night shelters, the boarding house *Pārsla*. In 2015, the SAL's service "Mobile Care at Home" was recognised as one of the top ten European social innovation projects.

→ Mode of creation

In Latvia, the Samaritan Association was established on 12 September 1992, though it operated before its founding. The inspiration for the establishment came from the Workers Samaritan Union from Bremen—a partner city of Riga. Since 1990 the Samaritans from Bremen have sought a way to help Riga residents through collecting donations and sending humanitarian aid (food, clothing, medicines). Only after 1991 when Latvia regained independence, could Bremen residents obtain visas and arrive in Riga themselves. On 7 February 1992, an agreement was made between the city of Riga, the Workers Samaritan federation Germany and the Workers Samaritan Union Bremen to establish a Samaritan organisation in Riga.

Continuing to send humanitarian aid, the Bremen residents trained the first first-aid instructors in Latvia. They invited Latvian enthusiasts (one of them is Andris Bērziņš, who since that time works as director of SAL) wishing to establish the Samaritan Association in Germany to show and explain the work the organisation was doing and how people could help one another by means of such an organisation. In the result of intensive work done for many years, the number of members of the SAL, as well as their experience and the number of services provided by the SAL, considerably increased.

→ Workers and volunteers

At the initial stage of establishment of the social enterprise, a few individuals worked for the SAL, while in 2018 it forms one of the largest social enterprises in Latvia that engages approximately 700 employees and 300 volunteers..

→ Beneficiaries

The range of social services provided by the SAL is broad. Among twenty diverse services, the SAL provides care at home, assistance and support in various situations, maintains a crisis centre for children and young mothers and a night shelter for the homeless. It holds also educational activities, training individuals in providing first aid. Additionally, it ensures medical care and manages food banks. They are pioneers in contributing to the understanding of and discussion on many social matters, such as violence against children.

The number of recipients entitled to public benefits served by SAL reaches approximately 7000 a month (including food packages). Each month they distribute food packages, thereby helping poor families with small children, pensioners and people with disabilities. Annually, more than 15 thousand poor residents receive help in Latvia. Permanent help (care at home, the safety button, an attendant or an assistant, social housing and a social care centre) is provided to approximately 2000 pension-age persons. Crisis help is provided at Mara Centre (*Māras centrs*) to more than 150 children, and the night shelter accommodates approximately 150 persons. SAL offers social, medical and training services available to customers individually or by means of local governments and employers. The social enterprise has received a number of certificates of gratitude from NGOs, local governments, national institutions, ministries, the Saeima; and was nominated as the “best Latvian NPO”.

→ Membership and governance model

In associations, decision-making in favour of all the stakeholders is ensured at member meetings. In accordance with the *Associations and Foundations Law*, all members have the right to participate in member meetings, in which amendments to the statute may be made, members elect representatives to the executive body and make decisions on the termination, continuation or reorganisation of the association’s operation. The statute may prescribe that a meeting of representatives elected by a general meeting may perform, to a certain extent, the duties of a member meeting. The executive body manages and represents an association.

In the case of the SAL, the executive body consists of only one person—Andris Bērziņš. Describing the organisational structure of the SAL, he points out that a representative body of the SAL is the governing body. He works in the executive body, supervises the organisational units and their heads. The head of every organisational unit has a statute that stipulates responsibilities. They hold a meeting of the heads of organisational units once a month, and discuss problems regularly.

→ **Business model**

The social enterprise is a member of Samaritan International and feels proud to provide high-quality social and medical help to individuals in need. They do so in four ways: first, they provide help to individuals free of charge within charity projects; second, they provide social services in cooperation with local governments; third, they earn revenue from holding first-aid training and seminars as well as providing medical aid in the free market; and finally, they advocate civic society interests in cooperation with national institutions.

→ **Key partners**

The social enterprise operates in the entire country and has established partnerships with many local authorities, charity organisations and private sector representatives.

SAL director, Andris Bērziņš, believes that successful partnerships and cooperation with local governments have taken root throughout Latvia. At present, it feels quite simple to make relations, compared with 1990 when the organisation began functioning in Latvia. It took more than a year to finish the first project, the establishment of a social crisis centre. However, it became a precedent for further activities: now, a clear system and structure supports cooperation, and over the course of time an institutional framework took form, ensuring that both sides benefit from their cooperation.

The SAL acts as a partner for local authorities mainly in public procurement. It takes three modalities of interaction with public authorities. First, it extends help on the spot to people with disabilities and families needing it immediately. Second, service provision may be directly delegated through public procurement: that is, if no competition among service providers exists and a local government directly delegates the provision of services to an enterprise. At present, the Samaritan Association has at least 30 such agreements with local governments. Finally, in a public procurement procedure, social enterprises compete for local government funding.

Andris Bērziņš notes that they successfully advocated for an enhancement in public procurement, changing a requirement that a contract has to be awarded to the lowest price bidder. Social enterprises usually specify the terms of services provided, and they cannot encompass the entire scope of activity. For this reason, the SAL lobbied for a principle of joint agreement, according to which all candidates meeting the criteria for public procurement have the right to have a procurement contract, yet the funding for specific needs is later distributed separately.

Social protection available to individuals has considerably changed over the years owing to the Association's participation and partnership with local governments. Andris Bērziņš notes the Association did not achieve this individually because all the actors

of the social economy have made significant contributions; however, the personal and professional competencies of the Association did play an essential role.

The SAL successfully cooperates with conventional enterprises as well. For example, the food bank For a Fed Latvia (*Paēdušai Latvijai*) has held its ground for ten years, yet since 2016 the supermarket chain Rimi has become its partner and the quantity of donated food has considerably increased.

