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SOCIAL ENTERPRISES  
AND THEIR ECOSYSTEMS  
IN EUROPE

Country report

**LITHUANIA**

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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 Lithuania 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

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This report provides an overview of the social enterprise landscape in Lithuania 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](#)). Irena Pranskevičiūtė and Laima Okuneviciute Neverauskiene from the Lithuanian Social Research Centre were 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

- > **BIF** The Baltic Innovation Fund
- > **CEO** Chief Executive Officer
- > **EEA** European Economic Area
- > **EC** European Commission
- > **ESF** European Social Fund
- > **EU** European Union
- > **EUR** Euro
- > **INVEGA** Investment and Business Guarantees (*Investicijų ir verslo garantijos*)
- > **LEADER** *Liaison Entre Actions de Développement de l'Économie Rurale* Programme
- > **NGO** Non-Governmental Organisation
- > **NPO** Non-profit organisation
- > **NSO** National Institute of Statistics
- > **PE** Public enterprise
- > **SBI** Social Business Initiative
- > **SME** Small and Medium Enterprise
- > **USAID** United States Agency for International Development
- > **WISE** Work Integration Social Enterprise



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## Executive summary

### Background

**The history of social enterprise in Lithuania is closely related to the evolution of charity organisations and cooperatives.** Three different historical stages can be identified in this history: the pre-war period (until 1940), the Soviet-Union period (1945-1989) and the post-Soviet period (since 1990). **In the pre-war period, civil society developed as it did in many European countries.** There were charity organisations and Christian cooperatives providing social services. Private philanthropists or farmers' cooperatives financially supported such non-profit organisations (NPOs). **During the Soviet Union period, all independent and democratic civil organisations were prosecuted or forbidden.** The true nature of cooperatives was distorted by the nationalisation of private assets and by the process of forced collectivisation. The principle of voluntary action was violated; civil initiatives should promote the ideology of the party or were oppressed. The Soviet-Union period made a significant imprint on the current society attitude toward social enterprises.

**Since the restoration of the independent state, in the 1990s, civil society activities have been institutionalised through various forms of NPOs, such as public enterprises, associations and foundations.** These actors were mainly supported by international donor organisations, the state, and EU Structural Funds and, together, they constitute the foundation for social enterprise development.

**In recent years, social enterprise in Lithuania has developed in two directions: work integration social enterprise (WISE) and other types of social enterprises.** WISEs were established in 2004 and benefited from a special legal status, permanent financial aid system, tax exemptions and other preferences. Through years the number of WISEs and state-financed workplaces has grown dramatically, creating a heavy financial burden on the state. Furthermore, the ex-lege recognition of this type of social enterprise has also contributed to the overshadowing of other types of social enterprise. The other types of social enterprise emerged in the market as grassroots organisations. They adopted various legal forms and lobbied for new legislation, which would not be limited to WISE and would acknowledge all other *de facto* social enterprises.

## Concept, legal evolution and fiscal framework

**In 2004 Lithuania was among the first new EU member states that adopted a Law on Social Enterprises—actually on WISEs.** During the Soviet regime, there were factories employing persons with disabilities and the Law on Social Enterprises created a legal framework for the preservation of these workplaces for people with disabilities.

The main breakthrough of the social enterprise movement happened in 2014 and took the form of the first Social Enterprise Summit, which framed the background for the Conception of Social Business. **In 2015, following the Social Business Initiative by the European Commission, the Ministry of Economy then launched the decree on the adoption of the “Conception of Social Business”.**<sup>3</sup>

**Since 2015, two different de jure definitions of social enterprise have been coexisting in Lithuania.** These two conceptions are not “integrated”, and their co-existence creates confusion in legal acts, financial support frameworks and society.

## Mapping

**The social enterprise “universe” in Lithuania mainly comprises WISEs and NPOs—public enterprises<sup>4</sup>, associations and foundations—generating market income.** The overall number of WISEs is 186 and they mainly operate in low-skilled jobs areas: cleaning, construction, and food production. As for the other forms, 1,712 associations, 70 foundations and 1,694 public enterprises match the EU operational definition of social enterprise. Public enterprises, associations and foundations operate in the fields of social care, education, healthcare, sports and culture.

## Ecosystem

**The ecosystem of social enterprise in Lithuania is currently in a transitioning stage, which is characterised by conceptual ambiguity and policy tensions.** Policies, strategies, and resources for the development of social enterprise are divided and disputed among different state institutions and groups of stakeholders supporting the two different social enterprise definitions mentioned above.

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(3) Minister of economy (2015) Decree on the ratification of the conception of social business (April 3, No.4-207).

(4) In the study, we use the term “public enterprises” to identify the legal entities that, in Lithuania, operate under the legal form of *Viešoji įstaiga*. This is translated differently in various documents: as “public institutions”, “public establishments”, “public enterprises” or “public organisations”. We chose the term “public enterprise” because it seems to us to be the one that best reflects the nature of these legal entities and distinguishes them from conventional state or public institutions.

Traditionally, in Lithuania, social-economy-related issues and WISEs fell within the competence of the Ministry of Social Security and Labour, but the economic dimension of social enterprise attracted policymakers representing other state sectors: the Ministry of Agriculture, the Ministry of Economy and the Ministry of Internal affairs brought additional financial and human resources to support social enterprises. **The Ministry of Agriculture and the Ministry of Economy promoted a perception of social enterprises not only as a solution to social problems, but as important actors for economic and rural development.**

## Perspectives

**Recently social enterprises are growing and they attract more attention from different policymakers who see social enterprise as an important contributor to the welfare system.** Social enterprises stimulate public discussions around the themes of decentralisation of public-service provision and development of public-service market. The legal framework of WISEs is under reform, aiming to push WISEs toward a better implementation of their social enterprise dimensions.

**In the perspective of deinstitutionalisation and decentralisation of public service provision, social enterprises are perceived as the main prospective alternative actor to the state.** The strategic obligation to transfer more services to NPOs and social enterprises is included in the national progress strategy “Lithuania 2030”, approved by the Government of the Republic of Lithuania. State institutions and municipalities are taking steps to involve social enterprises in public service provision, but the scale of collaboration is limited.

**There are still a lot of barriers for social enterprise development: the current forms of state financing are ill-adapted to social enterprises, due to the burden of bureaucracy and too rigorous control process and standards.** Social enterprises have uneven conditions when accessing markets compared to protected and supported state-owned social service apparatus. The level of awareness about and trust on social enterprises among society, investors and policy makers still remains very low.



LITHUANIA


# 1

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## BACKGROUND

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The ecosystem of social enterprise in Lithuania differs from many EU countries with a long-lasting historical background of social enterprise evolution. In order, to comprehend the complexity of the current situation, development challenges and future trajectories of social enterprise in Lithuania, the historical context needs to be disclosed. The chapter observes the emergence and evolution of social enterprises through three distinct historical periods that overcome Lithuania: the pre-war period (until 1940), the Soviet-Union period (1945-1989) and the post-Soviet period (since 1990). This section explores the roots of social enterprise development emerging from philanthropic tradition in the 16<sup>th</sup> century. It also provides data on cooperatives and charity organisations, which emerged at the beginning of the 20<sup>th</sup> century. The significant interruption of the social enterprise development left by the Soviet regime is illustrated together with its imprint on current society's attitude toward social enterprise. The section summarises the development of social enterprise during the last decades highlighting the most important events for the establishment of legal framework and adaptation of the European concept of social enterprise in Lithuania, analysing obstacles and preconditions for future growth.



## 1.1. Social enterprise roots and drivers

**The social enterprise universe in Lithuania consists of experiences, hindrances and opportunities that emerged during three distinct historical stages: the pre-war period (until 1940), the Soviet-Union period (1945-1989) and the post-Soviet period (since 1990).** The historical legacy of each period left significant imprints and framed contradictory attitudes towards social enterprise, volunteering and cooperatives in contemporary society.

### 1.1.1. The pre-war period

**The first shelter for the elderly on the territory of Lithuania dates back to 1518.**

At the end of the 18<sup>th</sup> century, there were 194 charity shelters in the country, providing services to 5,279 persons. The founders and sponsors of these charities were noble families, but also ordinary citizens. Activities were carried out by volunteers or nuns (Praspaliauskienė 2000).

From 1785 through 1918, Lithuania was under the rule of the Russian empire, and there is little data about social service organisations or charities operating in Lithuania during that period. However, there were 26 charity organisations in 1900 in the capital of Lithuania, Vilnius.

On February 16, 1918, Lithuania was re-established as a democratic state, and it remained independent until World War II. The urge to develop a new welfare state, to support economic growth and to set up an inclusive social service system motivated citizens to join volunteer activities and to create and support charitable organisations.

**During the pre-war period, the state was only an assistant for secular and Catholic civil organisations that provided all kinds of basic social services.**

Parishes founded shelters for the elderly, the sick, abandoned children and orphans, Catholic cooperatives and secular organisations (Caritas, Catholic Women Society, Vincent Paul, St. Nicolas, St. Zita, Human Care, Lithuanian Women's Care Associations). In 1937, there were 7,774 associations registered in the country. The main fields of activities of associations were patriotism and national revival, culture and education, and social care.

**Civic engagement was very strong at that time; some civil society organisations attracted more than 1,000 volunteers.** Charitable organisations were creating significant positive social change. For example, the representatives of the Lithuanian Catholic Women's Society initiated and provided the first training courses for social workers, hereby creating the basis for the emergence of a new profession (Žalimienė and Rimšaitė 2007).



**The farmers' cooperative movement was a very active participant in the economic and social development of the state.** The Association of the Lithuanian Cooperative Societies was founded in 1920, and most of the consumer societies and cooperatives in the country became members. The Association founded the Bank of Cooperative Societies and the Council of Cooperative Societies, which later grew into the centre of the cooperative movement (Lukosevicius 2005).

**Cooperatives did not only serve the economic interests of farmers; they also served cultural, educational and political interests, and they supported the social movement and the development of the social service system in the country.** Farmers' cooperatives provided funding for the arts, the establishment of schools and the development of community infrastructure (Lukosevicius 2005, Žalimienė and Rimšaitė 2007, Ramanauskas *et al.* 2017).

The intersection of social and economic interests stimulated the development of European democratic values and the social economy ecosystem. In 1945, however, this process was interrupted by World War II and strongly negatively affected by the Soviet regime.

**The foundations of the Lithuanian civil society were laid in the interwar period.** Civil society organisations later played a significant role in restoring the independence from the Soviet Union and in rebuilding the social economy of the new democratic state, at the end of the 20<sup>th</sup> century.

### 1.1.2. The Soviet period

**During the Soviet period, the active participation promoted by charity organisations and cooperatives was suppressed or shaped by the strong ideological agenda.** In the years between 1940 and 1990, social services were nationalised, and the state took over cooperatives. According to Norvila (2007), during the Soviet period, real volunteering was not promoted, and public work, which was mandatory for all citizens—reporting was compulsory—replaced the desire to help each other.

**Coercive public work contradicted the idea of volunteering and eroded volunteer-based initiatives and motives in society.** Strict control of social life in the Soviet Union increased people's distrust of each other, and especially of strangers, and this had a significant negative impact on subsequent volunteering, mutual action and citizenship initiatives. "Perhaps just because of this negative public activist's image, for many of the older generation's people, voluntary work is associated with serving a certain ideology rather than the pursuit of a common good" (Kurpakaitiene and Sadauskas 2013: 84).

**In the 1930s, after the collectivisation process, the whole cooperative idea was distorted.** The agricultural cooperatives of the time, the kolkhozes, were not

independent; they were politically and ideologically controlled by the state and acted as “machinery of collective farms” (Numa Mazat 2016). Some forms of cooperation developed around mutual real-estate management, such as partnerships of collective gardens, but their functions were strictly limited. Different fellowships representing the interests of specific social groups such as disabled people or special interest groups (car drivers, tourists, writers, etc.) were popular at that time. During the Soviet period, these quasi-voluntary organisations implemented the ideological agenda of the party, but they later evolved into independent associations and became the first organisations of the social economy.

When examining the influence of the Soviet Period on attitude of the current society toward social enterprise, there are some relevant aspects worth mentioning which emerged during the stakeholders interviews. On the one hand, citizens are dissatisfied with state interference in the privacy areas and, on the other hand, there is still a strong paternalistic approach, with a need for state’s care and lack of independence and of self-sufficiency on the part of NPOs. This ambiguous situation complicates the search for a proper division of functions between the state and the market, and between bottom-up support to the development of social enterprise initiatives and top-down regulation of key elements of the ecosystem through state intervention.

### 1.3.1. The post-Soviet period

**When Lithuania regained independence, it started to support the massive establishment of non-profit organisations (NPOs).** The most significant event in the “restoration” of the social economy in Lithuania was the founding summit of the Catholic women organisation Caritas, in April 1989, which brought together 812 delegates and 3,000 participants. Caritas, the largest volunteer organisation with social aim, had been established in 1926 but in 1940 its activities were suppressed by the Soviet regime. The summit of the Catholic women restored historical Caritas traditions. Policy makers relied on the volunteer practice and experience of Caritas to formulate the concept of social work, which was formally adopted in 1992. This concept laid the foundations for the recognition of social work as a separate profession and to build up the definition of social services provided by the state.

In 1992, the legal form of NPO was institutionalised by the “Ordinance of the Government on the Main Principles for Non-profit Organisations’ Statute”. In 1995, the first Law on Public Organisations (Law No. I-785, currently not valid) was passed and created the legal framework for various types of NPO to emerge. These laws institutionalised volunteering and charity, formulated management and accountability principles of NPOs and defined fields of public benefit. Later on, the various types of public organisation were grouped into public enterprises, associations and foundations, and relevant laws were passed. **The legal framework for NPOs created favourable**

**conditions for social enterprise to emerge, as associations, public enterprises and foundations were legally compelled to combine three core dimensions of social enterprise: a social aim, economic activities, and inclusive governance.**

**When Lithuania restored independence and moved from centralised economy to the free-market economy, entrepreneurial initiatives in society took mainly the form of cooperatives.** The most popular types were consumer and farmer cooperatives. Some of the cooperatives with a social aim from the pre-Soviet period were suppressed during the Soviet regime but they were restored as new organisations and adopted the legal form of association.

**Historically, associations have roots in the experience of charity organisations and cooperatives set up to promote the interests of disadvantaged social groups.** Currently cooperatives in Lithuania are mainly focused on commercial aims, hence they are also involved in some social or public benefit activities.

*The social (democratic) and economic goals of the first cooperatives were concurrent (and in some cases, social goals even predominated). For a long time, economic goals served as [a] means [to solve] social problems and only afterward, in the fight against capitalist enterprises, they had to be economically strong and competitive. Therefore, economic motives started prevailing over the social ones.*

Ramanauskas *et al.* 2017: 104

By entering the EU, Lithuania gained access to European Structural Funds (ESF) assistance. The country had to harmonise its national legal framework with EU's legislation. The Law on Social enterprises (Law No. IX-2251), institutionalising the WISE-type social enterprise, was released in 2004. **Opportunities to get ESF assistance for social enterprises through public grants for investments and reimbursements of workplace costs stimulated entrepreneurs to establish WISEs.**

In parallel to WISEs, various other types of social enterprise initiatives grew in number, attracted new stakeholders and lobbied for new legislation. **The main breakthrough of this bottom-up social enterprise movement—namely the organisation of the first Social Enterprise Summit—happened in 2014.** The Summit discussed and framed the background for the new conception of social enterprise, from which evolved the Decree of the Minister of Economy on the Ratification of the Conception of Social business, 2015 April 4, No 5148.

Since 1990, volunteers from Western European countries or the United States appeared in Lithuania, and since 2000, Lithuania has started to operate in the European Commission's Youth Programme "European Voluntary Service". **Foreign volunteers have had a significant impact in terms of changing the image of volunteering and forming a social economy ecosystem.** They did not only provide social, educational,

administrative and other assistance, but they also—by sharing their experience—helped to develop non-governmental organisations and make the conception of volunteering activities in Lithuania evolve toward the European conception of such activities.

In 2009, the European Commission proposed that 2011 be designated as the “European Year of Volunteering 2011”. **In 2011 as well, the Parliament of Lithuania adopted the Law on Volunteering (No. XI-1500).** This Law described the role of the volunteer in different areas, the main principles and organisation of volunteering, volunteers’ rights and responsibilities, voluntary insurance, and rules about the reimbursement of expenses.

**Rather than taking stock of the traditions of state’s paternalism, the new social economy organisations adhered to the principles of personal responsibility and subsidiarity.** The period of the restoration of the Lithuanian non-profit sector coincided with the transformation of many NPOs in Western Europe from a role mainly oriented toward advocacy to a role of provision of services and the adoption of a social enterprise model.

**A social enterprise approach was stimulated by the involvement of international donors, such as the World Bank, USAID, the EU and other organisations.** They did not only provide financial support; they also introduced the values and principles of social enterprise in Lithuania. Donors like the George Soros Open Society Institute, the Bill and Melinda Gates Foundation and the Ted Turner Foundation also stimulated entrepreneurial thinking and introduced some economic and market elements into the non-profit sector, thus bringing about a positive outlook for the development of social enterprise in Lithuania (Kurpakaitiene and Sadauskas 2013).

**The role and model of NPOs in the field of social services were reconsidered during the global financial crisis.** With internal and external pressures to save on social security expenditure and to reduce the administrative apparatus, the state started to look for ways to involve social enterprises and NPOs in the provision of social services. In 2010 and 2011, the Ministry of Labour and Social Affairs trained more than 400 associations, public enterprises and foundations in the fields of entrepreneurship and financial independence.

## 1.2. Development trends

**Currently in Lithuania, there is a mixed market for the social services provision where services can be offered either by public authorities, private companies or NPOs.** However, the debate about the mixed market for the provision of public services—and more specifically of social services—in Lithuania is still ongoing, mainly focusing on the increasing presence of private providers as opposed to the state.

**State institutions and municipalities are the main actors behind the social welfare system: they single-handedly design social service strategies without involving associations, public enterprises or foundations in the process.** The main beneficiaries of the state budget and European Structural Funds for social services are municipalities or state-owned “public organisations”. Traditionally, state institutions cover all the costs incurred by state-owned “public organisations” through direct financing from the public budget.

**The analysis of public service purchases carried out by non-governmental organisations’ information and support centre indicates, that state-owned organisations provide some 93-95% of social care, education, culture and sports services.** Some services such as daycare centres, non-formal education, social integration for people with disabilities, youth engagement and services for families at social risk are provided by associations, public enterprises or foundations and funded by *una tantum* project grants.

**Policymakers are currently implementing activities with potential for systemic transformation aiming at developing social enterprise in the framework of the deinstitutionalisation and decentralisation of state functions.** On the basis of the Minister of Social Security and Labour’s action plan for 2014-2020 for the transition from institutional care toward family and community care services for people with disabilities and children deprived of parental care (No. A1-83, February 14, 2014), Lithuania is engaged in a process of transition toward decentralised stationary social care services for this target group. The formal strategy adopted foresees a significant role for social enterprises in the various stages of this transition.

In 2018, the Ministry of Economy, thereby implementing article 1.1.5, action 4 of the Government’s action plan, on “Gradual public service transfer to social enterprises”, established a multi-stakeholder workgroup to create and test a model for a gradual transition of public services to social enterprises. The aims of this model are the creation of instruments for the decentralisation of public services in municipalities and the creation of a market for social enterprises where services would be purchased through market mechanisms.

The social enterprise ecosystem in Lithuania is currently undergoing a significant period of development, which is creating the preconditions for future growth. **The implementation of a favourable legal framework, whose effects are further enhanced by intellectual and financial support, can be expected to result in a boom of experiments and innovations.**

# 2

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## CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

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This section applies the EU social enterprise operational definition to the Lithuanian national context. It identifies, how the key features of social enterprise along three dimensions (entrepreneurial, social and related to the governance) are expressed in the legal framework of social enterprise in Lithuania. The chapter draws borders of the social enterprise universe in Lithuania. It highlights two groups of social enterprises that meet the EU social enterprise operational definition: 1) work integration social enterprises (WISEs) and 2) public enterprises, associations and foundations generating market income and which are not recognised as WISEs. These two groups have historically different development trajectories and operate under different legal framework and their highlights a duality that social economy is currently overcoming in Lithuania. Moreover, the situation of the legal environment for social enterprise has significantly changed since 2014. The current extensive update of the 2014 Country Report presents an overview of the main events and documents in the evolution of the legal framework. The section analyses elements supporting or hindering social enterprise development such as the laws which created fiscal exemptions benefitting all or specific types of social enterprise that are not granted to conventional enterprises.

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## 2.1. Defining social enterprise borders

### 2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition put forward by 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 classifies the key features of social enterprise along three dimensions:

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

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

Building upon this definition, the European 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 Lithuania

In Lithuania, social enterprises can use all legal forms, both non- and for-profit, made available by the legal system. Organisations meeting the EU social enterprise operational definition include:

- > work integration social enterprises (WISEs);
- > public enterprises, associations and foundations generating market income and which are not recognised as WISEs.

Organisations that only partially fulfil the EU social enterprise operational definition and hence belong to a sort of “grey area” comprise initiatives that are implemented by conventional shareholder enterprises, individual enterprises, traditional cooperatives



and NPOs that are not engaged in market activities and largely rely on donations, grants and voluntary work.

### Work integration social enterprises (WISEs)

**Enterprises are entitled to WISEs' status by the Law on Social Enterprises, passed in 2004 (Law No. IX-2251).** This Law distinguishes two types of WISEs: (i) social enterprises where at least 40% of employees belong to one of the different groups targeted by the work integration mission of the enterprise; and (ii) social enterprises for people with disabilities, where at least 50% of employees belong to this specific target group. More information on the legal framing of WISEs is provided in the first sub-section of section 2.2.

**All WISEs fully meet the entrepreneurial dimension criteria of the EU operational definition.** A company that want to be granted the legal status of WISE must present a business plan and demonstrate its financial accountability and economic stability. In most cases (91% of WISEs), these social enterprises adopt the legal form of shareholder companies; however, to a lesser extent (9%), they are set up as public enterprises, small partnerships or individual enterprises.

Since 2004, associations have not been allowed to apply for the WISE status, and since 2015, public enterprises have not been allowed to become WISEs either.<sup>3</sup> **These restrictions show that the WISE model aimed at motivating conventional business companies to carry out permanent social impact activities and to move toward a social enterprise model.**

**The income structure of WISEs comprises market income and state aid for the employment of disadvantaged groups.** Information on state aid in the form of non-refundable reimbursement to cover wages, social insurance tax, transportation, workplace adaptation to the needs of people with disability, assistance service and other expenses is analysed in the third sub-section of section 4.2.

**WISEs partially meet the operational criteria of the social dimension.** Pursuant to the Law on Social Enterprises of 2004, item 3.2, a company applying to obtain the WISE legal status is obliged to include, in its founding documents, an aim related to the employment of disadvantaged groups, their education, the development of their professional skills and capacities and their social integration. It is not required that the employment of disadvantaged people be the main aim of the enterprise, though. Usually, the main purpose of the WISE is related to the field of activities (e.g. cleaning

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(3) Pursuant to the decree of the Minister of Labour and Social Affairs on the “description of the procedure for the conferment of the social enterprise status to legal subjects”.

services or construction) and the social aim is supplementary. If an enterprise no longer meets the WISE criteria, the WISE legal status is withdrawn.

The legal form determines the governance structure of WISEs. **As mentioned above, almost all WISEs are limited liability enterprises, while only a few are individual enterprises, small partnerships or public enterprises.** Indeed, interviews with WISEs show that, although various stakeholders such as NPOs working with disadvantaged groups, social service providers, state institutions and municipalities are involved in WISEs' activities as partners, they are not involved in the enterprises' management bodies.

**Due to their specific legal status, WISEs face more requirements than other enterprises in terms of accountability and transparency.** All information on state aid provided to WISEs is public and, in addition to all other reporting requirements provided for by the laws of Lithuania, WISEs are obliged to provide all financial information on their disadvantaged employees and activities to the National Labour Exchange.

**Public enterprises, associations and foundations generating market income and which are not recognised as WISEs.**

**Public enterprises, associations and foundations are presented as one group because, except for the separate laws defining their legal form, the legal framework within which they operate is common to all of them.** Many of their features, scope of activities, financial structure and employee structure are also similar, with major differences observable only in governance. In Lithuania, public enterprises, associations and foundations are typically listed together—sometimes under the overarching concept of NPO—in policy papers, research and operational documents.

**Public enterprises, pursuant to the Law on Public Establishments (Law No. I-1428, 1996), are public legal entities with limited civil liability aiming to satisfy public interests by carrying out activities in the fields of education, science, culture, health care, environmental protection, sports, social and legal support or other activities useful to society.** In the present report we use the term *public enterprises*, to name the legal form, which in original language is *Viešoji įstaiga*. The previous social enterprise mapping study of 2014 for this legal form applies the term *public establishments*. The term public enterprise is preferred in this report to capture the true nature of such legal form and to avoid any confusion with state institutions.

Historically, the legal form of public enterprise was created for schools, universities, hospitals and other organisations managed by central or local authorities. However, the law does not preclude private individuals or organisations from establishing public enterprises, and since this legal form is very convenient for private non-profit initiatives,

many social enterprises—especially among the new ones—adopt this legal form. **Such variety has created statistical confusion, as the public enterprise legal form now covers both traditional state institutions and private social enterprises.**

**Associations, as recognised by the Law of Associations (Law No. IX-1969, 2004), are public legal entities with limited civil liability whose purpose is to coordinate the activities of their members, to represent their interests, to defend them or to pursue another general-interest goal.** An association may include one of the following words in its name: “association,” “public organisation”, “fellowship”, “confederation”, “union” or “society”.

**Foundations, pursuant to the Law on Charity and Sponsorship Foundations (Law No. I-1232, 1996) are public legal entities with limited civil liability whose purpose is to provide donations or sponsorship to physical or legal entities.** The foundations operate in the areas of sciences, culture, education, art, religion, sports, health care, social care, environmental protection and other areas of general interest.

**The social dimension is enshrined in the legal form of public enterprises, associations and foundations and constitutes the main purpose of such types of social enterprise.** Associations and foundations typically pursue social aim as their main purpose. However, among public enterprises, also are organisations, which focus only on commercial aims, for example advertising, media services, consulting companies, private schools or health care centres.

**An entrepreneurial dimension is not inherent in all types of public enterprises, associations and foundations, as these legal entities are traditionally non-profit.** They are allowed by legal acts to earn a profit, but 100% of it shall be reinvested in the pursuit of their main goal, which shall be oriented towards the public benefit and general interest.

According to several research studies (Ekonomines konsultacijos ir tyrimai 2017, Eurointegracijos projektai 2014) and to data provided by Statistics Lithuania <sup>4</sup>, **only about one fourth (23%) of public enterprises, associations and foundations perform economic activities generating market income on a permanent basis.** Public enterprises, associations and foundations are allowed by legal acts to combine charity donations with income from market activities and to team up volunteers with employed personnel. Typically, the resource mix of public enterprises, associations and foundations includes a combination of membership fees; a maximum of 2% from the

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(4) Statistics Lithuania provides data on economic activities and income only for organisations operating under the public enterprise legal form, and only from 2014 onward. Associations and foundations are obliged to provide financial data, but such data are not analysed by Statistics Lithuania, so information about non-governmental organisations' income is generated mainly through public surveys and interviews.

yearly individual income tax transferred as donations to NPOs; municipal budget funds; state budget funds; international funding programmes; private funding and income from economic activities.

**As far as the governance structure is concerned, among the three types of enterprise analysed here, associations are the organisations that best match the social enterprise definition.** They are founded by the members and have a multi-level governance structure, including the CEO, the board and the general meeting of the members. The general meeting of the members is the highest decision-making body; it checks and approves financial reports, and it makes decisions on expansion, admission or exclusion of new members, changes in statutes, activities, pricing, etc. Associations usually involve employees (who are often among the main beneficiaries) into their decision-making process. It is important for associations to collaborate with stakeholders and customers to pursue the enterprise's main goal and develop a stronger social impact.

**Foundations and public enterprises have a more “closed” governance structure, compared to associations.** Public enterprises are typically managed as limited liability companies, by the CEO and the board, which usually consists of founders. Foundations also usually are managed by the board and the CEO, but contrary to public enterprises, they have councils in which clients or stakeholders can take part.

Since 2014, associations, public enterprises and foundations have had to provide financial and activity reports to state institutions. **The law also requires that yearly activity and financial reports as well as founding documents be made accessible to the public.**

As of 2018, associations, public enterprises and foundations also have to provide information about their founders, and information that will help to identify which organisations are governed independently from the state or corporations.

## 2.2. Legal evolution

**The legal evolution of social enterprise in Lithuania comprises two stages.**

The first stage corresponds to the institutionalisation of the work integration social enterprise type and the development of the legal framework and financial support system for specific social enterprise models. This first stage was marked by the release of the Law on Social Enterprises in 2004. The second stage represents a step further toward the legal recognition of social enterprise in Lithuania. It is linked to the legal recognition of all other types of social enterprises and the adoption of the EU definition of social enterprise in Lithuania.

**Within this second stage, two major steps can be distinguished: a political step, related to the release of the “Conception of Social Business”, in 2015, and an operational step, corresponding to the publication of the “Guidelines for Social Enterprise Projects”.** The political step framed the new definition of the social enterprise, whereas the operational step explained and detailed the criteria defining the social enterprise concept and the models for the operation of these enterprises. In the present section, the Law on Social Enterprises, the Conception of Social Business and the Guidelines for Social Enterprise Projects are analysed in relation to the EU social enterprise definition, and a summary of this analysis is presented in table 1.

### The Law on Social Enterprises

**The Law on Social enterprises passed in 2004, initially aimed to preserve organisations that provided employment and integration of people with disabilities during the Soviet period.** Back then, fellowships of persons with various types of disabilities operated in Lithuania: the fellowship of blind and visually impaired people, the fellowship of deaf people, etc. These fellowships ran factories where disadvantaged people were employed. When Lithuania regained independence from the Soviet Union, fellowships were restructured into associations. These became shareholders of the former factories, which became separate legal entities, share enterprises or public enterprises. The Law on Social enterprises provided framework for a financial aid system for WISEs, with a view to sustaining their competitiveness in the market.

**Through time, other enterprises have established WISEs on the basis of this law.**

Research by Okuneviciute Neverauskiene, Moskvena (2011) showed that first WISEs established in 2004-2005, shortly after the law was passed, were mostly focused on the employment of people with disabilities, supporting their return to work and their social integration. Currently, these social enterprises operate with a rising focus on

economic—rather than social—objectives<sup>5</sup>. The Ministry of Social Security and Labour is currently preparing a new law and a new system for WISEs financing and regulation with a view to ensuring that the main purpose of WISEs—namely the creation of positive social impact—is through the employment of disadvantaged people, who lost their professional and general ability to work, are economically inactive, and are unable to compete on the labour market on equal terms, to encourage their return to the labour market, their social integration and reduce social exclusion.<sup>6</sup>

**The Law on Social Enterprises (Law No. IX-2251), adopted by the Parliament in 2004, formally institutionalised WISEs, stating that a “social enterprise is any type of enterprise that is set up to create employment for people who are severely disadvantaged in the labour market.”** The Law on Social Enterprises distinguishes two types of WISEs:

- > (a) WISEs in which at least 40% of employees (annual weighted average number of employees) belong to at least one of the following target groups: people with disabilities, the long-term unemployed, persons who are not more than five years away from retirement age, lonely parents, ex-prisoners, and drug addicts after rehabilitation, and in which at least four employees belong to at least one of the target groups;
- > (b) WISEs for people with disabilities, in which disabled employees account for minimum 50% of the annual average number of employees on the staff list. People with disabilities with a severe or moderate disability must represent at least 40% of employees, and the number of employees with disabilities must not be lower than four.

Both types of enterprise must also comply with the following prerequisites in order to qualify for the social enterprise status:

- > The company’s founding documents, mission and vision must include the employment of disadvantaged people, the development of their working and social skills as well as their social integration as an operating goal.
- > The company cannot carry out activities included in the list of non-supported activities of social enterprises (see table 2, section 3.1) as approved by the government, or the income received from such activities cannot account for more

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(5) In 2017, media and members of the Parliament broadly discussed cases where business consultants offered “cost-optimisation” services to companies, encouraging them to reorganise their personnel and create social enterprises, where employees meeting the “target-group criteria” defined by the Law on Social Enterprises, would be formally transferred and employed, thereby gaining access to state aid for job creation.

(6) Ministry of social security and labour (2017) The Project of the amendment law to the law of social enterprise, December 20, No XIIP-1530.

than 20% of their total income. The goal pursued by the government through this limitation is to provide financial support mainly for the employment of those with the most severe disabilities. The government indeed argues that persons with lighter disabilities can find jobs on the free labour market, in the fields of the non-supported activities. Some of these activities are also high-risk activities and, as such, do not fit with the social-benefit idea.

**The Law on Social Enterprises has been amended four times since 2004; all the amendments were introduced to increase the social impact of WISEs and to reduce public financial aid.** The law was also aligned with EU legislation, namely with the Commission's Regulation (EC) No. 800/2008, on declaring certain categories of state aid compatible with the common market's requirements.

The amendments have made the requirements regarding the number of disadvantaged persons employed and the obligation to employ persons with the most severe disabilities more demanding. The 2014 amendment also reduced the amount of money that WISEs are allowed to receive from the state or EU funds. The 2016 amendment aimed to prevent the abuse of financial aid and introduced the condition that the jobs supported by the state for disadvantaged persons not be used to replace "normal" jobs. **All these changes have practical implications: in particular, more demanding criteria are likely to result in a decline in the number of companies seeking the status of WISEs in the future, thus gradually stabilising or even reducing the financial burden for the state.**

#### The new conception of social business

**In 2015, the Minister of Economy issued the Conception of Social Business (Decree No. 4-207, 2015).** The purpose of the Conception is to define the principles of social business and support its development. The conception states that

*[social] business consists of two subsectors: (i) the social economy market subsector—i.e. such economic activity that seeks to create social value by selling goods or services in the market at economically significant prices and accepts economic risks; (ii) the social economy non-market subsector—i.e. such economic activity that seeks to create social value, through the provision of goods or services free of charge or at low prices, for specific social groups.*

The Decree of the Minister of Economy on the Ratification of the Conception of Social business, 2015 April 4, No 5148: 3)

The Conception says that it uses only "social business" term as more general and which includes "social enterprise" term as the social business entity. **The Conception defines social business as a specific business model that combines profit-seeking, using market mechanisms, with social goals and priorities.** It is based on socially responsible business and public-private partnership principles and seeks

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to implement social innovation. Social business involves three main aspects: an entrepreneurial aspect (continuous economic, commercial activities), a social aspect (pursuing social goals) and a governance aspect (limited distribution of profits, transparent management).

Social business is directly related to a permanent economic activity: (i) the provision of services and/or goods directly meeting the enterprise's social purposes (housing, health care, care for elderly or disabled people, social inclusion of vulnerable groups, childcare, etc.); (ii) the production of goods or the provision of services in a way that helps the enterprise achieve a social objective (social and professional integration of the workers, etc.).