→ **Barriers faced**

Cooperation with local governments involves risks and problems related to bureaucracy. For example, the Association prepared a procurement delegation agreement and sent it to five various municipalities. The local authorities made a few corrections in the agreement, which they later sent to the Ministry of Environmental Protection and Regional Development that made further corrections. In the end, the Association received five quite different agreements. The Association needed to visit ministerial layers and standardise the agreement. Andris Bērziņš notes that the partnerships get stronger through having joint practices and enhancing competences of all the partners.

Andris Bērziņš also points out that the Association works on three diverse kinds of local governments. One, the local government of Riga, has the necessary intellectual and human resources to establish and manage such partnerships. The second kind, local governments, have motivation and abilities, but lack resources. And, finally, other local governments lack human resources and institutional abilities to establish well-functioning public and private sector partnerships. Each kind of local government requires a different approach. Dealing with the last kind of local governments, the Association itself prepares all the agreements and protocols and consults others on bureaucratic procedures or, in other words, prepares the entire package of cooperation.

Some other procedural problems might also emerge. Andris Bērziņš refers to “positive envy.” Service providers usually recognise the efforts of the Association and do not believe that the assistance provided by a local government ensures the availability of the services. The Association, in its articles, always stresses the assistance received and expresses gratitude to the local governments. He points out that there could be some communication problems, resulting in accusations between one another, which negatively influences the partnership.

As regards other problems faced by the Association, the public does not have sufficient awareness of social enterprises. Even though the situation has improved in recent years, many still do not understand a difference between a socially responsible enterprise, a social enterprise and a charity. Besides, in Latvia the gap in data, research studies and identifying methodologies fail to demonstrate the social impacts created by social enterprises.

→ Fiscal breaks

At the initial stage of its operation, the SAL received international support from Samaritan International.

In 2017, SAL decided to open a new fourth-generation social service centre. A building already exists for this purpose, but it needs serious renovation. For that, SAL needs approximately four million EUR, an impossible sum to acquire from the organisation's internal resources. Therefore, SAL decided to approach commercial banks in order to receive a loan for renovation expenses. Even though SAL has operated for more than 25 years and its yearly turnover exceeds five million EUR, when negotiating with banks, SAL has come across several obstacles:

- > Overall general stereotypes about the work, principles and management of an association. Widespread perception, even among financial institutions, persists that an association acts more like a hobby club rather than a serious entity, and therefore it cannot undertake such a serious financial commitment. To challenge this view, the director of SAL had to rely on his personal communication skills to explain the work of SAL and to convince banks that SAL can be a serious and reliable partner.
- > Banks had a very hard time understanding the motivation underpinning an association. Since the classical motivation for a person when they come for a loan is to gain profit for themselves, any other motive seems invalid, suspicious or untrustworthy. Banks worry that anything less than a motivation to gain as much money/profit as possible can change and vanish at any time, and it will be left with a bad loan that it cannot get back.
- > The question of responsibility. Because of an association's management structure and decision-making body (a member assembly), its position in terms of taking responsibility (in the eyes of the bank) seems much weaker compared with the case of a for-profit company, whose owner always makes the company's main decisions. Banks fret that if members change the director (who signs the loan agreement and had the motivation to go through with the project), the new director might not have the same drive, and therefore slough the responsibility for paying back the loan.

At the moment of publishing this report, SAL is in the final stages of negotiating with two different banks and hopefully will have a decision in the coming months. SAL is also in the process of establishing a limited liability company and registering it as a legitimate social enterprise according to the Social Enterprise Law of Latvia, which would take over part of its social service operations (Aps *et al.* 2018).

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Exploratory case 2

BlindArt Ltd

The social enterprise BlindArt strives to provide assistance to the blind and persons with special sight needs, inspiring them to reach more goals and create a favourable environment for the development of social business. The project BlindArt was created in Latvia in 2007 when the founder Andrs Hermanis, first held creative workshops and exhibitions and has since founded a limited liability company in 2017. BlindArt was the first social enterprise in Latvia that received a grant from the Ministry of Welfare and the Development Financial Institution ALTUM for business expansion intended for the integration of persons with sight impairment into the labour market.

→ Mode of creation

The previous experience of the founder of BlindArt, Andrs Hermanis, related to visual communication, advertising and design. At some moment he realised that some people saw the world differently: the blind and those with serious sight impairment. Andrs Hermanis began identifying the situation in Latvia and visited Strazdumuiža Residential Secondary School in Jugla, Riga, an education institution for children with severe sight impairment and blind children; it is the only education institution in Latvia that has adapted the learning process for children and young adults with severe visual impairments. About ten years ago, then, an idea emerged about a socially responsible project that eventually resulted in the social enterprise BlindArt. Andrs Hermanis wanted to add some value to charity and the social project—to do it smarter, based on entrepreneurship. In this way, the socially responsible project turned into a social enterprise.

Initially, the project produced a series of four fairy-tale books produced by the blind *for* the sighted. Four talented members of the Latvian Society of the Blind worked for 10 weeks to create characters and events that come together in a unique story. This resulted in a modern, interesting and educational literature for kids. Visually impaired and blind children have drawn the illustrations from Strazdumuiza Residential Secondary School and Training Centre for the Blind and Visually Impaired (Riga, Latvia). The students used a complex and unique tactile art technique—special stencils made dots as coordination borders, then by orientating through touch, kids could colour the shapes. The assortment of drawings and later products became complemented with a range of porcelain plates.

The next product design included puffs, pillowcases, pillows, rectangular and triangular bags, as well as shopping bags that employed a *shibori* technique to create them. By adapting this method to the contemporary aesthetic standards and technological opportunities, the sightless and visually impaired people create unique fabrics in various 3D textures striking the perfect balance between handicraft technologies and

innovation. The production of every material requires tremendous care and effort making each product truly unique and distinctive.