### **A social business must meet four main criteria:**

1. in accordance with foundation documents, it pursues regular economic activities seeking the main objective of measurable and positive social impact;
2. the profit made is reinvested in the enterprise to achieve the main objectives;
3. the business is managed accountably, transparently and in a way that involves stakeholders;
4. social business management is independent from the state, municipal institutions and bodies, public-sector organisations and other organisations.

**According to the Conception, social businesses can be set up and operated by conventional shareholder companies whose main objective is a social benefit, and by NPOs implementing business activities.** These social enterprises can be set up under a variety of legal forms, including inter alia formalised small partnerships, share companies, cooperatives, private enterprises, associations and foundations. Social enterprises can apply a variety of business models; the specific social-business model demonstrates how socio-economic value is created through the organisational structure, the social, economic and human resources, and the involvement of stakeholders. Social enterprises can rely on various financial resources: income from economic activities, loans, subsidies, membership fees and donations. Non-monetary resources—such as volunteering—are also used.

The Conception pursues three main objectives with a view to supporting the development of social enterprise in Lithuania: 1) creating a favourable legal environment (also as regards the public procurement system); 2) creating a financial and tax support system (loan guarantee system, microcredits, social innovation funds, social risk capital funds, fiscal means); and 3) increasing the awareness of the population about social enterprises.



**The Conception also highlighted the need to develop a methodology for assessing the impact and social efficiency of social business activities.** Such methodology is needed, because credit institutions and state credit support managers, who are main financial “accelerators” for small and medium enterprises, lack the right measuring instruments to assess the creditworthiness of social enterprises. Therefore, they often do not to provide social enterprises with funding, due to their alleged lack of value and economic stability.

In 2016, the Recommendations for the Specification of Social Business Criteria were published to amend the Conception of Social Business (Order No. 4-533, 2016). **The main idea of this amendment was to distinguish social enterprises from traditional commercial companies and traditional NPOs.** According to the amendment, in order to be granted the social-business status, NPOs must meet the following criteria:

1. they must have permanent economic activities, and at least 50% of their income must be generated by market activities (sales of goods or services). This percentage is calculated taking into account all the enterprise’s income, excluding investments, used for business development;
2. they must create jobs with fair salaries for employees;
3. they must be oriented toward individuals who are more sensitive to socio-economic challenges and risks;
4. they must also be oriented toward society, and they must have a more positive impact on the environment than a conventional business;
5. they shall create benefits in listed areas;
6. more than 50% of their profit must be reinvested for the social purpose;
7. they must be transparent and make information about their profit and its reinvestment available to the general public;
8. their management must be independent from municipalities or state institutions or other companies and organisations that are not oriented toward the implementation of their social goal.

The abovementioned criteria—such as the criterion about creating salaried jobs (as opposed to what is the case in initiatives solely based on volunteering) or the requirement that a large share of income be from market activities—distinguish social business from traditional NPOs or other forms of social economy initiatives that pursue a social purpose, but have no permanent economic activities or paid employees. The criteria requiring that the enterprise reinvest a large part of its profit for the social purpose, create benefits through its activities in specific areas, and be independent from other organisations that are not oriented toward a social goal distinguish social enterprises from conventional business.

### Guidelines for social enterprise projects

In 2014, the minister of Agriculture issued a decree “On guidelines for the implementation of social business within the programme means for the development of rural areas for the period 2014-2020” (No. 3D-720, November 2017). The guidelines provide social businesses and institutions administrating the implementation of the projects for the programme for rural development in Lithuania (LEADER programme<sup>7</sup>) advice on how to apply for available funding. Social business projects financed by the LEADER programme must aim at social inclusion, poverty reduction and economic development in rural areas, and they must support balanced economic and community development and create workplaces.

**The guidelines also introduced an additional term—namely that of *community enterprise*—into the legal framework.** Even though the guidelines were originally intended for use within the frame of the LEADER programme, the new term spread out among local communities. A community enterprise is defined as a business initiated by a community organisation and whose profit is devoted to supporting the needs of the community. The guidelines framed three models of community enterprise: an external model, an integrated model and an embedded model (such as they had been introduced and defined by Alter 2007).

**The guidelines represented a new step in the legal evolution of social enterprise in Lithuania to the extent that they provided a detailed framing of core social enterprise dimensions and made it clear how social, entrepreneurial and inclusive-governance elements should be embedded.** They described the detailed procedures for the institutionalisation of the social aim, social-impact measurement, profit reinvestment and obligatory involvement of stakeholders in the management of the social enterprise.

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(7) LEADER stands for *Liaison Entre Actions de Développement de l'Économie Rurale* (in English, “Links between actions for the development of the rural economy”).

**Table 1. Comparison of the legal definition of social enterprise in Lithuania to the EU operational definition of social enterprise**

EU social enterprise operational definition	Lithuanian definitions	Social enterprise / WISE approach (defined in the Law on Social Enterprises)	Social enterprise approach	
Dimensions	Criteria		Defined in the Conception*	Defined in the Guidelines**
<b>Entrepreneurial/ economic dimension</b>	Market-oriented (market-based income should ideally be above 25%).	Income from economic activities included in the list of non-supported activities of social enterprises cannot represent more than 20% of the total income.	At least 50% of income generated by market activities.	At least 50% of income generated by market activities.
	The organisation is or is not incorporated (it is included in specific registers).	Yes	Yes	Yes
	The organisation is or is not autonomous.	Yes	Yes	Yes
	Members/owners contribute with risk capital	Yes	Yes	Yes
	The organisation relies on paid workers.	Yes	Yes	Yes
	There is an established procedure in case of bankruptcy.	Yes, but general, not specific to social enterprise	Yes, but general, not specific to social enterprise	Yes, but general, not specific to social enterprise
	The organisation contributes to delivering new products and/or services that are not delivered by any other provider, or it implements new processes or other innovations.	No	Yes	Yes
<b>Social dimension (social aim)</b>	The explicit social aim is defined at the statutory/legal level or voluntarily by the social enterprise's members.	Yes	Yes	Yes
	The activity carried out aims to promote the recognition of rights enshrined in the national legislation/ constitution.	No (only as a specific action area)	No (only as a specific action area)	No (only as a specific action area)
	The organisation's action has induced changes in legislation	No	No	No
	The product delivered contributes to improving societal well-being	As a specific action area	Yes	Yes

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EU social enterprise operational definition	Lithuanian definitions	Social enterprise / WISE approach (defined in the Law on Social Enterprises)	Social enterprise approach	
Dimensions	Criteria		Defined in the Conception*	Defined in the Guidelines**
Inclusive governance-ownership dimension (social means)	The organisation is open to the participation and/or involvement of new stakeholders	No	Yes	Yes
	The organisation must adopt decision-making processes that allow the representation of the various interests	No	Yes	Yes
	The organisation has a multi-stakeholder ownership structure.	No	Not specific to social enterprise, but applicable to certain legal forms (associations, public enterprises)	Not specific to social enterprise, but applicable to certain legal forms (associations, public enterprises)
	The organisation must adopt social accounting procedures.	Yes (specifically for subsidies)	Yes	Yes
	The organisation demonstrates social embeddedness, and there is awareness in the local population of social enterprise's role.	No	No	No
	The organisation has non-profit-distribution constraint.	No	Not less than 50% of the profit shall be reinvested to social aim.	Not less than 80% of the profit shall be reinvested to social aim.
	Limitations of workers' and/or managers' remunerations are imposed	No	No	No

\* Minister of economy (2015) The Decree on the ratification of the conception of social business April 3, No.4-207.

The Recommendations for the Specification of Social Entrepreneurship Criteria, approved by the Ministry of Economy on August 29, 2016, Decree No. 4-533.

Minister of economy (2016) The Decree on the Recommendations for specification of social business criteria August 29, No. 4-533.

\*\* Minister of agriculture (2017) The Decree on guidelines for implementation of social business within the programme means for development of rural areas for 2014-2020 November 9, No 3D-720.

## 2.3. Fiscal framework

**There are few fiscal exemptions specifically benefitting all or specific types of social enterprise.**

Under the Law on Profit Tax (Law No. IX-675, adopted in 2001, amended in 2013), public enterprises, associations and foundations with a taxable income from commercial economic activities that does not exceed 300,000 EUR benefit from a zero tax rate for the first 7,250 EUR of taxable profit, and the remaining part of the profit is taxed at a rate of 15%. Revenues are not considered as commercial income if they are reinvested in the financing of activities carried out in the public interest.

Under the Law on Value Added Tax (Law No. IX-751, 2002), no value added tax is paid on revenues resulting from the provision of public-benefit services: personal and public health services; social services; education and training; cultural services; physical-education and sports-related services.

Under the Law on State and Municipal Property Management, Use and Disposal (Law No. VIII-729, adopted in 1998, amended in 2013), all types of social enterprise can be granted state and municipal property (premises) to use and manage free of charge on a temporary-lease basis. Assuming that the use of such premises contribute to the general interest under the Law on the Real Estate Tax (Law No. X-233, 2005), social enterprises are exempted from the real estate tax.

Public enterprises, associations and foundations are allowed to attract additional funding through:

- > donations from conventional companies, which, under the Law on Profit Tax (Law No. IX-675, 2001), article 28, can consider such donations as expenses, thus reducing their taxable income;
- > donations from individuals: under the Law on Individuals' Income Tax (Law No. IX-1007, 2002), Lithuanians can choose to donate 2% of the personal income tax they pay to charities, religious institutions, NPOs or public organisations, such as schools. The person can split the donation among several organisations;
- > additional resources: under the Law of the Republic of Lithuania on voluntary work (Law No. XI-1500, 2011), only these legal forms and state institutions can employ volunteers.

**Legal frameworks regulating the Lithuanian tax environment also provide for more favourable conditions not specifically for the legal entities designated as social enterprises, but for certain legal forms or general interest activities.**

For example, there are exemptions from real estate taxes for 1) legal entities carrying out specific activities (for example, science and education institutions, organisations

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providing social services in accordance with the Law on Social Services (Law No. X-493, 2006); 2) legal entities with a specific status (for example, associations, charity support funds, public enterprises, etc.), when land or real estate is used exclusively for non-commercial activities.

**The legal framework regulating labour relations and remuneration for work provides for more favourable conditions for the legal entities that perform social-employment activities for disadvantaged people.** Employees with limited work capacity are entitled to higher non-taxable income levels (Law on Income Tax of Individuals, No. IX-1007, 2002).


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## MAPPING

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The role and impact of social enterprise to the social and economic development of Lithuania is not fully acknowledged, resulting in public distrust and lack of state or international donor support. This section presents social enterprise characteristics based on analysis of research initiatives, official data provided by public institutions, stakeholders interviews and an ad hoc “scouting exercise” conducted by the authors. Such measurement of social enterprises is implemented for the first time in Lithuania and gives better understanding about probable number of social enterprises that meet EU operational criteria. The section also provides key measurements of social enterprises: number of enterprises, number and structure of employees, and average annual turnover. Measurements are presented following the two groups that cover all social enterprises de facto operating in Lithuania, i.e. WISEs and public enterprises, associations and foundations generating market incomes and which are not recognised as WISEs. Lastly, the section highlights differences among specific groups of social enterprises and their relevant legal forms. WISEs typically are limited liability companies which employ persons with disabilities and mostly engage in low-skilled jobs. Public enterprises, associations and foundations usually operate in general interest fields and combine employment of volunteers, disadvantaged people and professionals. Association are the most “inclusive” type of social enterprise in terms of governance models.



## 3.1. Measuring social enterprises

In Lithuania, detailed data are collected for WISEs. Information on public enterprises, associations and foundations is collected by combining various sources: public databases, research publications, and scouting.

### Work integration social enterprise (WISE)

**At the end of 2017, there were 186 WISEs, 63 of which were WISEs for people with disabilities.** Since 2004, the number of WISEs has been multiplied by 14—from 13 to 186 enterprises—and the number of disadvantaged employees has grown accordingly, as shown in table 3. The projections for 2014 were that, due to tightening of requirements regarding the employment of disadvantaged persons, the number of WISEs would not grow as fast as it had done hitherto. However, since 2014, the number of social enterprises has been growing on average by 10% per year, thus exceeding the growth rate of SMEs during the same period (7.5% per year on average; see Enterprise Lithuania 2017). At the end of 2017, WISEs employed 12,150 employees, of which 9,356 (77%) were disadvantaged people, including 7,941 persons with disabilities.

**Table 2. Number of WISEs and their workforce (2004-2017)**

Year	2004	2005	2006	2007	2008	2009	2010
Number of WISEs	13	37	49	64	82	102	130
Disadvantaged people employed	665	1,108	1,339	1,529	1,903	2,289	2,452
All employees*	864	1,439	1,739	1,986	2,471	2,973	3,184

Year	2011	2012	2013	2014	2015	2016	2017
Number of WISEs	137	136	134	141	148	172	186
Disadvantaged people employed	3,504	4,157	4,746	5,413	6,010	7,285	9,356
All employees*	4,551	5,399	6,164	7,030	7,805	9,461	12,150

Source: Lithuanian Labour Exchange, 2004-2017<sup>8</sup>, Centre of Registers.

\* The database of the Lithuanian Labour Exchange presents general figures of disadvantaged people employed in all WISEs and number of disadvantaged people by each enterprise. However, data on the general number of all employees in WISEs, including those employees who are not disadvantaged, is not

(8) The data on dynamic of creation and employee number at WISEs was presented to the Seimas (Parliament) at the Project of the Amendments of the Law on social enterprises, 2017.



accurate, because some enterprises do not present such information. One hundred seventy-six WISEs (from a total of 186) provide disaggregated data on employees and disadvantaged workers. Analysis of these WISEs shows that 77% of all employees are disadvantaged people. On the basis of this percent we calculated the number of all employees in all WISEs.

### **Public enterprises, associations and foundations, which are not recognised as WISEs**

**In March 2018, Statistics Lithuania, upon request by the authors of the present report, provided an analysis of public enterprises; such analysis showed that 1,695 organisations generated more than 25% of their income from the market and could be regarded as social enterprises.** Up-to-date accurate data about the exact number of associations and foundations recognised as social enterprises are impossible to extract, so numbers will be estimated using the heuristic method. As we mentioned in section 2.1, only about one fourth (23%) of public enterprises, associations and foundations meet the social enterprise definition. This percentage will be applied to the whole set of active associations and foundations to estimate the number of social enterprises among these. Summarised data are presented in table 3.

**During the “scouting” exercise, 250 randomly selected public enterprises, associations and foundations that had provided financial reports for the year 2016 or 2017 to the administrative institutions were analysed.**<sup>9</sup> The State Social Insurance Fund Board’s open database provided the number of employees for each organisation, and the information about the average yearly turnover was retrieved from the Centre of Registers’ database. Data are also presented in Table 3.

**The average number of employees in public enterprises differs depending on the field of the main activities.** Public enterprises operating in the field of social care have on average 3 times more employees (21 employees on average) and public enterprises working in health care 1.6 as many employees (11 employees on average) than public enterprises in general (7 employees on average). The biggest average annual turnover was registered for public enterprises engaged in social care (363,267 EUR), sports (163,286 EUR) and education (124,631 EUR).

**The average number of employees in associations recognised as social enterprises is four, and the average annual turnover of these enterprises amounts to 88,375 EUR.**

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(9) During the exercise we analysed financial reports, and if we lacked information also analysed the web pages or founding documents of 250 organisations. We identified 206 organisations among corresponding to European social enterprise definition, including 40 associations, 26 foundations and 140 public enterprises. These social enterprises were reporting income from sales of services and were not founded by state institutions or private companies, their main aim was related to creation of general benefit. We accumulated data on these social enterprises and presented in the table 4.

**The average number of employees in social enterprise foundations is seven, and the average turnover is 590,192 EUR.** Among foundations, there are a few large organisations, with an annual turnover comprised between 1 and 10 million EUR. The largest foundation recognised as a social enterprise is the “Foodbank” foundation, with a turnover of 10 million EUR and 38 employees. The average numbers are significantly influenced by a few very large enterprises; therefore, we also calculated these figures without taking into account these few very large organisations (see table 4).

An analysis of the regional distribution of all types of social enterprise shows that they concentrate in large cities: most social enterprises are located in Vilnius County (38%), Kaunas County (22%) and Klaipėda County (12%).

**Table 3. Estimated numbers of public enterprises, associations and foundations regarded as social enterprises**

Legal form	Total number of organisations*	Estimated number of social enterprises	Average number of employees in social enterprises (2016)	Average annual turnover (in thousand EUR, 2016)
Associations	7,445	1,712 (23% from the total number of associations)	4	88
Foundations	302	70 (23% from the total number of foundations)	7 (calculation based on all social enterprise foundations)	590 (calculation based on all social enterprise foundations)
			4 (excluding the few very large organisations)	101 (excluding the few very large organisations)
Public enterprises	4,193 (of which 679 are state-owned public enterprises)**	1,694***	7	146

Source: Statistics Lithuania (2018), Research on the non-governmental sector development (2014), Centre of Registers (2018), State social insurance fund board (2018).

\* Organisations that are recognised as active by Statistics Lithuania, because they provided reports to state institutions or employed at least one employee for the year, the latest available information is for 2018 March.

\*\* According to the State Audit Report entitled “If state and municipality participation in the management of public enterprises ensure value to society” (2017, April 25, No. VA-2017-P-10-9-11), 679 public enterprises were founded or co-founded by the state institutions and municipalities.

\*\*\* Public enterprises generating more than 25% of their income from market activities (data of Statistics Lithuania). This number also includes public enterprises that were founded or co-founded by the state; they are not recognised as social enterprises, but it is impossible to retrieve them from the list.

## 3.2. Social enterprise characteristics

### 3.2.1. Fields of activity

**The amendments to the Conception of Social Business, issued in 2016<sup>10</sup>, defined 14 target areas where social enterprises are expected to create public benefit.** These areas are: (1) reducing environmental impact; (2) promoting the efficient use of natural resources and improving waste management; (3) mitigating global climate change; (4) supporting biodiversity and animal care; (5) supporting landscape protection (6) preserving the cultural identity of Lithuania; (7) promoting creativity and accessibility to cultural services; (8) preventing diseases and enhancing healthcare; (9) supporting social tourism; (10) promoting human rights and equal opportunities; (11) meeting the needs of the local inhabitants; (12) supporting education in the fields of citizenship, patriotism, information on state defense issues; (13) supporting social business and non-governmental organisations; and (14) fighting against social exclusion and supporting integration into the labour market.

**According to data from the Lithuanian Labour Exchange released in March 2018, WISEs are mostly engaged in low-skilled jobs.** The most popular fields of economic activities among WISEs are cleaning (23% of WISEs), construction (16%), food production and catering (15%), sewing, knitting and production of jewelry and toys (11%). They also perform other activities (23%), among which skilled work such as book-keeping, consulting, archives management, photography, translations.

**According to the Law on Social Enterprises, if the social enterprise aims to apply for and operates under the WISE status, it can work in any field, but income generated by activities included in the list of non-supported activities (see table 2) cannot exceed 20% of its total yearly income.** The government created such limitation in order to encourage WISEs to create workplaces for people with the most severe disabilities. Indeed, the government argues that persons with lighter disabilities can find jobs on the mainstream labour market, without special state financing, in the fields of the non-supported activities.

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(10) Minister of economy (2016) The Decree on the Recommendations for specification of social business criteria August 29, No. 4-533.

**Table 4. List of non-supported activities for WISEs, such as defined in the Law on Social Enterprises**

1	Hunting and trapping and sharing experience or services related to such activities.
2	Mining and quarrying.
3	Beverage production.
4	Production of tobacco products.
5	Production of refined petroleum products and nuclear fuel.
6	Production and repair of ships.
7	Rent of construction or demolition equipment.
8	Sale of vehicles and motorcycles, and automotive fuel retail.
9	Wholesale trade and commission trade, except motor vehicles and motorcycles.
10	Retail trade, except motor vehicles and motorcycles; repair of personal and household goods.
11	Transportation and storage.
12	Financial intermediation.
13	Real estate, rent.
14	Legal activities.
15	Investigation and security activities.
16	Organisation of gambling and betting activities.

Source: Government of the Republic of Lithuania, Decree No. 1501 of November 29, 2004 on the approval of a list of non-supported activities of social enterprises.

According to the Research on the non-governmental sector development (2014), **public enterprises, associations and foundations generating market income and recognised as social enterprises are involved in the following fields:** education and training services (37.8% of them), social services (13.4%), sports (11.5%), culture (10.7%), health (3.4%) and environmental activities (2.7%). Other activities (20.5%) include inclusion and community building, printing and food production.

In Lithuania, there is a specific place for associations operating as local communities initiatives, mostly in rural areas. **Stakeholders' interviews show that local communities play a significant role in the social fabric of rural areas, where the**

**risk of social exclusion is significantly higher:** *“Local community initiatives started their activities from organisation of cultural events and assembling of community members, but now they see their role in solving social problems. Local communities can be good ground for social entrepreneurship.”*

### 3.2.2. Labour characteristics

**The legal form of social enterprise defines which labour relations are eligible.**

WISEs adopting the legal form of shareholder enterprises or individual enterprises are not allowed to use volunteers, and the workforce is constituted of people working under employment contracts, the overwhelming majority of which (more than 90%, according to the statistical data of the state’s social insurance fund board) are continuous work contracts.

**Public enterprises, associations and foundations are eligible to involve volunteers.** The workforce composition of public enterprises, associations and foundations consists of volunteers, permanent employees working under continuous employment contracts and self-employed people working under individual activity certificates.<sup>11</sup>

**Social enterprises, especially those operating in rural areas, are more inclined to employ low-skilled local people, youth, elders, long-term unemployed.** Social enterprises provide such employees with the necessary education and mentorship. A number of social enterprises, for example *Sūrininkų namai* (“Cheese makers house”), *Medsėdžių uogos* (“Medsedziai berries”), *Amber workshop in Dreverna community* and many others promote certain crafts and professional skills and organise sales and marketing of collectively created products, thus helping local people become self-employed.

**Several research projects show social enterprises’ growth potential in terms of job creation when state institutions or municipalities collaborate with them on a long-term or temporary basis or purchase public services from them.** For example, when municipalities collaborated with social enterprises under projects of the ESF’s operational programme for the provision of complex services to families at social risk, the number of employees in social enterprises increased several times.<sup>12</sup>

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(11) Individual activities are independent activities undertaken by individuals with a view to generating income or other economic benefits over a continuous period of time.

(12) Under the European Social Fund’s operational programme for 2014-2020, under thematic objective 9 “Social Exclusion and Poverty”, the “Complex family services” measure is implemented in all municipalities of Lithuania.

### 3.2.3. Governance models

**Governance models used by social enterprises vary and depend on the legal form of the enterprise.** WISEs and public enterprises have CEO and a board. The board members are usually the founders of the enterprise. When WISEs', public enterprises' or foundations' activities are related to specific target groups (such as people with disabilities, patients, youth, refugees...), social enterprises cooperate with the associations whose members are representatives of the specific target groups or with public institutions that are in charge of these target groups. Sometimes, such associations become permanent partners, helping to reach positive social change. For example, the public enterprise store Happymess sells second-hand goods collected from people, and all earned profit goes to the foundation Mamų unija, which provides support to children with cancer.

Associations are the most “inclusive” type of social enterprise in terms of governance model. **Associations are typically founded, run and governed by their main beneficiaries.** The general meeting of members is the highest decision-making body; it checks and approves the financial reports and it makes decisions on expansion, admission or exclusion of new members and on changes in statutes, activities, pricing, etc. Larger associations create affiliate offices in different regions and arrange specific committees. Associations actively collaborate with different stakeholders, state institutions, donors and media, and they form umbrella associations or federations. In 2014, 14 umbrella associations signed a “coalition contract”, they unite more than 3,000 associations, public enterprises or foundations and around one million people. The national NGO coalition became a significant partner of state institutions, lobbying for or against legal acts and other decisions.

**Another widespread model is that of larger associations establishing daughter companies, usually public enterprises or share companies, to run business activities.** The profit earned by such enterprises is used for the needs of the mother organisation and its members. The activities performed by such daughter companies are often related to the needs of the target group represented by the associations. For example, the Lithuanian Association of the Disabled has three daughter public enterprises: *Retene*, which repairs and customises equipment for people with disabilities; *Menava*, which provides transportation services to disadvantaged people; and *Dailusis ornamentas*, which provides arts and health-education services.

**WISEs established by associations embody the true nature of the social enterprise; their main purpose is the integration of disadvantaged people, and the profit is reinvested in the enterprise.** They actively engage employees into decision-making and social activities, and they support socially responsible initiatives and NPOs providing services to the disadvantaged.


# 4

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## ECOSYSTEM

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The ecosystem of social enterprises in Lithuania is undergoing a transition and expansion phase. Before 2015, only WISEs were legally recognised and had a specific ecosystem of their own. Since 2015, other types of social enterprise have been acknowledged legally, which are interconnected with a broad variety of stakeholders: incubators, accelerators, donors and policymakers involved in areas of social and internal issues, economic and rural development. This section provides an overview of the key actors that are inter-related to any of the types of social enterprises in Lithuania, highlights key policy schemes and support measures, analyses public procurement legal framework and de facto implementation of it. It discusses emergence of networks, associations or other mutual support mechanism, and discloses existing duality between WISEs and other types of social enterprises. An illustration of research, education and skills development in field of social enterprises is also offered; they are fragmented and typically occur on a temporary project base. It includes an evaluation of financing supply and demand for social enterprises, highlighting the actual need for financing and barriers to access the financing possibilities. Lastly, it shows the contradictory situation in Lithuania where formally, a lot of financing means are open to social enterprises but actually, these means are not available (or acceptable) to social enterprises.



## 4.1. Key actors

**The ecosystem of social enterprises in Lithuania is currently undergoing a transition and expansion phase.** Before 2015, only WISEs were recognised as de jure social enterprises. WISEs had a specific and closed ecosystem of their own, their umbrella organisations represented only their interests, and their activities were regulated and supported by one institution (the Ministry of Social Security and Labour and, particularly, the Ministry's Labour Exchange). Since 2015, other types of social enterprise have been acknowledged in the legal framework. These social enterprises are interconnected with a broad variety of stakeholders: incubators, accelerators, hubs, donors and policymakers. The Ministry of Economy, the Ministry of Agriculture and the Ministry of Internal Affairs have become actively involved in social enterprise issues. However, there is little integration and collaboration between the two parts of the social enterprise ecosystem—that related to WISEs, and that related to the new types of social enterprise.

**The summary about the key actors of the social enterprise landscape presented in table 5 lists all the stakeholders that are inter-related to or have an influence on any of the types of social enterprises in Lithuania.** Many actors of this ecosystem are still in the initial stage of formation; for example, the association of social business was established in 2016, has few members and mainly operates with project-based initiatives. Most of the local action groups<sup>13</sup>, who are in charge of administering grants for the social business projects under the LEADER programme, have little or no experience in this field. Open calls for financing social enterprise projects will open for the first time in the autumn of 2018. The 23 business information centres by different municipalities, should formally provide services to social enterprises, but they lack the necessary know-how, as they received little or no training about social enterprise.

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(13) LEADER projects are managed by local action groups, which are made up of representatives from different socio-economic sectors, local authorities, business, community, voluntary organisations, etc. Local action groups include bottom-up governance approaches, identify and implement local development strategies, make decisions about project funding, and provide consulting to the project developers.



Table 5. Summary of the key actors in the social enterprise ecosystem in Lithuania

Areas of activity	Actors
Governmental departments/ institutions	<ul style="list-style-type: none"> <li>&gt; Ministry of Social Security and Labour</li> <li>&gt; Lithuanian Labour Exchange</li> <li>&gt; Ministry of Economy</li> <li>&gt; Ministry of Agriculture</li> <li>&gt; Ministry of Internal Affairs</li> </ul>
Authorities designing and enforcing public procurement legislation	<ul style="list-style-type: none"> <li>&gt; Public Procurement Office</li> <li>&gt; Public administration institutions and municipalities (purchasers)</li> <li>&gt; Ministry of Internal Affairs, Department of Public Management Policy, Local Governance Unit</li> <li>&gt; NGO Council</li> <li>&gt; Association of Municipalities of Lithuania</li> </ul>
Authorities designing and enforcing legal, fiscal and regulatory frameworks	<ul style="list-style-type: none"> <li>&gt; Parliament of Lithuania</li> <li>&gt; Ministry of Social Security and Labour</li> <li>&gt; Ministry of Economy</li> <li>&gt; Ministry of Agriculture</li> <li>&gt; Ministry of Internal Affairs</li> <li>&gt; NGO Council</li> <li>&gt; Enterprise Lithuania (a public enterprise under the Ministry of Economy established to promote entrepreneurship, support business development, and foster export)</li> </ul>
Organisations promoting, certifying and awarding business prizes, social reporting systems and other mechanisms to generate awareness about and acknowledge the social value of the products, services or ways of production of social enterprises	<ul style="list-style-type: none"> <li>&gt; Lithuanian Labour Exchange, under the Ministry of Social Security and Labour</li> <li>&gt; Local action groups (selected social enterprise investment projects for the LEADER programme 2014-2010)</li> <li>&gt; Social Enterprise Summit, Social Enterprise Association, Socifaction and other social initiatives promoting social business good practice examples</li> <li>&gt; Reach for Change Lithuania (a NPO founded by the Kinnevik Group with the purpose of improving children's lives; it supports social enterprises through seed funding, consultancy and promotion services)</li> <li>&gt; Junior Achievement Lithuania</li> <li>&gt; Think-So (an online catalogue for social enterprise products and services<sup>14</sup>)</li> </ul>

(14) Think-So currently includes information on 22 organisations (see [www.thinkso.lt](http://www.thinkso.lt)).

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Areas of activity	Actors
Institutions, civil-society initiatives and other social enterprises promoting social enterprise education and training	<ul style="list-style-type: none"> <li>&gt; Education Exchange Support Foundation (through NordPlus and Erasmus + programmes)</li> <li>&gt; Kolping University of Applied Sciences</li> <li>&gt; Kaunas Technological University</li> <li>&gt; Local action groups</li> <li>&gt; Vilnius Hub</li> <li>&gt; Reach for change Lithuania</li> <li>&gt; NGO Avilys</li> <li>&gt; Socifaction</li> <li>&gt; Public enterprise Geri norai</li> <li>&gt; Junior Achievement Lithuania programme for schools</li> </ul>
Observatories and entities monitoring the development of and assessing social enterprises' needs and opportunities	<ul style="list-style-type: none"> <li>&gt; Research studies by the Ministry of Social Security and Labour</li> <li>&gt; Local action groups and Ministry of Agriculture, in the framework of the LEADER programme 2014-2020</li> <li>&gt; Associations of social enterprises: 4 associations of WISEs</li> <li>&gt; Association of social businesses</li> <li>&gt; Non-governmental organisations' information and support centre</li> <li>&gt; Enterprise Lithuania</li> <li>&gt; Occasionally, local research organisations (they sometimes address some social enterprise issues; however, there is no specific research institution that would focus solely on researching such issues)</li> </ul>
Providers of social enterprise start-up and development support services and facilities (such as incubators).	<ul style="list-style-type: none"> <li>&gt; Collaboration Centres in Alytus and Siauliai (Ministry of Economy)</li> <li>&gt; Business Consultancy Network (Ministry of Economy)</li> <li>&gt; 23 business information centres in different municipalities</li> <li>&gt; Business incubators in municipalities of Kazlų Rūda, Šiauliai, Telšiai and Ignalina</li> <li>&gt; Municipalities (which can rent out premises on a temporary-lease basis under the Law on Social Enterprises)</li> <li>&gt; Ministry of Agriculture, through the LEADER programme 2014-2020</li> <li>&gt; Territorial labour exchanges (subsidies under the Law on Social Enterprises)</li> <li>&gt; Reach for Change Lithuania (private initiative; incubation projects)</li> <li>&gt; Socifaction (private initiative for mentorship and acceleration of social businesses)</li> <li>&gt; British Council (training support)</li> <li>&gt; NGO Avilys (private initiative; premises and support)</li> </ul>
Organisers/managers of business links between social enterprises and mainstream enterprises	<ul style="list-style-type: none"> <li>&gt; Enterprise Lithuania</li> <li>&gt; Lithuanian Innovation Centre</li> <li>&gt; Social Enterprise Summit</li> <li>&gt; Local action groups</li> <li>&gt; National Association of Responsible Businesses (LAVA)</li> </ul>

Areas of activity	Actors
Facilitators of learning and exchange platforms for social enterprises	<ul style="list-style-type: none"> <li>&gt; Associations of social enterprises: three active associations of WISEs</li> <li>&gt; Association of social businesses</li> <li>&gt; Local action groups' network</li> <li>&gt; Social Enterprise Summit</li> <li>&gt; British Council</li> <li>&gt; Reach for Change Lithuania (private initiative)</li> <li>&gt; Socifaction (private initiative)</li> <li>&gt; NGO Avilys (private initiative)</li> <li>&gt; Vilnius Hub (private initiative)</li> </ul>
Organisers of social enterprise (support) networks, associations and pacts that engage in advocacy, mutual learning and support to joint action	<ul style="list-style-type: none"> <li>&gt; Association of social businesses</li> <li>&gt; Union of Social Enterprises for the Disabled</li> <li>&gt; Association of social enterprises (WISEs)</li> <li>&gt; Association of social enterprises</li> <li>&gt; Social Enterprise Summit</li> </ul>
Investors/Social-investment financial intermediaries	<ul style="list-style-type: none"> <li>&gt; Geridarbai.lt ; aukok.lt (private initiatives; crowdfunding)</li> <li>&gt; INVEGA (investment and business guarantees)</li> <li>&gt; British Council</li> <li>&gt; "Reach for Change Lithuania" (private initiative)</li> <li>&gt; No social-investment programmes by private investors were identified</li> </ul>
Organisations providing assistance to enhance the investment- and contract-readiness of social enterprises	<ul style="list-style-type: none"> <li>&gt; Local action groups</li> <li>&gt; Collaboration Centres in Alytus and Siauliai (Ministry of Economy)</li> <li>&gt; Business Consultancy Network (Ministry of Economy)</li> <li>&gt; 23 business information centres in different municipalities</li> <li>&gt; 4 business incubators in the municipalities of Kazlų Rūda, Šiauliai, Telšiai and Ignalina</li> </ul>

## 4.2. Policy schemes and support measures for social enterprises

Effective and timely public support schemes become of critical importance for the development of social enterprises in Lithuania. **Increasing public interest in social entrepreneurship and the involvement of stakeholders from different sectors create a positive environment for experimenting with start-up initiatives or strengthening the existing ones.** Interviews with stakeholders highlighted the need for micro-financing and incubation programmes, financial intermediary support, assistance to contract readiness, business administration and marketing support, improved access to infrastructure and supportive public-procurement policies.