→ Workers and volunteers

The social enterprise employs nine employees, of which four have visual impairment. While BlindArt worked on project contexts, it attracted volunteers. Since 2017 it has the legal form of limited liability company, which means BlindArt cannot accept volunteers. However, after getting the status of social enterprise de jure it will have opportunity to use volunteers.

→ Recipients

More than 300 blind persons and those with visual impairment engaged in BlindArt activities over a ten-year period. Four individuals work on the new business project of the social enterprise; they design puffs for the interior, and treat fabric using a *shibori* technique. In the coming years, the enterprise plans to give jobs to at least 10 more people. Other projects and separate workshops intend to invite everyone to participate. So far, BlindArt has reached an audience of more than 240,000 people, thus strengthening the equivalence of the project target group with society as a whole.

→ Key partners

The social enterprise cooperates with a number of NPOs, including the Latvian Society of the Blind, the oldest and largest public benefit organisation that unites people with visual impairment in Latvia. Established in 1926, it continued functioning during the Soviet period and provided jobs for the blind. Four participants of the Society of the Blind participated in creative workshops, which resulted in a series of four books for children *Sock Thief Hunt (Zeķu zagļa medības)*.

The Latvian Society of the Blind helped to select potential authors and engaged in holding creative workshops. The social enterprise also cooperates with Strazdumuiža Residential Secondary School whose personnel provided assistance by organising creative workshops and other activities for their children; most of the art works that were included in BlindArt projects were created during the activities. Cooperation with the Latvian Library for the Blind gave an opportunity to publish the children's book "Sock Thief Hunt" (*Zeķu zagļa medības*) in the Braille alphabet.

The social enterprise established successful cooperation with conventional enterprises as well. For example, Latvian Railways (*Latvijas Dzelceļš*), Antalis (the largest distributor of printing products, packaging, visual communication and office paper in Europe), and Latvian Plywood (*Latvijas Finieris*) provided financial assistance to publish the book for children "Sock Thief Hunt" (*Zeķu zagļa medības*).

The social enterprise also cooperates with universities, including the Art Academy of Latvia, to develop a product line for interior design and fashion, also carried out with a *shibori* technique. By means of this technique that emerged in Japan more than a thousand years ago, the enterprise plans to train several people with special needs and hold creative workshops to engage even more creative people.

→ **Barriers faced by the social enterprise**

Social enterprises often face an obstacle in obtaining start-up capital. If the social enterprise is financed from personal funds, it develops at a slower pace. The founder of the social enterprise knows fully that the Latvian market is small; therefore, they must consider exports. To successfully export the product, they must reach a certain level of quality to compete internationally.

Main challenges BlindArt has identified in the process of obtaining the ALTUM investment include:

- > complicated bureaucratic obstacles during the grant application process; for example, creating complicated four-year money flow predictions and financial calculations (a nearly impossible task for a newly established enterprise); obtaining documents from various state databases which could otherwise be accessed from a central database, etc. BlindArt worked with financial consultants and experts to prepare all the documents because it realised that, it could not prepare all the documents with organisers' existing knowledge and skills.
- > It is difficult to find a business model that can ensure both social impact as well as sufficient income to maintain and develop the business (Aps *et al.* 2018).

→ **Financial mechanisms**

The financial performance data of the social enterprise BlindArt were not available, as it began its operation only in July 2017.

→ **Financial intermediaries**

The Ministry of Welfare and ALTUM gave the social enterprise BlindArt a grant of 20,000 EUR, so that it could continue integrating people with visual impairment into the labour market. By means of the grant, the enterprise plans to engage more than ten people with special needs in the labour market, thereby establishing an independently functioning work environment for the blind. The grant provides very valuable start-up capital, as it allows implementing the idea faster. The author has worked on fabric treatment for producing sofa components for a long period, and plans to implement the idea faster and more effectively.

More information: www.blindart.lv, art@blindart.lv

Exploratory case 3

Association “Nearby” (*Tuvu*)

Tuvu (meaning “nearby” in Latvian) is a Christian charity organisation that helps families in crisis, children and lonely people in Latvia. *Tuvu* owns charity shops in Jelgava and Rīga, where people can buy goods donated by German co-operation partners, as well as by private individuals: clothing, footwear, dishes, furniture and other objects. *Tuvu* charity shops serve not only as a way for the association to reach its social goals, but also as a place where people can meet, talk and get help.

→ Mode of creation of the social enterprise

The association *Tuvu* was founded by two women sharing the same views: Lāsma Cimermane and Zane Rautmane. Even though the association has operated for only four years, both founders already had 15 years of experience in charity, including the organisation *GAIN Latvija*, the first affiliate of the international humanitarian aid organisation GAIN (Global Aid Network) Germany in Latvia. This organisation provided material, practical and psychological aid to society’s least protected groups.

After *GAIN Latvija* closed, both founders of *Tuvu* engaged in charity as natural persons, yet their ability to attract material and financial resources as natural persons was limited; therefore, they made a decision to establish a charity organisation: an association. In the beginning, the association functioned using only the material and financial resources of Latvian donors, but in 2014 it made a 10-year cooperation agreement with GAIN Germany on humanitarian supplies, which allowed it to expand rapidly and provide a broader range of customers in Zemgale region with humanitarian aid. With successful cooperation, they reached an alarming amount of supplies, 194 tonnes or, in monetary terms, 5,697,96 EUR in 2017.

The German partners freely chose to send the supplies sent to Latvia, and neither the assortment nor the amount could be affected. The German partner assessed the social impact created by the association. The association quarterly produced and sent voluminous reports on the supplies distributed, placing a focus on emotional stories about families that received the aid. The supplies came from Germany by means of the vehicles of GAIN Germany for free. The donations received from the German partner as well as domestic donations allowed the association to achieve its goals in two ways: 1) direct charity – the donated things were distributed further to the target groups or given to cooperation partners; 2) through developing social enterprises, i.e. maintaining charity shops where the donated things were sold and the entire profit was allocated for charity projects (Kumačeva 2018).