**There are three major sources of financing for the social economy and NPOs: programmes implemented by state institutions and municipalities, EU Structural Funds, and other international donor programmes, such as EEA grants.** EU funds play a critical role in policy schemes and support structures for social enterprises, because they provide strategic guidelines for the government and create opportunities for all the new actors, such as new-type social enterprises, to emerge. The short pauses between EU Structural Funds' financing periods showed that, in these periods, state institutions and municipalities continue to focus on the goals prioritised by EU funds.

**In the previous EU Structural Funds' financing periods, there were programmes specifically targeting WISEs, but no programmes supporting other types of social enterprises.** However, EU funds, through the support they brought to activities relevant to social enterprises, indirectly acted as an "accelerator" for social enterprise development. For example, the LEADER programme initiated the rise of grassroots social entrepreneurship initiatives among local communities in rural areas.

The study on the impact of EU financing on public goods and services in rural areas of Lithuania (Kuliešis and Pareigienė 2016) states that this financing boosted the increase in number of local communities, from few hundreds in 2002 and 800 in 2003 to 1,858 in 2016. **The EU, through its LEADER programme for rural development, opened up opportunities to adapt public infrastructure to the needs of local communities and social enterprise activities.** Among the 2,381 projects implemented by local communities during the previous financing periods of LEADER programme, 596 were investments to create community houses; 562 were initiatives to develop public spaces; 62 targeted the fields of education and culture; 41 aimed to develop craft centres and craft yards; 37 supported youth clubs; and 7 aimed to develop social services infrastructure. The renovated and improved infrastructure, managed by local communities, should create an attractive area for social enterprise activities. This potential development will be enhanced by the new LEADER financing period (2014-2020), which aims at providing funding for social enterprise start-up projects in rural areas.

A more detailed overview of support measures for social enterprises is provided hereafter, distinguishing between three major groups of measures: a) support measures addressing all enterprises that fulfil specific criteria (whether or not they are social enterprises); b) support measures targeting the social economy and NPOs (whether or not they are social enterprises); and c) support measures specifically addressing social enterprises.

#### 4.2.1. Support measures addressing all enterprises that fulfil specific criteria (and which may benefit social enterprises)

**The analysis of public-support schemes targeting social enterprises showed that 23 different forms of support are available for social enterprises qua small and medium business entities under EU Structural Funds' programmes.**

SMEs aiming to excel in terms of economic growth and to implement innovations can apply for support within nine programmes providing financial support for new technologies, e-business, innovative management models and service design. Five programmes are offering support for the commercialisation of new ideas and the promotion of new start-ups; the applicants can benefit from professional consultancy and obtain loans or interest compensation. Six programmes are providing support for the development and implementation of new business models and for internationalisation; the applicants can receive consultancy and funding for the promotion of export of good or services and for the development of partnerships. Finally, three targeted programmes offer financing and consultancy for SMEs involved in the field of eco-innovations and aiming to adopt resource-efficient technologies.

However, the social enterprise, in order to be eligible to support from one of the SME programmes, must have a sustainable economic dimension or contribute a co-financing sum, which often creates barriers to applying. **Currently, only social enterprises that have the legal form of shareholder enterprises or individual enterprises can apply for most of the programmes for SMEs.** Credits are also available to social enterprises substantiating their economic sustainability. However, the Ministry of Economy plans to change the legal framework to make non-profit legal entities—such as associations, foundations and public enterprises—eligible as well to the SME programmes.

A positive trend that can be observed is that social enterprises are sometimes specifically added to the list of applicants when programmes are oriented toward start-ups; for example, a new initiative by the Ministry of Economy to provide public services to enterprises or new business incubators is also open to social entrepreneurs, whatever their legal form.

#### 4.2.2. Support measures targeting social economy/non-profit organisations (whether or not they are social enterprises)

**NPOs are financed on a yearly basis by state and municipalities to organise the provision of public services to specific groups in society.** The largest part of financing is distributed through project tenders within the framework of specific yearly programmes, such as the “National programme for the social integration of people

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with disabilities” or the “Programme for services provided by children day-care centres”, implemented by the Ministry of Social Security and Labour.

Institutions that implement such yearly programmes are the Ministry of Social Security and Labour, the Ministry of National Defense, the Ministry of Internal Affairs, the Youth Affairs Department of the Ministry of Social Security and Labour, the Department of Disabled People Affairs of the Ministry of Social Security and Labour, and almost all municipalities. **A significant proportion of both central and local governments’ budgets allocated to public-service provision are used to provide grants to public enterprises, associations and foundations providing social, health, cultural and sports services.**

**The programmes are most commonly implemented in the following areas:**

- > social integration (care, assistance for people with disabilities, etc.);
- > support to culture;
- > youth and employment;
- > promotion of sports activities;
- > special support to non-governmental organisations;
- > or various combinations of these areas, e.g. youth and sports or sports and culture.

In 2014, a national study entitled “Research on the non-governmental sector’s development” (Eurointegracijos projektai 2014) was carried out. All ministries and other institutions as well as all municipalities were interviewed to collect information about the financing of the non-governmental sector. In Lithuania, NPOs (associations, foundations and public enterprises) are referred to by the overarching concept of non-governmental organisations. **The research showed that central and local authorities, during the 2010-2014 period, financed more than 18,000 associations, foundations and public enterprises.**

The total funding amounted to over 87 million EUR. Funding was provided by the Ministry of Social Security and Labour (which supported 1,829 associations, foundations and public enterprises), the Department of Youth Affairs of the Ministry of Social Security and Labour (1,598 organisations) and the Department of Physical Education and Sports of the Government of the Republic of Lithuania (994 organisations); Kaunas city municipality (1,381 organisations), Klaipėda city municipality (624 organisations), Alytus city municipality (549 organisations) and Šakiai district municipality (542 organisations).

**The number of associations, foundations and public enterprises that received state aid has almost doubled between 2010 and 2014—from 797 organisations supported in 2010 to almost 1,500 in 2014.** State aid was often related to

social service provision, and a large part of the organisations were funded annually. Associations operating as local community initiatives accounted for about one third of all funded organisations.

**Entrepreneurship promotion projects directed at NPOs are often isolated and momentary.** In 2010-2014, only 99 associations, foundations and public enterprises received financing to support or promote entrepreneurship activities. This comprises 1.7% of all organisations who received state financial support.

**The stakeholders' interviews and analysis of existing research showed that the state financing for NPOs is increasing. However, a large part of these financial resources are used to cover the costs of social service provision to target groups and do not stimulate entrepreneurial capacities.** Such financing creates a dependency on state support, although it is often insufficient and fragmented. In the perspective of future development, such state financing would represent an increasing administrative and financial burden for the state, especially with the termination of EU structural funds.

Traditionally, grants to NPOs forbid the enterprise to earn market income when implementing activities linked to the grant-funded project; for example, if a public enterprise received a grant for the operation of children daycare, it was not allowed to receive a partial fee from the conventional clients of the daycare services. Such practice limited the development of entrepreneurship among NPOs. A positive trend has emerged in recent years, though: more grants programmes now allow and encourage applicants to earn income within the frame of activities financed or co-financed by the donor.

**EU Structural Funds have a strong impact on the non-profit sector's development; this is particularly true for the European Social Funds' programmes financing social impact, promoting the development of civil society, supporting the provision of public services or stimulating voluntary activities.** 230 associations, foundations or public enterprises received funding from EU Structural Funds in 2007-2013, for a total amount of 87 million EUR. ESF programmes open to the social economy and NPOs mainly focus on non-formal education, public-awareness-raising campaigns, promotion and organisation of volunteering among older people, social services and health promotion. NPOs represent a significant part of the social enterprise ecosystem in Lithuania; therefore, all EU Social Funds' programmes aimed at strengthening the institutional capacities or expertise of these organisations had a positive impact on social enterprise development.

The new Structural Funds' period, from 2014 to 2020, differs from the previous one in terms of financing schemes. **Currently, less programmes under EU structural funds are executed using the mechanism of an open call to associations, foundations and public enterprises, and more programmes are focusing on the**

**direct financing of central and state institutions, and associations, foundations and public enterprises should be invited to form partnerships with these institutions.** However, municipalities tend to narrow their list of partners, choosing only one organisation in the region or implementing projects with state-owned public enterprises. For example, under the ESF's operational programme project for the provision of complex services to families at social risk ("Complex services to families", 21.16 million EUR), 53 municipalities received financing, but only two established a partnership with more than one organisation. The most remarkable exemption to this general trend is Alytus district municipality, which involved in its project ten local community initiatives. A total of 62% (33) of municipalities implemented projects in partnership with state-owned organisations only.

**Other significant programmes for NPOs may also benefit social enterprises:**

- > The Department of Youth Affairs of the Ministry of Social Security and Labour implements programmes to finance youth organisations' institutional and administrative needs, provide yearly support to regional youth organisations' councils, and cover basic operational costs for open youth spaces and centres or youth entrepreneurship activities.
- > The Ministry of Health has a broad list of programmes to which social enterprises engaging in activities related to healthy living, sickness prevention, psychological well-being, active aging and other issues can apply.
- > The Lithuanian Culture Council offers continuous financing for private cultural initiatives within 34 specific or cross-disciplinary programmes. In 2016, the council financed 2,038 projects, for a total amount of 16.2 million EUR; among these projects, 152 aimed to fight the social exclusion of vulnerable groups.
- > The Ministry of Foreign Affairs implements the Lithuanian Development Cooperation Programme, which supports international projects in the fields of humanitarian aid, culture, and good practice exchange.
- > In May 2016, the EU, Iceland, the Principality of Liechtenstein and the Kingdom of Norway signed the agreements on the European Economic Area (EEA) and Norwegian Financial Mechanism assistance for 15 countries in Eastern, Central, and Southern Europe. During the period 2014-2021, Lithuania will be granted 56.2 million EUR under the EEA Financial Mechanism and 61.4 million EUR under the Norwegian Financial Mechanism. Under these initiatives, financing is allocated to increase innovation, research, education and competitiveness; to enhance social inclusion and youth employment; to reduce poverty; to support environmental protection; to promote the low-carbon economy; and to support justice and internal affairs, including to deal with the challenges of refugees and migration, violence and crime.



The Feasibility study on social enterprise development (2017) and interviewed stakeholders concur on the fact that there are, within state-, municipalities- or EU-funded programmes, broad financing possibilities for social enterprises meeting specific criteria. However, project-based financing is fragmented and limited to specific donors' aims, and there is a lack of specific programmes financing social enterprise business models.

#### 4.2.3. Support measures specifically addressing social enterprises

Currently, programmes specifically designed to meet social enterprises' needs are few. **They are basically three types of support: 1) state aid to WISEs; 2) a programme focusing on social-business development in rural areas, implemented within the LEADER framework; and 3) an ESF programme specifically designed for social-business development in the framework of poverty-reduction and social-inclusion measures.**

The 2004 Law on Social Enterprises defines the system of state financing for WISEs. This financing covers wages, social security contributions and costs linked to assistance, transportation and arrangement of the workplace for people with disabilities. It is treated as non-refundable aid (referred to as "subsidy" in the legal frameworks of Lithuania) and is granted depending on to the type and number of disadvantaged employees in the enterprise. The detailed structure of state aid for WISEs is visually summarised in figure 1.

This financing system for job creation for disadvantaged persons does not operate under the legal framework of Lithuania for public procurement, and the funds granted through this system are not treated as market income for social enterprises. This financing constitutes a significant part of WISEs' resource mix.

**State aid granted under this scheme is provided only to WISEs; other social enterprises employing disadvantaged persons but not applying the WISE model or not meeting the criteria to be recognised as WISEs are not eligible for this aid system.**

Figure 1. Types of state financial aid for WISEs targeting specific groups

Categories of workers			
Disabled person with a 25% working capacity or severe disability level or high level of special needs	Disabled person with a 30-40% working capacity or intermediate disability level or intermediate level of special needs	Disabled person with a 45-55% working capacity or a light disability level or a low level of special needs	Other disadvantaged people: long-term unemployed, ex-prisoners, single parents, etc.
Percent of reimbursement of wages and state social insurance contributions for each category of workers. The sum of the reimbursement cannot exceed the sum of two minimal wages.			
75% of costs	70% of costs	60% of costs	50% of costs
Reimbursement of costs for the creation or adaptation of a work place for a disabled worker and for his/her equipment.			
80% of costs	70% of costs	65% of costs	
Reimbursement of costs for the adaptation of the work environment, production premises and restrooms for a disabled worker.			
80% of costs	70% of costs		

Source: Lithuanian Labour Exchange.

Since 2008, a large share of the state financial aid supporting the employment of disadvantaged people in WISEs has been provided through ESF funds, as shown in table 6. **The growing number of WISEs and disadvantaged people employed in these enterprises increased the financial burden on the state and represents challenges for the future development and preservation of the WISEs aid system.**

Since 2004, the number of WISEs and the number of employees in jobs supported by state aid have been multiplied by 14, and the total amount of state support to WISEs has increased 19.5 times, from 1.4 million EUR in 2004 to 23.4 million EUR for the period between January and November 2017 (total amount of state support, including state budget financing and ESF financing). Both the average amount of state aid per

WISE and the average subsidy per employee increased 1.4 times since 2004 till 2017. The largest share of state financial aid is that devoted to the reimbursement of wages and state social insurance contributions; a minor share of financing goes to the setting up and adaptation of assistance services (particularly translators for the deaf and mute workers) and transportation.

**Table 6. State aid to WISEs**

Year	Average state subsidy per social enterprise, in thousand EUR	Average state subsidy per employee, in thousand EUR	ESF financing, in million EUR	State budget financing, in million EUR
2004	92,307	1,804		1.2
2005	40,54	1,353		1.5
2006	59,183	2,165		2.9
2007	62,5	2,616		4
2008	73,17	3,152		6
2009	59,803	2,664	1.7	4.4
2010	53,846	2,854	5	2
2011	68,613	2,682	3.4	6
2012	77,941	2,549	6.6	4
2013	94,776	2,665	8.1	4.6
2014	109,929	2,863	10	5.5
2015	120,27	2,961	12.2	5.6
2016	134,302	3,17	11.8	11.3
2017 (Jan.-Nov.)	125,806	2,501	71	16.3

Source: Lithuanian Labour Exchange, 2004-2017

**Few other support measures targeting all types of social enterprise are in force, but compared to subsidies for WISEs, these measures represent only a very small share of the total amount of financial aid for social enterprises.** Under the Lithuanian Rural Development Programme 2014-2020, all types of social enterprise will be able to start the new projects or to invest into development of the on-going social business activities in rural areas. Under the LEADER framework, 49 local development strategies have been approved, 41 of which focus on the development and scaling up of social-business activities. It is planned that 204 social-business projects in rural areas or local communities will have been financed by 2023.

### 4.3. Public procurement framework

Lithuania is one of the states that has not yet transposed the EU directive on public procurement (EC Report on the review of the practical application of the European Single Procurement Document, 2017); however, many elements of the EU directive are already integrated in Lithuanian law, and the state plans to proceed with this transposition process.

**Under the Lithuanian Law on Public Procurement (Law No. I-1491, adopted in 1996, last amended in 2017), when using simplified procurement procedures, public authorities must procure at least 2% of the total value of the contracts awarded from WISEs.** This requirement is not applicable to other types of social enterprise. The share of purchases that must be reserved to WISEs was reduced by the 2017 amendments to the law, from 5% to 2%, due to criticism by mainstream enterprises that this requirement created much more favourable conditions for social enterprises and distorted competition.

**WISEs actively participate in public sector procurements; about 38% regularly participate in tenders.**<sup>15</sup> The reports of the Public Procurement Office for 2015 and 2016 show that under Article 91 of the Law on Public Procurements, purchases from WISEs increased by 75%: they represented a total amount of 15.9 million EUR in 2015, and 21.1 million EUR in 2016.<sup>16</sup>

**The share of purchases from WISEs in the overall public purchase structure is also increasing.** In 2016, purchases from WISEs represent 0.6% (4,601 million EUR) of the total amount of public purchase, while they only represented 0.4% (4,168 million EUR) of purchases in 2015. However, purchasing organisations that are obliged by law to implement public procurements from WISEs represented only 19% (644

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(15) Reports on public procurements from WISEs for the period 2014 IV quarter and 2015 IV quarter.

(16) Yearly growth of purchases from WISEs is observed since 2014.

organisations) of the total number of organisations implementing such purchases in 2016. Works, such as construction, represent the largest part of all purchases from WISEs (57.5% of all purchases; 12.1 million EUR), while goods account for 22.6% (48.8 million EUR) and services for 19.9% (4.2 million EUR).

**Under the Law on Public Procurement (Law No. I-1491, 1996), article 23, organisations issuing public calls for tender are allowed to use the right to purchase services through pre-purchase agreements and to reserve the contract for WISEs without tenders.** These special conditions also apply to other types of social enterprises operating in areas of health and social and cultural services. Purchases made under this special “reserved agreement” cannot last longer than three years. However, these special conditions, favourable to social enterprises, are new and not yet widely used: in 2016, only 20 organisations had made use of this right, and the sum of purchases through pre-purchase agreements amounted only to 4.4 million EUR.

**Other forms of pre-purchase agreements for public procurement that may benefit social enterprises are:**

- > innovation partnerships: these are applied to finance the development of a new, innovative product that does not exist yet in the market, and to acquire this innovative product, once developed;
- > direct purchasing: the contract can be signed directly with a social or public-service provider, without a call for tender being issued, provided an only service provider meeting the requirements, there is an urgency or services are purchased from the same provider as previously (continuation of the contract).

Pre-purchase agreements constitute a new, emerging way for traditional businesses to commit to social goals in Lithuania, so the prevalence of this procedure is still very low, and it is too early to draw qualitative conclusions about the effectiveness of the measure.