Of the donations, the German partner GAIN Germany provided 90%, while local residents donated the remaining 10%. At present, the donations received from local residents are not accounted for because of the lack of human resources. Anyone who wishes

can leave their unneeded items at the charity shops or at the warehouse in Brankas. Every donor receives a small gift as thanks for promoting the tradition of charity. After sorting, approximately 5% of the donated items mainly represent waste for recycling: rags, cardboard, polymer films. Poor families receive 10% of the donated goods either at the humanitarian aid point or during visits to the families, the charity shop sells 5% of new and little-used things, while cooperation partners redistribute 80% to the target groups (Kumačeva 2018).

The managers of *Tuvu* often faced financial problems. Aid in the form of clothing, footwear or furniture did not provide enough, and they had to seek solutions in how to provide assistance to those needing other kinds of aid: medicines, food, health care or better living conditions. Funds proved necessary to hold camps, buy schoolbag items and do other important projects. The managers of the association, motivated by German partners, decided to establish a charity shop *Tuvu*. The first shop opened in Jelgava, the next one in Tukums (closed in 2018), and in 2018 the one in Riga.

Since 2013, when the association was founded, the partnerships established by the association strengthened and comprise a key reason for the association's lasting success. In 2018, the association cooperated with various partners domestically and internationally and has become a well-recognised charity shop in Latvia.

→ **Workers and volunteers of the social enterprise**

The amount of work and available financial resources determine the human resources needed for the association. Initially, when the first shop opened, only one employee received work as a shop assistant. As the turnover of the shop and the available finances increased, the number of employees increased as well. In 2018, the number of paid employees reached eight: five shop assistants, two executive board members and a project manager. On a rotational basis, the shop assistants also participate in handing out the humanitarian aid, thereby having an opportunity to meet the target group's individuals in order to get motivation and inspiration and see the meaning of their work.

The executive board members and the project manager manage the association, the warehouse, the shop and the humanitarian aid point as well as other operations such as educational activities. However, such an amount of work proves too large to effectively manage all the fields; consequently, the personnel feel chronically overburdened and emotionally exhausted. For this reason, the association, to the extent possible, involves volunteers. In 2017, 28 volunteers worked in the association. Nevertheless, they cannot provide a stable solution, as volunteers can do their jobs only outside their main working time. Four of the volunteers regularly worked at the charity shop and the humanitarian aid point. The others mainly took part in one-off activities such as joint work, the family

day, etc. *Tuvu* kept records of the hours worked by the volunteers who participated in its activities regularly (Kumačeva 2018).

The management of *Tuvu* has considered the employment of socially sensitive groups (the long-term unemployed), yet government financial assistance does not sufficiently cover this purpose. Besides, a mentor would be necessary, but no support instruments exist for the mentor, making it impossible to implement the idea due to the shortage of available and capable human resources.

To contribute to youth employment, *Tuvu* participated in the European Union-funded project “Youth Guarantees”, activity “Development of skills needed for jobs in the nongovernmental sector”, sponsored by the State Employment Agency. The association employed two young individuals, one permanently.

→ **Beneficiaries**

One of the goals of *Tuvu* includes charity work to reduce social exclusion and contribute to families' wellbeing. At the humanitarian aid distribution point, society's least protected persons and families in crisis situations could receive goods for free in the form of footwear, clothing, medicines and hygiene goods, household goods, food, furniture, etc. In its activity, the association focuses on families with children, as both founders of it have large families, and makes them empathetic to the problems and concerns of this target group.

The beneficiaries either apply for help to the association themselves or the association receives information about such persons and then offers assistance. They provide assistance in crisis situations and contribute to traditional charities in Latvia.

On average, four to ten target group families a week visit the humanitarian aid distribution point. The organisation manages visits by setting particular dates for each family to make a visit once a quarter when it can get all the things it needs, thereby ensuring an organised flow. This orderly system extends beyond quarterly visits: the organisation accounts for the aid and assesses mutual cooperation annually, measuring what has changed during the year and what assistance is needed so that the family can provide for itself.

During the visits, the association's employees and volunteers speak to each customer personally, question them about their achievements and failures, give advice or simply listen to their stories, thereby reducing their social isolation, and consequently the poor individuals do not feel lonely anymore. Furthermore, the customers have an opportunity to get acquainted with one another, make contacts, speak about their problems, and share information as well as help one another.

In 2016, the Family Day was held in Brankas; all the customers of *Tuvu* were invited to relax together. Such a procedure of handing out aid was introduced at the association

in January 2017. It allows distributing the aid to the target group optimally and meaningfully, separating *Tuvu* from other charity organisations that distribute their donations to anyone interested and paying no attention to particular families' situations. Going into details and comprehending every family's individual situation, understanding the family's values and goals as well as cultivating awareness of the causes of their poverty, it becomes possible to give targeted aid, thereby achieving a larger social impact. In 2017, the association served 63 families 237 times at its aid distribution point (Kumačeva 2018).

In some situations, the necessary things are transported to the homes of families, yet this practice is exceptional because families may receive things that do not fit them or that they do not need, thereby contributing poorly to the meaningful distribution of the aid. Families normally plan their visits so their situation can be assessed at the place of residence and ascertain in what way the association could provide assistance or just simply listen provide emotional support (Kumačeva 2018).

The organisation maintains two second-hand charity shops located in Jelgava and Rīga. Revenues from the shops are invested in charity projects, such as assistance to the poor (food packages, clothing, firewood etc.), youth camps, construction projects, educational activities, distribution of teaching materials for children and various creative and practical workshops. To date, they have helped at least 500 people, 63 families in Zemgale region, yet the number of those who benefited ranks significantly larger if taking into account their partnerships throughout Latvia.