**Public-private partnerships represent another way of enhancing the involvement of traditional businesses in solving social problems and can benefit social enterprise development.** A public-private partnership is a form of contract where a private partner provides the financial means, technological support, knowledge and other resources needed to set up a social enterprise project and supports the main risks of the project, and a public partner pays this private partner for the services provided to the public. A feasibility study carried out by PricewaterhouseCoopers for the Ministry of Finance<sup>17</sup> showed that Lithuania has a rather favourable environment for developing public-private partnerships.

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(17) PricewaterhouseCoopers (2014).

**The current Lithuanian legal framework provides for the following forms of partnership:**

- > *Concession*—when a public-sector entity grants a private-sector entity permission to provide public services and/or to manage or use state and municipal property (including exploitation of natural resources), and the concessionaire, under the concession contract, supports the risks associated with such activities as well the respective rights and obligations. Concessions are regulated by the Law on Concessions (Law No. I-1510, 1996).<sup>18</sup>
- > *Investment partnership between public and private entities*—when a private entity invests in the activities assigned to the functions of the public authority (e.g. investment into the reconstruction or adjustment of the state or municipal property) and/or it performs certain activities for which the public entity pays the remuneration. Partnerships of this kind are regulated by the Law on Investment (Law. No. VIII-1312, 1999).<sup>19</sup>
- > *Establishment of a mixed-capital company*—when a legal entity with mixed capital is established to carry out a specific activity, and state or municipal assets are invested as a public contribution to the capital of this joint venture. This form of partnership is regulated by the Law on the Management, Use and Disposal of State and Municipal Property (Law No. VIII-729, 1998).<sup>20</sup>

Despite the variety of possible contracts, the level of development of public-private partnerships in Lithuania remains very low. Currently, only 24 public-private partnership projects are being prepared or implemented.<sup>21</sup>

The public procurement system in Lithuania creates favourable conditions for social enterprises. **However, the main obstacle for social enterprises in the development of the social service market is the fact that state and municipal institutions tend to systematically purchase social services through grants or to resort to state or municipal service providers.**

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(18) Republic of Lithuania (1996) Law on Concessions, September 10, No. I-1510.

(19) Republic of Lithuania (1999) Law of Investment, 7 July, No VIII-1312.

(20) Republic of Lithuania (1998) Law on State and Municipal Property Management Use and Disposal, May 12, No. VIII-729.

(21) See: <http://www.ppplietuva.lt/vpsp-projektai/>

## 4.4. Networks and mutual support mechanisms

**In Lithuania, there are two main networks: one representing WISEs and one representing the other types of social enterprise.** These two networks collaborate little, implement different policies and, during public debates, often stand on opposite sides.

**The first network's members are established associations of WISEs.** Some of these associations were operating before the Law on Social Enterprises was passed, in 2004. Their members are mainly people who worked in the factories for people with disabilities during the Soviet period. At the time, these associations played an important role in preserving workplaces for people with disabilities. They collaborated with the associations of disabled people and lobbied for the Law on Social Enterprises.

Currently, there are three active associations of WISEs, mainly playing a representation role: the Union of WISEs for people with disabilities in Klaipeda, established in 2002; the Lithuanian Association of WISEs in Vilnius, established in 2003; and the Association of WISEs in Kaunas, established in 2006<sup>22</sup>. Although they cooperate on key issues and share common experience and lobbying activity, networking among these associations is not sufficiently developed. There is very little information available to the public about the activities, financial data and members of the associations, and managers avoid interviews.

**The second key network—the association of social businesses—was established in 2016 with a view to promoting the interests of all types of social enterprise operating in Lithuania.** This association brings together 13 members and mainly focuses on consulting and support to social entrepreneurs or social enterprise start-ups. It involves social-business practitioners and advocates, who mainly discuss issues of social enterprise identification, self-regulation, and partnership with policy-making institutions. The association participates in various working groups for social enterprise development. However, mutual-aid initiatives among members are not sufficiently developed.

The emergence of the association of social businesses was linked to the surge of interest for social enterprises that followed the “Social Enterprise Summit”, organised in 2014. **The “Social enterpris summit” became a major yearly networking event, attracting various stakeholders and initiating broad public discussions in Lithuania.** It brings together all key stakeholders, policy-makers, researchers and practitioners to share experiences and explore ways to develop social enterprises in Lithuania. The Summit's themes relate to the critical questions and decisions of

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(22) These associations do not provide data about the exact number of their members. Information obtained through interviews and secondary sources show that number of the members varies between 14 and 20 WISEs.

the year, but some major discussions are recurrent: challenges faced by the social economy in Lithuania; support for the social economy; increasing awareness of social entrepreneurship; promotion of cooperation among NGOs and the public and private sectors; decentralisation of public services and social enterprise involvement. The Summit was initiated and is supported by the British Council.

**Various umbrella associations uniting NPOs (public enterprises, associations and foundations) also play an important role in social enterprise's development, networking, self-help, and lobbying.** In Lithuania, the movement of non-governmental organisations is broad and very active. The national coalition of non-governmental organisations was established in 2014; it brings together 14 national umbrella associations, which in turn gather more than 3,000 associations and one million people. The Non-Governmental Organisations' Information and Support Centre is the coordinator of the national coalition of non-governmental organisations. The coalition represents very different fields and target groups. Currently, this organisation plays a significant role in the decentralisation of public services.

**Local action groups are another important network supporting social enterprise development throughout the country, and especially in rural areas.** Local action groups were created within the LEADER framework. There are 51 active local action groups in Lithuania. These associations are in charge of administrating funding for social enterprise start-ups through the LEADER programme. They operate as self-help communities, accelerators and consultants for social enterprises and social entrepreneurs.

**Since 2014, the number of private networking initiatives has been increasing.** "Think-tanks" with experts, active social entrepreneurs, representatives from business, public sector and academia, various hackathons, accelerators, festivals, seed-funding competitions are emerging in the country. Enterprise Lithuania, a public enterprise depending from the Ministry of Economy, organised the Science Hack Days Vilnius, where social enterprise ideas were nominated. Together with Kaunas Technological University and the Institute for Social Entrepreneurship and Innovative Studies, Enterprise Lithuania organised a social enterprise hackathon, entitled "ChangeMakers'ON", and a social-innovation camp, the "ChangeMakers'ON Camp".

The first social-business accelerator, Socifaction, was set up by the NPO "Geri norai"; it started its activities in 2015 and has since become one of the most active private initiatives supporting social enterprise development. In 2016-2017 Socifaction focused on 15 regions of Lithuania and provided support to 60 initiatives. In 2017, the organisation organised the Social Innovation Festival, set up the social-business incubator "Advanced So", and created an online catalogue for social enterprise products and services, "Think-So".



Socifaction attracted different partners around social-business development: the British Council, the Education Development Centre, the Association of Municipalities, Enterprise Lithuania, the Department of National Minorities of the Government of the Republic of Lithuania, the Centre for the LEADER Programme and Agricultural Training Methodology and various non-governmental organisations.

Since 2016, the NPO “Reach for change” has also offered seed funding and acceleration activities for 12 social enterprise ideas oriented toward children’s well-being.

**The networks and self-help initiatives that have been emerging recently are highly open and creative, they play a significant role in building public awareness and motivating people, mainly the young, to experiment around social enterprise ideas and models.** However, these initiatives are mainly implemented thanks to grant support and they are not financially self-sustaining yet. The involvement of participants is mainly “reactive”, i.e. they emerge in response to donors’ calls for financing and when financing stops, they close down. Social entrepreneurs meet during events or special initiatives and lack permanent self-organised networking or self-support mechanisms.

## 4.5. Research, education and skills development

Since 2014, two research studies—“Research on the capacities of non-governmental organisations to provide public services and on Lithuanian citizens’ involvement in volunteer activities” (Ekonomines konsultacijos ir tyrimai 2017) and the “Research on the non-governmental sector’s development” (Eurointegracijos projektai 2014)—have been carried out to assess the entrepreneurial and economic capacities of public enterprises, associations and foundations. These two studies defined the social enterprise domain within the universe of non-governmental organisations and showed the nature of their relations with central state institutions and municipalities. These research studies also highlighted the opportunities for and barriers to social enterprise development, should state and municipalities transfer public service provision to social enterprises.

**The “Feasibility study on social enterprise development in Lithuania” (2017) was conducted by order of the Ministry of Social Security and Labour** in the framework of the Action Plan for Social Business Development 2015-2017, approved by the Ministry of Economy in 2015. This study describes the legal and fiscal environment within which social enterprises operate and the financing programmes to which they are entitled; it identifies prospective actors and existing barriers and accelerating factors for social enterprise development in Lithuania.

These studies helped to define clearer borders for the social enterprise universe and identified possible developmental trajectories and obstacles. Two other studies were not

directly focused on social enterprises but aimed to research entrepreneurial capacities and market-based activities of non-governmental organisations.

**There is a strong gap in education around social enterprise; most educational activities in the field are project-based, short-term seminars, and they are inconsistent.** Several actions have thus been implemented lately to attempt to remedy these shortcomings. The Ministry of the Economy, in the Report on the implementation of the Action plan for social business development for the period 2016-2020, noted that social-business-related disciplines have been included in curricula: 350 vocational training programmes started providing the basics of social entrepreneurship education, and the basics of social entrepreneurship have been included in 73 approved modular programmes for vocational education.

The “Erasmus +” and “NordPlus” programmes of the European Commission also funded nine projects for social inclusion, volunteering and entrepreneurship. Kaunas Technological University has signed an agreement with the European Institute for Social Entrepreneurship and Innovation on the promotion of social enterprises, and it started an accelerator for social-business ideas. An interdisciplinary one-semester programme on social business was organised for students from different disciplines in the university.

**However, only one high school, Kolping University of Applied Sciences, offers a bachelor programme specifically on social business.** Other universities integrate social business into public administration, social-work or social-welfare programmes. No master or doctoral studies targeting social enterprise have been identified analysing all the publicly available data.

**In 2017, high schools and gymnasiums became involved into social enterprise education and acceleration activities.** Ten schools and teachers started using the British Council’s “Social enterprise package for schools” methodology and education material on social entrepreneurship. In 2018, Junior Achievement Lithuania, in partnership with the Ministry of Social Security and Labour, started a programme for schools: classes on social entrepreneurship were followed by a business project competition; around 80 schools joined the competition.

**In 2006, Enterprise Lithuania, together with experts from the project “Create for Lithuania” (*Kurk Lietuvai*), organised a series of social-business-development events.** They also created a social-business guide, with information on how to develop a social business in Lithuania and on the criteria that social enterprises should meet according to the EC social-business practice.

**In the framework of the LEADER programme, local action groups organised, in 2017 and 2018, intensive practical training modules about various aspects of social business for prospective applicants.** These programmes will reach hundreds of local communities, NGOs or entrepreneurs in distant regions of Lithuania.

## 4.6. Financing

**The ecosystem of social enterprise in Lithuania is going through a transformation stage, and the traditional financing system for social enterprises is under review.** Currently, the variety of newly emerging forms and models, for which no system of financing has been established yet, are operating alongside historically recognised types of social enterprise—namely WISES—which, for more than a decade, have been operating under a specific legally established financial support mechanism.

**The analysis of the existing supply of financing tools shows that there are many instruments formally available to social enterprises meeting specific criteria.** Social enterprises adopting legal forms of associations, foundations or public enterprises can apply to various programmes oriented to NPOs, and social enterprises generating a financial surplus from economic activities can apply for financing instruments oriented to SMEs; more detailed information is provided in section 4.2.

**However, none of these major financing tools are supporting the true nature of social enterprises, which lies in the combination of social aims with economic activities.** Financing instruments for NPOs provide funding to cover operational costs and focus on the social impact, but they do not provide financing for investments. Conversely, financing mechanisms for SMEs focus more on investments or the financing of activities generating an economic surplus, but they do not provide financing to cover the operational costs of social activities. Interviews with social enterprises showed that the social aim is often treated as a hindrance to effective economic activities and financial viability and raises distrust of social enterprises among banks, investors or other SME-financing bodies.

**The current situation in Lithuania is contradictory: formally, a lot of financing means are open to social enterprises, but actually, they are not available to social enterprises.** In such context, the major barriers are not directly linked to the lack of financing, but rather to the lack of understanding of social enterprise models, a deficit of social enterprise assessments instruments, and the absence of collaboration and agreements between regulatory institutions from the financial, economic and social sectors. Stakeholders interviewed for the current study underlined that investments are especially needed to promote social enterprises in society and to stimulate the purchase of goods and services provided by social enterprises.

**Stakeholders' interviews revealed contradicting opinions about the actual demand for financing.** Some respondents, especially policy-makers designing social-business support and financing programmes, mentioned that earlier trials with grants specifically targeting the development of social enterprise models were not successful, because applicants lacked understanding about these models and very few

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applications actually met social enterprise criteria. On the other hand, social enterprise practitioners underlined the lack of start-up investments, micro-credits, credits for work capital, incubation support, consulting and education, help in marketing and promotion of social enterprise products or services. The duality around the supply of and demand for financing is summarised in table 7.

**Table 7. Overview of the demand for and supply of financing specifically targeting social enterprises**

Supply of funding Demands by social enterprises	State or EU Structural Funds	Other donors	Comments
Funding for awareness raising (e.g. award schemes, communication, advocacy)	No	Yes (British Council)	Funding is provided by British Council to finance the Social Enterprise Summit every year. No financing is available for awareness raising in the general society or for awards.
Funding for social entrepreneurship education	On the basis of temporary projects	On the basis of temporary projects	Permanent education programmes are rare (only one bachelor programme). Education is provided in forms of temporary training on a project basis.
Pre-start/start-up support (e.g. business support, mentoring, consultancy, coaching, etc.)	Yes	Yes	Yes
Business support for established enterprises (e.g. business planning, management skills, marketing, etc.)	Not sufficient; the requirements are too complex	No	There are instruments available to SMEs, but they are not available to social enterprises operating under the legal form of NPOs (associations, public enterprise or foundations).
Investment support	On the basis of temporary projects; the requirements are too stringent	No	LEADER provides investment but sets very high requirements, hardly acceptable to start-ups. There is no permanent social investment tool.

Supply of funding Demands by social enterprises	State or EU Structural Funds	Other donors	Comments
Dedicated financial instruments (e.g. loans, guarantee schemes, social impact bonds, etc.)	No	No	Existing financial instruments are not specifically dedicated to social enterprises, and the basic requirements are too stringent or do not correspond to the social enterprise model.
Support in the form of physical infrastructure (e.g. shared working space)	Not sufficient	No	There are business incubators and hubs financed by the state, but there are too few of them, and most provide office space only.

#### 4.6.1. Investments

**Some types of social enterprise have been operating for many years, while other types have recently started emerging; the duality of the aims pursued by investments reflects this situation.** Strong and stable social enterprises look for investments to scale up, whereas new ones seek start-up investments. For example, the social enterprise *Socialiniai paramos projektai*, which runs the social café *Mano guru*, used credit with state guarantee for start-up investments when it was in its inception stage; later on, it sought scaling-up investments. The WISE *Regседа*, which receives financing for operational costs from the state, also needs investments to scale up.

**Among newly established social enterprises, there is a high demand for micro-credits that would not be limited to specific economic activity, social aim, target group, turnover or profitability expectations.** Such credits could be used to finance the acquisition of machinery or licenses, consultancy services, support to product design, and implementation of a marketing campaign—or to meet any other needs, thus enabling social enterprises to implement their unique business model.

The investments available to social enterprises meeting certain criteria are provided by mainstream banks with state guarantees and by investment funds created and managed in partnership with the state and oriented toward start-ups, innovation or projects with general-interest goals. **Social enterprises often operate under a non-profit legal status—as associations, foundations or public enterprises—and are not eligible to receive guarantees, business credits or state financing grants designed for small and medium enterprises, because non-profit entities**

are legally not considered as small and medium enterprises.<sup>23</sup> However, these enterprises can benefit from non-financial services provided by state institutions to SMEs.

The interviews conducted with social enterprises revealed that guarantees, start-up investments and non-financial services are more easily available to social enterprises than scaling-up investments, due to lower requirements for economic profitability and growth.

The banks, credit unions and funds rarely provide support to social enterprises, only a few one-off charity initiatives were implemented. However, private finance institutions participate in state-initiated programmes for guarantees or investment funds, which are available to social enterprises meeting the criteria of SMEs.

### Guarantees

**Guarantees for small and medium-sized enterprises are provided by the “Investment and Business Guarantees” (INVEGA) institution, which gives guarantees equivalent to state guarantees to credit institutions, thus solving the problem of insufficient collaterals.** There are several types of guarantee available to social businesses:

- > *Individual guarantees.* “Guarantee Fund 2” is a measure by which individual guarantees (up to 80% of the loan) are provided to credit institutions for investment or circulating work loans granted to SMEs, as well for finance leases (guarantee of up to 60% of the value of the leased asset), thus solving the problem of insufficient collaterals. It is planned to allocate up to 28.9 million EUR of national funds for this measure.
- > *Portfolio guarantees.* Portfolio guarantees for loans and leasing transactions are designed to facilitate access to financing for SMEs facing an issue of insufficient collaterals. It is planned that up to 18.8 million EUR from European Union funds will be allocated to this measure, with a planned maximum guarantee amount of 1.5 million EUR per loan. Banks offering loans guaranteed through this system are Šiaulių bankas, UniCredit Leasing, Medicinos Bankas and Citadele Bank.
- > *Partial interest compensation.* The partial interest compensation measure partially covers the interests paid by micro, small and medium-sized enterprises on their guaranteed or unsecured loans, or on their financial leasing transactions.