In 2017, the largest charity projects receiving the shop's profits were two repair projects. *Tuvu*, together with *UPPE Ltd.*, implemented a unique long-term project in Lielvircava—they constructed a home for a four-children family in a shipping container after the family lost the home in a fire in November 2016. Now the family can live in this insulated home both in summer and winter. The home provides an absolutely appropriate structure to live in.

Tuvu together with GAIN Germany and its team of volunteers performed the second repair project. Within three days, they renovated a home for a poor large family in Tervete—they installed a water pipe, repaired the kitchen and a room, and created a room for children, a bedroom for parents and the bathroom.

Tuvu implemented a second social enterprise priority, a youth camp. Every year 48 young individuals aged 12-17 actively participate in a recreation camp in Uzava where they learn basic life values through the prism of Christian values. Any interested individual may participate in the camp if they pay a participation fee. The camp sets a scale so that six youth from poor and/or needy families may participate free of charge. These youth are given an opportunity to get out of their usual environment, experience events and participate in activities they cannot afford daily. The goal of the *Tuvu camp*

not only creates a platform for recreation and entertainment that lasts for five days but also teaches the youth values and lessons that will be useful for them throughout their lifetime (Kumačeva 2018).

→ **Membership and governance model**

The highest decision-making body of the association, in accordance with the Associations and Foundations Law, is a general meeting of the membership. The executive board forms the association's executive body. Since *Tuvu* has only two members, they compose the executive board; for this reason, the decision-making body and the executive body do not act separately. Four organisational units act subordinately to the executive board: two charity shops, a warehouse and a humanitarian aid distribution point. Due to limited finances, the enterprise's structure is compact, and provides only the most necessary jobs.

Mothers of large families first founded the association. Since large families form one of the groups at risk of social exclusion, this social enterprise criterion is already met in this way. Other stakeholders do not engage in management, which is determined by the target audience of the social enterprise.

→ **Business model**

The activity of the association spans in two categories: targeted aid for free to families and people at risk; and entrepreneurship through the provision of services at acceptable prices, thereby shaping the market and serving the public. Selling goods at the charity shops generates revenues from economic activity.

→ **Key partners**

Tuvu has 32-partner organisations in Latvia. The organisation popularises the idea of long-term assistance and is aware of the specifics of every individual family in need. If a new family requests some aid, they make tremendous efforts to examine the family's living conditions—they visit the family and analyse its potential needs. They actively facilitate both the organisation's and the families' autonomy in order to avoid a relationship of mutual dependence, as the goal is to ensure that any family can stand on its own feet.

The partner organisations mainly include other charity organisations, associations, re-socialisation centres and religious congregations engaged in charity – taking care of the wellbeing of society's least protected groups. Municipal social services also act as cooperative partners. In 2017, the association actively cooperated with the social services of the municipalities of Ozolnieki, Jelgava, Jelgava city, Tukums and Tervete.

The social services received material aid in the form of clothing and footwear as well as food that was further distributed among the individuals who needed it. Such aid is

particularly necessary for persons released from imprisonment as well as those in crisis centres. Providing the partners with humanitarian aid, the association can implement its charity goals in a much vaster region, contribute to its visibility, raise its reputation as well as give its German partners more complete information about poverty in Latvia, not only in the territory covered by the association Nearby (*Tuvu*), as well as comprehensive reports on the donations distributed (Kumačeva 2018).

Over the course of time *Tuvu* has managed to establish good cooperation with local authorities. Its success lies, in part, with the association's relative independence: the cash flow from its shops sufficiently covered basic expenditures like fuel. In case of need, they turned to the municipalities; therefore, the dominant form of partnership is cooperation when needed. The chairperson of the executive board, Lāsma Cimermane, admits that the association and the municipality are well aware of mutual interest in joint efforts. For this reason, the association always produces reports in a timely manner and seeks to remain a trusted partner.

The municipality may exploit the association's resources to develop and implement its projects. For example, two municipality officials wished to hold an educational seminar for young mothers, yet they did not have an opportunity to do so. They turned to *Tuvu* that helped to arrange a room for the seminar. The local government of Ozolnieki municipality is very responsive, and its representatives often attend the association's activities to express their appreciation.

After the second shop opened in Tukums, the association successfully cooperated with the Social Service of Tukums municipality. Families in Tukums granted the status of poor family, upon producing the document, could receive infant food once a month for their children aged less than two years.

→ **Barriers faced by the social enterprise**

Certain risks reside in the model of partnership with municipalities. One such significant risk which other social enterprises usually do not face comes with elections. Political changes in the municipality can easily influence the partnership. The political influence of a small and wealthy municipality is usually small, yet that of enterprises cooperating with poor families could be larger. The association also points out that they often face a quite stiff and formal bureaucratic attitude, which can hinder their activities, as well as a lack of competences among municipality officials that slows down the implementation pace of their activities.

Barriers to the activity of the social enterprise *Tuvu* measure similarly to that of any other enterprise in Latvia – a lack of human resources and the small market. A lack of premises for a shop also poses problem. Even though the municipality has the right to offer premises for social enterprises, it usually has nothing to offer. In addition the

public and the municipality do not have enough information about or an understanding of social enterprises and their impacts on the society.

The value added tax imposes a considerable burden on any social enterprise. In 2017, the association reached the VAT ceiling set by the legislation; although on 1 January 2018 this threshold lowered slightly (from 50,000 to 40,000 EUR a year), which means that the association had to become a VAT payer, creating an additional financial burden on the association. As noted by Lāsma Cimermane, the association balances on the existential boundary.

→ Fiscal breaks

Tuvu takes the legal form of an association. In 2015, the association was granted the status of public benefit organisation. After the new *Social Enterprise Law* comes into effect, the social enterprise does not plan to change its legal form, as it was granted the status of public benefit organisation that gives an opportunity to receive tax relief and other larger benefits than those for a limited liability company with the status of social enterprise.

→ Financing mechanisms

Income and profit of charity shops are invested in charity projects organised by the association, including support for people in need, camps for adolescents and support at the beginning of the school year, educational activities as well as creative and practical skill workshops. A revenue and expenditure account of *Tuvu* shows that in 2017 the revenue from economic activity accounted for 11.6% and donations and gifts made up 87% of the total revenue. In fact, the social enterprise had a surplus–14,834 EUR–in 2017, which measured 75% more than in the previous year.

However, it has to be noted that in 2017 the association became a VAT payer, and its profit, which could be donated to charity projects, decreased by 5,197 EUR and paid to the government as VAT because the association did not raise prices on goods in its shop by the size of the tax.

→ Financial intermediaries

In 2016 and 2017, *Tuvu* received an approval from the Rural Support Service and the European Agricultural Fund for Rural Development for a project “Development of a Reconstruction Design for a Multifunctional Social Assistance Centre for the Association *Tuvu*”. The project resulted in opening a space for aid distribution, where poor and low-income families from Zemgale can regularly get clothing, footwear, food, household goods and furniture.

Tuvu aims to change people’s way of thinking, so that they turn from a recipient into a donor, thereby providing for themselves and creating something themselves. In October

2018, according to a plan, several charity projects must now abide by the premises of *Tuvu* – aid from donors from Germany and Latvia will be sorted and distributed among cooperation partners and socially disadvantaged groups; in addition, a room will be established for creative and practical classes that can also host seminars, training and other activities, including creative workshops and educational activities for poor families to develop new skills and competences for jobs and improving their finances in the long-term.

The Youth Workshop will recommence, so the youth and their parents will be able to come together and share life wisdom. In the future, Tuvu plans to establish a green zone for summer activities.

More information: www.biedribatuvu.lv, org.tuvu@gmail.com

Exploratory case 4

Association “Wings of Hope” (*Cerību spārni*)

“Wings of Hope” (*Cerību spārni*) is an association providing social services to adults and children with functional impairment. The association focuses on integrating individuals with disabilities of any age or gender and their family members into society while defending their rights and interests. The association manages a charity shop “Everyone can” (*Visi var*) and a social support centre the “House of Hope” (*Cerību māja*) that provides family assistance services and helps individuals with mental impairment gain access to the community the “Home of Hope” (*Cerību sēta*). Wings of Hope is located in the town of Sigulda, 50 km from Riga.

→ Mode of creation of the social enterprise

The origins of the association date back to 2002 when several parents united by large challenges held a meeting, discussing how to make everyday life with children with functional impairment slightly better, how to get support, and how to share their experience and information that would help others. Step by step, the parents began holding various events and activities that could improve the life quality of their children. At some moment, the parents understood that they needed a legal status in order to expand their activity. In this way, in 2003 the association called Wings of Hope emerged, as everyone needs hope, especially families with sick children. The association strives to contribute to the social integration of persons with disabilities.

In 2004 within a pilot project, the association became a provider of social rehabilitation services. The chairwoman of the association, Eva Viļķina, emphasises that the provision

of services develops through human needs. The association conducts questionnaire surveys for parents, youth and employees to identify how they see their needs fulfilled and how they can receive additional support. All those involved in the association engage in continuous cooperation and dialogue.

In 2006, based on the association's initiative, four special classes for children with intellectual impairment opened in More Primary School. Finally, children could learn close to their homes and their parents could go to work, which was not possible before. The association expanded year by year, and a day-care centre with special workshops for youth and adults with disabilities opened in 2013. Everyone engages in activity, including those with severe diagnoses, as learning at least a few household skills can prove vital. In the eight workshops of the centre, active work takes place during the first half of a day, while in the afternoon other activities take place, such as dance, movement, art and other kinds of therapies.

In 2015, the association established a charity shop *Pogotava* (renamed "Everyone can" in 2018); its mission aims to employ people with disabilities. The cozy shop offers high-quality needlework, souvenirs and gifts that any interested individual can buy at low cost. Not only pieces of work made at the day-care centre along with work from are sold in the shop, but also work made by self-employed individuals from social risk groups. People can buy clothing, footwear and household goods that have been donated by cooperation partners and supporters in Germany and Latvia, as well as coffee, tea or cacao drinks to go.

All the revenues of the charity shop Everyone can (*Visi var*) earned are allocated to charity projects and for developing employment activities for people with disabilities and others facing employment difficulties.

House of Hope (*Cerību māja*) took root in 2016, providing a place for parents to learn how to care for their young children, along with unmarried young mothers and expectant mothers with mental impairment who receive no support from their relatives. House of Hope (*Cerību māja*) offers respite services; that is, parents whose children and teenagers have disabilities can leave their kids for some time under the supervision of experienced specialists. It also offers social rehabilitation for parents with low skills who have children in order to teach them life skills, how to organise an independent life, and how to care for their children. It also provides support to acquire education and new professional skills as well as advice in legal matters and in arranging personal life. Mothers receive psychologically testing and define goals based on the results.

The association has established a community–Home of Hope–for those with mental impairment. Community life gives an opportunity for individuals to fully integrate into daily life activities and provides support to compensate for their functional impairment. The support level for every individual differs, though the basic principle remains the

same—everyone has to receive the support they need in order to fully integrate into social life.

The members of the community receive adequate support, and are not forced to live in isolation in an environment separated from society. They also live according to age-appropriate needs among their peers.

Living in community, its members are not isolated from society and acquire skills to make social contacts. This contributes to the reduction of prejudice and stereotypes about individuals with mental impairment among the public. Furthermore, discriminative attitudes toward such individuals decrease, while tolerance increases; no group of passive benefit recipients and consumers exists – the community members, according to their abilities, engage in community work and invest their abilities and skills in meeting their basic needs.