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(23) The interview with representatives of financial institutions highlighted confusion about whether non-profit legal entities can be considered as small and medium enterprises. The representatives mentioned that, until 2017, public enterprises, associations and foundations were eligible to receive guarantees or loans designed for SMEs. The Ministry of Economy is preparing a new bill about small and medium enterprises that will clarify this issue and include non-profit legal entities in the group of SMEs.

Depending on the type of transaction, SMEs can receive a compensation amounting to 50 to 95% of the interests paid during a 36-month period; up to 100% of interest paid in a 60-month period is covered for industrial enterprises.

In order to develop the venture capital market in Lithuania, the Ministry of Economy plans to implement seven new venture-capital instruments and to allocate up to 97.7 million EUR of EU and national funds to this measure.

### Investment funds

Investment funds provide loans or investments for economically viable business projects. **Since social enterprises do not aim to maximise profit, although they can theoretically apply to these instruments, in practice, they often face too stringent requirements in terms of scaling-up and return on investment.** Social enterprises that applied to investment funds or private investors found that the main barriers they face are related to social enterprises' commitment to reinvest the largest part of their surplus into the social aim and to their low growth expectations.

**There are no social investment funds or initiatives in Lithuania, but the funds which are managed in partnership with the state are more open to social enterprises.** These are:

- > The "Open Credit Fund 2": this fund provides loans (investment and circulating working capital, credit lines) to SMEs and start-ups at favourable interest rates. Up to 600,000 EUR can be allocated per credit. The credit institution must contribute at least 25% to the business total project sum. It is planned that up to 37.7 million EUR of national funds will be allocated to the implementation of this instrument. Banks issuing loans under this instrument are Citadele Bank and Medicinos Bankas.
- > The "Co-investment fund": this fund, together with private investors, invests in very small enterprises that do not distribute profit to their owners and have been operating for a maximum of five years. Investments are made only in potentially viable projects, that can be expected to generate a minimum level of return on investment and ensure a predictable exit strategy for investors. Up to 11.6 million EUR of European Union funds and up to 11 million EUR of national funds will be invested to implement this measure, and it is expected that the measure will attract up to 14.4 million EUR of private investment.
- > The "Early Stage and Development Fund I": this fund is intended to promote the transfer of business ideas (commercialisation) developed in science and education institutions and to provide easier access to capital for micro, small and medium-sized enterprises that develop products in high-tech sectors. Enterprises are offered expert assistance in identifying, financing and supporting the implementation of innovative technology ideas with commercial potential. 14.8 million EUR of national funds will be allocated to the implementation of this measure. It is also planned

to attract up to 15 million EUR of private investment. The currently selected fund manager, Robos Capital, has launched a fundraising process.

- > The “Baltic Innovation Fund” (BIF): this fund aims to stimulate the development of venture capital markets in the three Baltic States (Lithuania, Latvia and Estonia). The Fund’s investments focus on companies with high growth potential in the Baltic region.

#### 4.6.2. Non-financial public services for SMEs

**There is in Lithuania a system of public services for start-up entrepreneurs and small and medium-sized enterprises, including social enterprises.** The services are provided through the European Union’s Structural Funds and state funding. These services are:

- > The *Business Consultancy Network*: under the “Business Consultant LT” measure of European Structural Funds, a network of business advisers helping start-ups obtain professional information for business development was created. Business consultancy is provided to start-ups that are up to one year old and to small and medium-sized enterprises that have been operating for one to five years.
- > *Collaboration Centres*: these centres are established with a view to reducing differences in the level of entrepreneurship among the different regions of Lithuania. Two Collaboration Centres started operating in 2016, in Alytus and Šiauliai respectively. A Collaboration Centre is a space for non-traditional business’ development, tailored to the needs of small and medium-sized enterprises that have been operating for a period of maximum five years. The Centres act as incubators and accelerators for the enterprises, and they stimulate collaboration with other companies. They focus on digital and creative industries. Entrepreneurs can benefit from free computerised workplaces, equipment, electronic platforms, mentorship, business-development workshops, sales promotion, marketing, and other business-acceleration initiatives.
- > *Business information centres*: the 23 business information centres in municipalities and the four business incubators in the municipalities of Kazlų Rūda, Šiauliai, Telšiai and Ignalina are providing services to SMEs, including social enterprises. Incubators provide services such as economic, financial, business-management and legal advice; they prepare investment projects, business plans, and applications for financial support from the European Union and other sources; they implement project administration, rent of premises for offices, leasing of fixed assets (furniture, multimedia, communication and computer equipment) and virtual office services; and they organise seminars or trainings.



### 4.6.3. Main trends and barriers faced by social enterprises and investors

The main trends in financing of social enterprises are related to the general development of the social enterprise ecosystem. **The active involvement of the Ministry of Economy in the development of the Conception of Social Business, issued in 2015, facilitates the shift in attitude toward a more favourable stance toward social enterprises.** Traditionally, in Lithuania, legal entities that did not seek profit-maximisation were not perceived as small and medium enterprises; the new tendency demonstrates a growing acknowledgment of social enterprises as significant actors of the Lithuanian economy. The Ministry of Economy plans to make amendments to the Law on Small and Medium Enterprises to clarify the fact that non-profit legal entities (associations, foundations and public enterprises) are SMEs. This change will open the door for many social enterprises to apply for financing targeting start-ups or the development of SMEs.

**The growing awareness of social enterprises' impact and value stimulates discussion about the development of evaluation, assessment and supervision instruments, which would evaluate the economic and social value of social enterprises.** The public enterprise Enterprise Lithuania is developing a social impact measurement model for social enterprise assessment; the state or other donors and investors aiming to finance or collaborate with social enterprises could use such tool.

**The recent political decisions, public discussions and stakeholders' interviews highlight the current general tendency towards the adaptation of existing financing mechanisms initially oriented at WISEs or SMEs by a broad variety of social enterprise types and legal forms.** For example, the Ministry of Agriculture applied the traditional LEADER programme, providing start-up investments, to social enterprises; the Ministry of Economy created the legal framework for social businesses; the Ministry of Social Security and Labour stimulates the entrepreneurial activities of traditional NPOs through grants.

**The main barriers faced by investors are related to a lack of interest in social business, experience, good practises and operational guidelines for social enterprise financing.** The scarcity of information and support from the state generates distrust and misunderstanding of social enterprises among potential investors. On the other side, social enterprises do not have a full and clear view of available financing resources and conditions. There is a lack of consultancy or intermediary services that would help social enterprises navigate among the existing possibilities.




# 5

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## PERSPECTIVES

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Active public discussions, the involvement of significant top-level stakeholders and the bottom-up movement around social enterprises all underline the fact that Lithuanian social enterprises are at the crossroads of a systemic paradigm shift. The section explores two themes that have prevailed in public debates at the national level since 2014: 1) the transformation of WISEs; and 2) the decentralisation of public service provision. The section observes two directions for future WISE development: they could be pushed toward a better implementation of their social enterprise dimensions; or their special WISE status, as defined by the law, could be abolished and any enterprise in the market offering labour to disadvantaged people could apply for the provision of financial aid for job creation. The section highlights limiting factors such as low awareness of social enterprises and barriers existing in legal environment. It observes various development scenarios and brings out key constraining and contributing factors to social enterprise development. It illustrates opportunities that will open to social enterprises with the government's plans to decentralise the provision of public services, which considers social enterprises as key potential partners.



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

Since 2010, debates have been going on in support and against the definition and regulation of social enterprise. Debates have been launched by different state actors, such as the Ministry of Economy, the Ministry of Agriculture and the Ministry of Social Security and Labour.

**Since 2014, two themes have been prevailing in public debates at the national level: the transformation of WISEs and the decentralisation of public service provision.**

### 5.1.1. Transformation of WISEs

The special investigation service of the Republic of Lithuania published, on January 18, 2018, a report entitled **“Conclusions of the anti-corruption assessment regarding the legal regulation of social enterprises’ (meaning WISEs) activities” and identified key pitfalls of the WISEs legal and regulatory framework.** The assessment criticised the fact that the main goal of WISEs is limited to employment, and underlined that “whether social enterprises are unique is debatable if the goal they pursue—i.e. employment—can be achieved by any other company that employs persons belonging to the target groups”. The assessment, which was carried out by a special investigation service, argued that there were no clear criteria for the evaluation and control of social enterprises’ social impact, despite the fact that each enterprise, when applying to obtain the legal status of WISE, had to commit, in its business plan, to defining such criteria. The decision to grant—or not—the social enterprise status to an enterprise is based on the subjective interpretation of a specialist from the Labour Exchange, which creates the conditions for corruption.

**The special investigation service proposed alternatives to the approach of the Law on Social Enterprises.** These alternatives are presented in the “Conception for supporting the employment of disadvantaged people in the open labour market”, which was publicly discussed by various stakeholders and approved by the Commission on the Rights of Persons with Disabilities of the Parliament of the Republic of Lithuania (*Seimas*) on November 8, 2017. This Commission recommends that, instead of providing financial support specifically to WISEs, refund be granted to any company in the market offering such employment services to disadvantaged workers. It offers to suspend the Law on Social Enterprises and to integrate the system of financial aid to the employment of vulnerable groups into the Law on Employment Support (Law No. X-694, 2006).

**There are two directions for future WISE development currently discussed at the national level.** WISEs could be pushed toward a better implementation of their social enterprise dimensions; they would then have to lower their demand for state aid and to increase their social value by reinvesting their own profit into the pursuit of their social aim. The other direction would entail the abolition of the special WISE status defined by the law and the provision of financial aid to any enterprise in the market offering labour for disadvantaged people. This latter direction, on the one hand, may encourage the development of social enterprises among traditional enterprises or NPOs and could support the development of the market for social enterprises providing employment services to socially vulnerable people. On the other hand, it may leave hard-to-place and problem job-seekers without any systemic support.

### 5.1.2. Decentralisation of public service provision

The legislative system in Lithuania supports collaboration of state institutions with private organisations for the provision of public services. However, in the case of state institutions and municipalities the major part of public services are provided through state-owned organisations. **Social enterprises seek to change existing discrepancy between *de jure* and *de facto* situation and stimulate public discussions around the themes of decentralisation of public service provision and development of public service market.**

The Lithuanian Law on Local Self-Government (Law No. I-533, July 7, 1994) determines that municipalities administer and ensure the provision of public services to their residents; they establish the municipal budget for such provision, and set up the public institutions or choose the providers in charge of public service provision. Municipalities are allowed to set up new public service providers only if other providers do not or cannot provide public services to residents in a cost-effective way and with an adequate level of quality. On the basis of this law, local authorities can use social enterprises as partners to provide public services, purchasing their services and financing project activities through the public-procurement system.

**Furthermore, the strategic obligation to transfer more services to NPOs and social enterprises is included in the national progress strategy “Lithuania 2030”, approved on May 15, 2012 by the Government of the Republic of Lithuania.** With a view to implementing this national progress strategy, Lithuania developed the “Public governance improvement programme for the years 2012-2020”, which states that at least 15% of public services shall be provided not by state institutions, but purchased from associations, foundations and public enterprises, social enterprises or private enterprises.

**State institutions and municipalities are taking steps to involve social enterprises in public service provision, but there is still a lot of distrust.** A small part of public services (5 to 7%) provided in municipalities are purchased from independent

associations, foundations or public enterprises. In 2016, the Public Procurement Department carried out research to evaluate the volume of purchases from WISEs and the level of satisfaction of services or goods provided by WISEs. Results showed that, although 86% of customers were satisfied by the quality of the services and goods provided by WISEs, most of the purchasing organisations choose other service providers for subsequent purchases, and 77% purchased from WISEs only once or twice.

The “Research on the capacities of non-governmental organisations to provide public services and on Lithuanian citizens’ involvement in volunteer activities” was conducted in 2017 by order of the Ministry of Social Security and Labour to assess the possibilities for NPOs to provide public services and the barriers hereto. **The study showed that the institutional capacity of associations, foundations or public enterprises to engage in the provision of public services is sufficient.** Indeed, 79% of municipalities and 77% of non-governmental organisations evaluated the capacities of associations, foundations and public enterprises to provide social service as “rather sufficient”, “sufficient” or “very sufficient”.

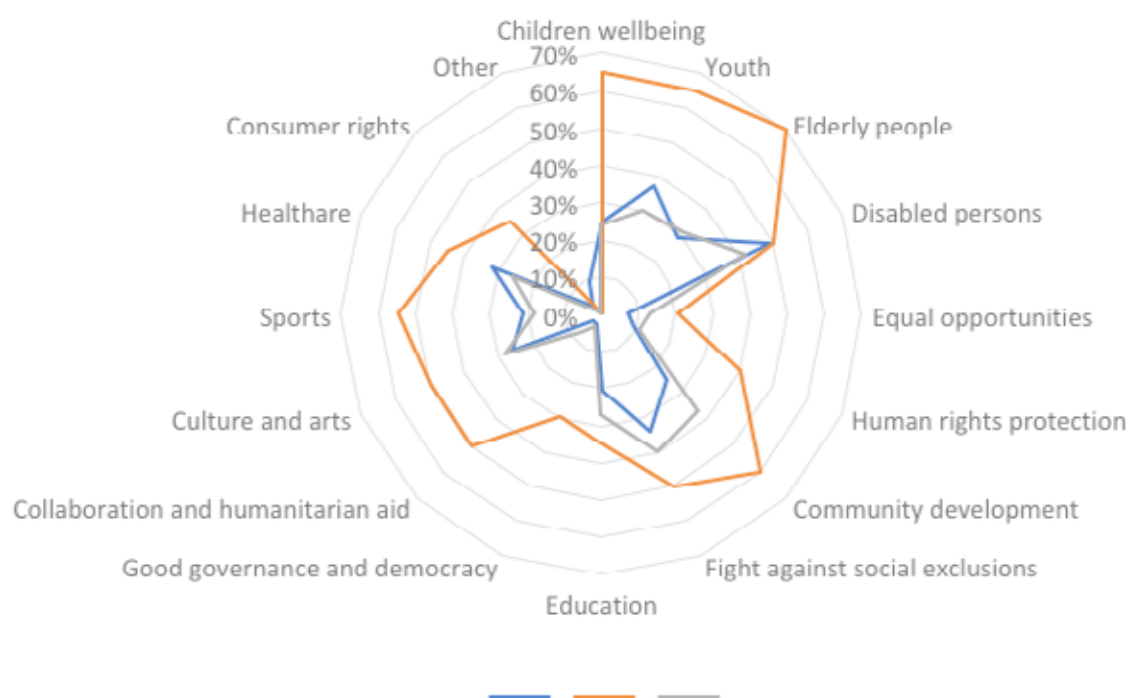
**Associations, foundations and public enterprises that carry out permanent economic activities and are considered as social enterprises showed a better involvement and better capacities to provide services in a permanent and sustainable way than associations, foundations and public enterprises that operate on a voluntary basis.** They were more active in both procurement tenders and various project programmes. These indicators tend to show that strengthening the economic dimension among NPOs would support a shift of the non-profit sector from grant-seeking behaviours to self-sustaining social enterprises.

**In 2018, the Ministry of Economy set out to enable state institutions and municipalities to involve social enterprises into public services provision. For this aim, it established a workgroup whose aim is to develop a model for a gradual transfer of public service provision to social enterprise providers.** The model specifically targets social enterprises as the most prospective actor to replace state-owned service providers in the future, because their economic-sustainability dimensions guarantee greater durability and stability of their services, in comparison to those provided by entities that only operate if significant state support is provided.

**The study shows that there is still a big gap between the supply of and the demand for public services and involvement of social enterprise into public service provision will be beneficial.** Social enterprises are performing and have sufficient capacity to provide public services—provide of welfare services to children; cater to the needs of youth, seniors, people with disabilities, and communities in general; fight against social exclusion; reduce poverty; and promote education, science, culture, the arts and sports. Interviews with municipalities showed that the provision of such services provided by social enterprises is much lower than municipalities’

expectations. Figure 2 offers a visual representation of this gap between supply and demand; the largest gaps—corresponding to areas with developmental potential for social enterprises—are related to services for children, youth and elderly people.

**Figure 2. Fields in which public services are currently provided and prospective areas for development**



Source: Research on the capacities of non-governmental organisations to provide public services and on Lithuanian citizens' involvement in volunteer activities (2017).

## 5.2. Constraining factors and opportunities

### 5.2.1. Constraining factors

There are no legal constraints preventing potential entrepreneurs from establishing a social enterprise under any legal form. However, **various studies and stakeholders' interviews have identified different factors limiting the creation, growth and development of social enterprises** (Eurointegracijos projektai, 2014; Enterprise Lithuania, 2016).

The possibility to attract voluntary work and donations, especially in the start-up stage of social enterprise activities, is highly beneficial; however, only non-profit legal forms—

i.e. associations, foundations and public enterprises—are allowed to use volunteers and to receive charity or financial aid from donors, private individuals or companies. **If a social enterprise chooses the non-profit legal form, it faces barriers to obtain start-up investment or credit.** Social enterprises are driven mainly by their social aim and they are usually good in generating social outcomes, but they often lack capacities in terms of business development. Existing start-up programmes focus mainly on the profit-earning perspective, and social enterprises fail to meet their requirements or are not interested in these programmes, because they do not focus on the social impact. Social enterprise incubators operate on a temporary project basis, and state-financed business incubators do not have enough capacities and competencies specifically targeted at social enterprises.

**The main drag on the growth and development of social enterprise is the lack of financial engineering instruments and micro-credits specifically intended for social enterprises.** The lack of support for and awareness toward products and services provided by social enterprises, as well as the distrust of banks and state institutions, often deter social entrepreneurs from launching or scaling up their enterprise.