As pointed out by the chairwoman of the association, E. Viļķina, the community faces some risks as it functions. First, community work depends on the legal documents of every local government as well as the government's possibilities to develop the community work. Second, it is difficult to provide adequate specialist services, which limits the participation level of individuals with mental impairment and provokes regression to their initial condition. Third, there is a lack of human resources. Fourth, national institutions, local authorities, and the public often adopt a negative “no interest” attitude toward individuals with mental impairments, which worsens the social climate in the entire country and creates a sense of insecurity regarding situations everyone could face regardless of their current socio-economic situation.

One must wholly consider all aspects of living in the community along with a set of measures to take; ensuring a full life in the community for its members based on their needs, support and interests can only be accomplished through a complex approach.

→ **Workers and volunteers**

The employees involve themselves in the association's work and in providing social services. Thirteen employees (some of them fulfilling two roles) work with youth and adults (a social worker, two caregivers, the manager of a workshop for weaving, needlework, ceramics, leather items, music, light theatre and sewing, a dance and movement therapist, an art and sand therapist, and a physiotherapist), while eight specialists work with families and children (a social worker, a caregiver, a speech therapist, a dog therapist, a horse therapist, a specialist in combined methods of learning – speech, music, physical activities and rhythm, a physiotherapist, and an art and sand therapist).

The House of Hope employs a social worker, three caregivers, a social rehabilitator and an art and sand therapist. The chairwoman of the executive board, a member

of the executive board and four shop assistants/advisors work in the charity shop Everyone can. In addition, a manager of social services, an office clerk, an accountant, the head of the procurement department and a website administrator participate in the association's work and in providing social services.

The association participates in the State Employment Agency's programmes providing government-subsidised jobs for people with disabilities, who are employed for at least two years. Some individuals continue working after this two-year period. However, most of the employees and volunteers find their way to Wings of Hope, thereby adding to the familial atmosphere of the association. Everyone helps and supports others at the association. "The association is like a large family", said Eva Viļķina.

Eva Viļķina believes that in a ten-year period, the charity shop Everyone can will employ people with disabilities and pay them adequate remuneration; importantly, individuals with mental impairment at Home of Hope will be able to spend quality time daily through engaging in community work.

The association also involves volunteers in its work, including foreigners. In September 2017, for example, within a long-term project of European Voluntary Service (EVS) "EVS 4 sustainable life" under the programme Erasmus+: Youth in Action, two EVS youth from Portugal and Azerbaijan began working (they are expected to work to the end of December 2019). The volunteers assist the association's personnel in their work with children and youth who have disabilities (in special workshops, therapies, social care), work at the charity shop Everyone can (*Visi var*), assist with annual events (theatre performances, concerts, sports games, charity actions, etc.), and participate in Sigulda municipality festivals, thereby familiarising with community members, Latvian national traditions and annual festivals.

When volunteers participated in a project for the charity shop implemented in 2016, for example, a Peruvian exchange student of the Art Academy of Latvia designed the interior of the shop. The designer cooperated with the association to enhance its environment and visibility, recreating the entire image of the charity shop. Even though a language barrier existed and financial and time resources were limited, the result achieved was very impressive.

→ **Beneficiaries**

In 2016, Wings of Hope provided services to 54 families whose children have disabilities. In addition, 44 youth and adults received direct support. The scope of activity of the organisation considerably exceeded the boundaries of Sigulda, its services also extending to the residents of Malpils, Krimulda, Cesis and even Liepāja. Even though it is not always possible, a special focus provides opportunity to participate in the labour market. For example, four youth were able to integrate into the labour market after they worked in the social enterprise.

→ **Membership and governance model**

The highest decision-making body of the association comprises a general meeting in which every member may participate. The executive board and the chairwoman, Eva Viļķina, operate the association on a daily basis. At a general meeting, participants elect a five-for a three-year period. The board members elect the chairperson who organises the board's responsibilities. A chairperson supervises employees and a comptroller controls the financial and economic activities of the association.

→ **Business model**

Wings of Hope offers diverse services, implementing its mission in four different directions. The central office focuses on social services procured by local governments. In its workshops for weaving and other crafts, speech, art and music therapies as well as medical gymnastics, children and youth acquire useful skills and produce goods sold at the charity shop Everyone can located near the Central Railway Terminal. Additionally, the organisation has created the community Home of Hope in which individuals with mental impairment participate in community life according to their abilities and needs.

Based on the principles of social rehabilitation, the community helps them eliminate the barrier of isolation, develops their self-sufficiency and the ability to integrate into daily life, while also providing individual support. The social support centre, House of Hope, offers a range of activities for young parents in crisis or with insufficient skills as well as for young single mothers lacking family support.

→ **Key partners**

The director of Wings of Hope, Eva Viļķina, cooperates strongly with the local government. This cooperative relationship occurs both at the informative and the financial level; the local government's funding accounts for approximately a third of the association's budget.

The partnership has lasted for more than 13 years, since 2004 when they concluded the first procurement contract. The cooperation occurs in four key areas: procurement, co-funding, independent orders and policy-making consultations. The local government allows the organisation to use its premises free of charge for the needs of its central office. The successful partnership is based on mutual trust and usefulness, particularly in relations with the Social Department of the local government.

Public procurement mainly cooperates by providing funding to the organisation, while the local government has a trusted partner in providing social services. The local government sometimes co-funds projects, thereby assisting in purchasing equipment and other inputs needed for the organisation's operation. The local government also sometimes make individual contracts with the organisation owing to the friendly relations, which serves as a source of extra revenue.

The most important part of their successful partnership takes place in consultations and participation in policy-making procedures, in which Wings of Hope plays an essential role. The local government wishes to know and understand the opinions of service providers, and over the years local government, the organisation and parents have provided feedback. Wings of Hope conducts annual surveys aimed at identifying the quality of its services as well as receiving information about what new services could prove necessary in the future. These services serve as the basis for future procurement by the local government and ensure that the services provided are appropriate and useful.

The organisation believes that one of the key reasons for successful cooperation with the local government comes from the focus placed on the needs of the customers. Since the first project supported by the local government in 2004, the organisation has sought to provide evidence that their work is necessary. Even now the demand for their services exceeds available resources.

Their first project drew much greater attention than expected, and it served as an additional stimulus to get the local government's support. The organisation's employees stress that they have to persistently prove the worth of their social work. It is not enough to simply create a great idea. It is necessary to precisely know why, what, and how to act before hoping for any support from municipal institutions.

The organisation regularly holds meetings with the officials of the Social Department to analyse past actions, the current needs and future challenges. In addition, they report their expenditures to the local government once a month. Due to the trusting relationship between the local government and the social enterprise, they hold procurement tenders once every three years instead of once a year. The organisation clearly feels the trust and support of the municipality, while the Social Department considers it a trusted channel that responds to the latest and urgent needs of the population.

This particular cooperation with the local government provides an excellent example based on long-term cooperation, a professional approach to accounting and reporting, and a persistently proven need for the services provided and the impact on the local public. These processes are reflected in the growing satisfaction of the population with their life quality.

Wings of Hope cooperates with classical entrepreneurs who, for example, prefer the products produced by individuals with disabilities for their corporate gifts. The first exchange with them is often so successful that it becomes a long-term relationship.

→ **Barriers faced**

The risks and problems of the association usually relate to finances. The association can never feel sure about the next procurement, not because the local government could recall its support but because it might have budgetary constraints due to external circumstances. In addition, the demand for the services falls higher than the capacity of Wings of Hope to meet it; therefore, the employees have to be aware of the overall situation and potentially work with a larger number of customers than prescribed officially, with no remuneration guarantees. Wings of Hope has a consolidated team deeply invested in the social mission, and financial benefit does not form its priority.

A negative factor social enterprises face comes with high labour tax burden. They must acknowledge that the labour productivity of the target group falls lower than for people without any disabilities, yet the tax burden remains high, resulting in relatively low remuneration.

→ **Fiscal breaks**

Wings of Hope takes the legal form of an association. In 2005, the association was granted the status of public benefit organisation. The activity of the association as a public benefit organisation leans towards protecting the rights of individuals, developing a civil society and raising the social wellbeing of society's least protected groups. The association receives tax relief in accordance with its legal status.

→ **Financing mechanisms**

Wings of Hope's social services provide a source of revenue, which focus on restoring and/or improving children's social functioning abilities who face various kinds of functional impairment. The association provides the following social services: social worker consultations, medical gymnastics, dance, movement, art, music, sand and speech therapies, therapeutic light theatre sessions, therapeutic sessions combining speech, music, physical activities and rhythm, temporary care for children, and support for parents. The children with disabilities and functional impairment from poor families living in Sigulda municipality may receive the mentioned services free of charge. However, the local government acts as the key customer of social services.

The second source of finance comes from the charity shop *Everyone* can, which sells the products made by the workers with disabilities. The third source comes from donations.

→ **Financial intermediaries**

Cerību spārni participates in various projects to attract more funding. For example, a development plan of the community Home of Hope was designed with the support of the EU Social Fund (92.07% of the total). The Council of Sigulda municipality helped co-fund the project. A project named Tolerance EU 31454 produced a handbook and

a diary entitled “Way Forward” for parents who raise children with developmental impairment, and it became implemented under the Estonian-Latvian Cross-border Cooperation Programme, Objective 3 of the EU Structural Funds – European Territorial Cooperation 2007-2013.

The association has several future plans to improve its financial context. At present, it plans to submit a wood processing workshop project proposal to the Altum programme for social enterprises.

More information: www.ceribusparni.lv

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Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
Inga Akmentiņa–Smildziņa	Limited liability company <i>Mammām un tētiem</i> and Foundation <i>Mammām un tētiem</i>	Manager of the web platform <i>Mammamuntetiem.lv</i>	PRAC
Andris Bērziņš	Samaritan Association of Latvia	Head	PRAC
Vita Brakovska	NGO “ZINIS”	Head and innovation expert	PRAC SUP
Juris Cebulis	Ministry of Welfare	Project manager in the ESF project “Support for social entrepreneurship” (November 2015 – December 2022)	POL
Lāsma Cimermane	Christian charity organisation “Tuvu”	Chairman of the Board	PRAC
Alite Grobiņa	Ministry of Welfare	Project senior expert in the ESF project “Support for social entrepreneurship”, November 2015 – December 2022	POL
Dace Indrika	Social Business Ambassador Network	Member	SUP
Sandra Kumačeva	Latvia University of Life Sciences and Technologies / Christian charity organisation “Tuvu”	MA graduate and volunteer	ACA PRAC

Full name	Organisation	Role	Stakeholder category
Diāna Lapkis	Accelerator New Do(o)r Riga	Director	SUP
Imants Lipskis	Ministry of Welfare	Director of the Labour Market Policy Department	POL
Madara Makare	Social enterprise “HOPP”	Founder	PRAC
Juris Osis	Riga City Council, Social Welfare Department	Head of Employment, Social Work and Practice Research Division	POL
Liene Pērkone	Creative Industries Incubator	Head	SUP
Egita Prāma	Foundation DOTS – foundation for an open society	Administrative director	PRAC
Ieva Raubiško	Social enterprise “Humusa komanda”	Representative	PRAC
Anita Stirāne	Social Innovation Centre	Expert in trainings and project development	PRAC SUP
Madara Ūlande	Social Entrepreneurship Association of Latvia (SEAL)	Director	SUP
Aija Veigure	Stockholm School of Economics in Riga	MA graduate	ACA

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