From the legal point of view, the public procurement system offers different possibilities to purchase from social enterprises: reserved contracts, public procurement tenders, and concessions. **But there is a lack of strategic decisions, obligations and commitment on the part of state and municipality institutions to purchase services from social enterprises.**

**Another constraining tradition is related to the common practice of purchasing public services through *una tantum* project grants.** Grant-related requirements strictly define the kind of services that shall be provided, the way in which and the professionals by which this shall be done, and the target groups to which the services shall be provided. If a social enterprise creates an innovative way to solve a given problem or identifies a new problem and finds a solution to tackle it, but this model does not fit into the narrow frame of the grant-related standardised requirements, such social enterprise will not be eligible to the grant. Grants provide financing on a temporary basis and they finance a narrow scope of activities; they typically do not allow investments in infrastructure or equipment. Grants cover the costs of service provision and they provide small financial injections for administrative activities, but they do not help social enterprises to enhance their economic sustainability or to develop their entrepreneurial capacities.

In Lithuania, the common practice and opinion is that public-benefit activities, especially those related to the solution of social problems, can be implemented by non-profit legal entities (foundations, associations, public enterprises) or by state and



municipal institutions.<sup>24</sup> **Therefore, eligible applicants to the grant programmes, which are oriented toward social problems, are typically only non-profit legal entities; enterprises operating under a conventional for-profit legal form and cooperatives are not allowed to apply.** On the contrary, programmes and financial instruments designed for businesses are not available to non-profit legal entities.

The interviews with associations, foundations and public enterprises conducted within several research projects (Ekonomines konsultacijos ir tyrimai, 2017; Eurointegracijos projektai, 2014; Enterprise Lithuania, 2016) as well as interviews with stakeholders identified key factors limiting the development of social enterprise:

- > lack of start-up investments;
- > lack of competences and infrastructure;
- > lack of trust and support from society, state and financial institutions;
- > strong dependency of NPOs on state and municipal funding and lack of entrepreneurship;
- > low awareness and understanding of the concept, role and impact of social enterprise in society;
- > lack of awareness of good practises;
- > lack of cross-sectoral stakeholder partnerships;
- > negative reputation of work integration social enterprises;
- > state and municipal providers' monopoly on social services;
- > lack of monitoring of social enterprises;
- > fear of failure in the market, when faced with competition.<sup>25</sup>

Some statements by questionnaire respondents illustrate well the situation:

*Society does not understand what a social enterprise is. The idea of social entrepreneurship is new, and people do not trust it. The concept of social enterprise is not unambiguously defined at the government's level.*

*Social enterprises, simply due to the word "social", go up to the top of the list of highest-risk activities. Private-investment funds are not interested in social enterprises and their conditions are unacceptable for start-up social entrepreneurs; existing external financing programmes often only theoretically focus on the development of social enterprises.*

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(24) Such attitude could be a remnant from the Soviet period, when any private business-like activity was forbidden and private initiatives could only aim at the public benefit.

(25) This fear is rooted in the Soviet mentality: in the Soviet Union, the paternalistic state provided guarantees and ensured financial sustainability.

### 5.2.2. Opportunities

In 2017, the Lithuanian Government **for the first time acknowledged social enterprise at the strategic level.**<sup>26</sup> Four actions, highlighting key opportunities for social enterprise development, were identified:

1. the adoption of a Law on Social Business, to define the characteristics and forms of social business and instruments to support their development;
2. the creation and implementation of effective and adequate means to support the employment of socially vulnerable people;
3. the provision of consulting services and acceleration mechanisms for social business start-ups (NPOs, communities, etc.);
4. the gradual transfer of public-service provision to social business providers, through the adoption of individual partnership instruments: public procurements, concessions, public-private partnerships.

According to the Plan, all the above-mentioned actions should stimulate the creation of 150 social enterprises by 2020.

**Stakeholders' interviews also identified factors, manifested in the society, which support the development of social enterprises in Lithuania.** The most important of which are the growing awareness of social enterprise issues among policy-makers and the emergence of a lot of private bottom-up initiatives, generating attention and motivation in society, among NPOs and conventional enterprises. Here again, some statements by the questionnaire respondents illustrate well the situation:

*There are great examples of social enterprises in Lithuania. People are interested, thankful, supportive—mostly young people, young families.*

*There are a lot of great bottom-up initiatives. They are especially active in social networks, there are a lot of informal groups. Society matured for that.*

**Currently, the major growth opportunity is related to the decisions about the transfer of public-service provision to social enterprise providers.** If the state and municipal institutions start purchasing 15% of public services—which are currently provided by the state or by state-owned institutions—from social enterprises, as planned in the government's programme, a large new market will open for social enterprise to emerge and grow.

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(26) Resolution for the Ratification of the Implementation Plan for the Government Programme (Resolution No. 167, section 1.1.5), which listed actions for the development of social businesses in Lithuania.

### 5.3. Trends and future challenges

The scenarios for the development of social enterprises that were presented by stakeholders highlighted a transformational moment, where historically inherited models coexist alongside new types of initiatives. **Active public discussions, the involvement of significant top-level stakeholders and the bottom-up movement around social enterprises also all underline the fact that the Lithuanian social-enterprise sector is at the crossroads of a systemic paradigm shift.**

The readiness of society express in actions at the legal level: the project for the new Law on Social Business, as well as the project to significantly amend the 2004 Law on Social Enterprises (WISEs), which will bring the Lithuanian legal framework for social enterprises closer to the European Commission's conception, have officially been submitted to the Parliament and are to be discussed in the autumn session of 2018. The new model for the transfer of public-service provision to social enterprise providers will be presented in September 2018. The same year, two EU Structural Funds programmes open calls for social enterprises. **All these actions are significant leverage points for the acknowledgment and development of social enterprises in Lithuania at the government level; in line with the multiplication of bottom-up initiatives, they open up possibilities of growth for the social enterprise universe in the near future in Lithuania.**

**On the other hand, Lithuania faces many demographic and social challenges, which forebode limited capacities, on the part of the state, to support the new developments.** The population in Lithuania has been declining by more than 1% yearly since the 2000s, as people leave the country to seek better-paid quality jobs abroad. The old-age dependency ratio is expected to increase, from 28 people beyond the retirement age for every hundred working-age residents in 2015 to 46 in 2030; such increase is among the sharpest observed in OECD countries. Income inequality is very high, and the poorest households have seen little improvement in their living standards over the last years. **The growing social and demographic challenges will be made more acute by the termination of EU Structural Funds in 2020, which will reduce public financing capacities and will increase pressure for a more efficient budget planning.** If policy-makers' general approach does not change, the situation the country had known during the global financial crisis may repeat itself, and the most significant cut-offs of public financing will affect welfare budgets. The challenges enterprises will face to access public finance will also stimulate competition and tension between state-owned institutions and social enterprises, and this entails a risk that the decision to transfer the provision of public services to social enterprise providers may remain on paper. **The abundance of social problems opens up new spaces for social enterprise development.** However, the building of an enabling ecosystem, in which social enterprises can fruitfully interact with both central and local authorities, access financial support instruments and upgrade their entrepreneurial capacities, is still underway.

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APPENDICES

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## 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 <b>typical characteristics that are shared by all enterprises</b> <sup>27</sup> .	<ul style="list-style-type: none"> <li>&gt; Whether the organisation is or is not incorporated (it is included in specific registers).</li> <li>&gt; 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).</li> <li>&gt; Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers.</li> <li>&gt; Whether there is an established procedure in case of SE bankruptcy.</li> <li>&gt; Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income).</li> <li>&gt; Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider.</li> <li>&gt; Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services.</li> </ul>	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> <li>&gt; 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).</li> </ul>

(27) 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"> <li>&gt; Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members.</li> <li>&gt; Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions.</li> <li>&gt; Whether SEs’ action has induced changes in legislation.</li> <li>&gt; Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing.</li> </ul>	Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.	<ul style="list-style-type: none"> <li>&gt; 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.</li> <li>&gt; 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).</li> <li>&gt; 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.</li> </ul>

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)	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.	<ul style="list-style-type: none"> <li>&gt; Whether SEs are open to the participation and/or involvement of new stakeholders.</li> <li>&gt; 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?).</li> <li>&gt; Whether a multi-stakeholder ownership structure is imposed by law (e.g. France).</li> <li>&gt; Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to.</li> <li>&gt; Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE).</li> <li>&gt; 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.</li> <li>&gt; Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws.</li> <li>&gt; Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits).</li> </ul>	SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.	<ul style="list-style-type: none"> <li>&gt; 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.</li> <li>&gt; 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.</li> <li>&gt; 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).</li> </ul>

## 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
Work integration social enterprises (WISEs)	<a href="#">The list of social enterprises</a> Administrative register	Lithuanian Labour Exchange, under the Ministry of Social Security & Labour Government agency	2018 Yearly	✓	✓	✓	3 - The database provides information on the three dimensions. As regards the number of workers and turnover, data are incomplete (data are not available for all organisations)
(WISEs)	<a href="#">Public data of insurers</a> Administrative register	The State Social Insurance Fund Board, under the Ministry of Social Security & Labour Government agency	2018 Monthly	N.A.	✓	N.A.	4 - The database provides data only on the number of workers and average salaries
(WISEs)	<a href="#">Register of Legal Entities</a> Administrative register	State Enterprise Centre of Registers Government agency	2018 Monthly	✓	N.A.	✓	4 - The database includes all financial reports and founding documents are provided for individual enterprises (paid service)
Public enterprises ( <i>Viešoji įstaiga</i> ), Associations, Foundations	<a href="#">Official statistic portal</a> Statistical register	Statistics Lithuania (NSO)	2018 Yearly	✓	✓	✓	Data on number of workers are incomplete (available only for public enterprises, not available for associations and foundations) The source refers to general data and it is not possible to filter SEs within the data. Authors of this report asked the NSO to compute statistics on public enterprises that generate more than 25% of all income from the market. Data are available by legal type



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
Public enterprises (Viešoji įstaiga), Associations, Foundations	<a href="#">Public data of insurers</a> Administrative register	The State Social Insurance Fund Board, under the Ministry of Social Security & Labour Government agency	2018 Monthly	N.A.	✓	N.A.	4 - The source refers to general data and it is not possible to filter SEs within data. Data on workers and salaries are provided for individual organisation, accumulated general numbers are not available Data are available by legal type
Public enterprises (Viešoji įstaiga), Associations, Foundations	<a href="#">Register of Legal Entities</a> Administrative register	State Enterprise Centre of Registers Government agency	2018 Monthly	✓	N.A.	✓	4 - The source refers to general data and it is not possible to filter SEs within the data. All financial reports and founding documents are provided for individual enterprise (paid service) Data are available by legal type
Public enterprises (Viešoji įstaiga), Associations, Foundations	<a href="#">Research on Non-governmental sector development</a> Survey covering specific sample	Eurointegracijos projektai Government agency	2018 Una tantum	✓	✓	N.A.	1 - The source refers to general data and it is not possible to filter SEs within the data. Some data are based on official NSO statistics, others are based on interviews Data are available by legal type
Public enterprises (Viešoji įstaiga), Associations, Foundations	Survey on NGOs opportunities to provide public services and citizens involvement into volunteer activities Survey covering specific sample	Ekonomines konsultacijos ir tyrimai Government agency	2018 Una tantum	✓	✓	N.A.	1 - Some data are based on NSO official statistics, others are based on interviews. Data also provide information on scope of activities, structure of income and regional distribution Data are available by legal type

## Appendix 3. Exploratory case studies

### Exploratory case 1

#### Budraičių bendruomenė, the social enterprise for local community needs

##### → Mode of creation

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The “Budraiciai Community” (*Budraičių bendruomenė*) association, was established in December 2002 through the mobilisation of 92 volunteers from seven neighbouring villages of Kelme district. Budraičiai is the name of the village, where the association is registered. The organisation was established to meet the social and cultural needs of the local inhabitants. When Lithuania regained independence from the Soviet Union, collective farms (kolkhozes) closed. Very little social and cultural activity occurred in small villages and there was high unemployment and poverty. There were no cultural activities, and no leisure activities for children, young people or the elderly. The growing unemployment fostered social exclusion, crime, and poverty. Kelme is one of the poorest districts in Lithuania.

Inhabitants of the local villages gathered and decided to establish the organisation “Budraiciai Community”, which could enable them to collaborate, attract funding and revive the social and cultural life of the community, as well to solve the acute problems and needs of the inhabitants.

In the beginning, the association was operating by volunteers, who were almost all members of the association council. In 2008 this initiative evolved into a social enterprise. It was the first social enterprise set up, created by a local community in Lithuania. The main reason to start entrepreneurial activities was the need to self-finance the costs of premises, the provision of services to disadvantaged beneficiaries, and to meet other social and cultural needs of the local inhabitants. Later the income gained from the social enterprise activities enabled employment of local people, and provided development and income-earning opportunities for the small local farmers, thus strengthening the community. All the profit of the social enterprise is reinvested to address the needs of local inhabitants.

##### → Types of recipients

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“Budraiciai Community” has two groups of clients: social clients and conventional clients. In 2007 “Budraiciai Community” renovated the abandoned premises of the abandoned building that belonged to the municipality and created “The Three-Generation Home.” In this building, the community organises events and meetings, has an office, provides services, executes production activities, and runs the public library. Every week the community organises activities and education for children and the elderly, provides food

to the poor and disadvantaged, visits people living in exclusion, runs a sports club for the youth, and arranges funerals or other rituals for lonely and disadvantaged people. The social enterprise also organises cultural events, concerts, and poetry festivals, as well as trips to museums, theatres or other countries. Through time "Budraiciai Community" became an expert in the social enterprise field, and has consulted many other local communities and volunteers on how to run a social business.

Conventional clients are people purchasing or retailers selling ecological products, as well as local farmers who provide fruits and vegetables. "Budraiciai Community" is one of the first producers of ecologic jams, juices, pickles, and spices in Lithuania. The prices of their products are lower than average, which makes ecological products available to lower-income families. The ecological production of "Budraiciai Community" is sold in cities of Lithuania and exported to London, to the community of Lithuanian emigrants. Through time this social enterprise has fostered the development of eco-farming traditions in the region, creating an additional source of income for previously unemployed people. Currently, the organisation is collaborating with 16 small farmers.

#### → **Number of recipients**

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The beneficiaries are 654 local inhabitants from nine villages, mostly people at risk of social exclusion who live below the poverty level. Specific beneficiaries are children and young mothers, disadvantaged people: the elders, living in exclusion or disabled.

#### → **Membership and governance model**

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All the decisions of the organisation are made by the council comprised of seven members. The council meets every week and reviews plans, requests, financial results, and contracts, and makes decisions about all activities and investments. The management of the enterprise is divided as follows: one person is responsible for projects, another for production, a third for relationships with customers, a fourth for social and cultural activities, etc. Financial and activities reports are yearly presented and approved at the members meeting (96 members). The members meeting represents different stakeholders: young people, the elderly, disadvantaged people, and farmers. At the beginning, the membership represented seven villages, and through time it extended to nine villages. The organisation provides reports to control institutions, and communicates all the activities and results via Facebook to a public audience.

The organisation has two permanent employees and additionally two or three seasonal employees, working under employment contracts. There are also two employees under the public work programmes of the municipality; these employees, being in the social exclusion risk group, receive state allowances and are obliged to attend public work programmes. The social enterprise educates and supervises them. The social enterprise also has 20-30 volunteers. At the beginning, the organisation was fully run by volunteers,

but thanks to the income generated by the business, it was finally able to employ people with work contracts. All the volunteers and employees are local inhabitants.

### → **Business model**

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"Budraiciai Community" operates four business lines: production of jams and pickles, juice production and juicing service, and production of ceramics and confectionary. The entirety of the profit is reinvested to meet the needs of the community, to provide services to inhabitants or disadvantaged people and pay the salaries of employees. The organisation receives donated fruits and vegetables as well as purchasing eco-products from local farmers. Ecological production is sold directly to private individuals or through retail distributors, eco-shops or public markets. The business activities, as well as social and cultural activities, are executed on the same premises by the community members.

For scaling, the organisation applies the deep model, rather than wide. Through time the social enterprise offered a variety of social and cultural services, responding to diverse needs of the clients or specific target groups. They also introduced different business lines, meeting diverse needs of conventional clients. The head of the social enterprise has emphasized that they do not aim to expand and turn into a big company but wish to stay local and focus on their main aim – to support the needs of the local community.

### → **Main barriers**

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This social enterprise has faced different barriers at different stages of development. In the beginning, there was lack of knowledge; later, lack of premises. During the first six years, the organisation operated without any premises, until in 2008 the Kelme district municipality transferred to the local community the abandoned house of a former Soviet farm. In order to renovate the building, the organisation needed to attract financing and started to apply for funding and grants. When the renovated house attracted clients, the organisation faced the challenge of operational finances—a necessity that accompanies entrepreneurial activities. When the social enterprise started business operations, the main barrier for development became high social security taxes for the employees. Currently, the main barrier to development is emigration of young people as the social enterprise is mainly run by elderly members.

### → **Key partners**

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The Kelme district municipality provides employees through the public work programme. The Kelme local action group provides consultancy on business development, financing opportunities and project administration issues. Other main partners are retailers of ecological products and eco-farmers who provide in-kind support with surplus products or financial donations. The social enterprise inspired and consulted on the foundation

of the eco-farmers' cooperative "Curonian Land" (*Kuršių krastas*), which currently is the main supplier of fruits and vegetables.

"Budraiciai Community" rarely participates in public procurement tenders. The organisation has the use agreement for premises (buildings) with the municipality. The social enterprise does not have to pay a rental fee, and the municipality covers 50% of electricity costs. All the other contracts with various public agencies are related to terminated grants or projects.

### → Fiscal breaks

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"Budraiciai Community" is a non-profit legal entity, an association. It is eligible for zero profit tax rate and may not be taxed the VAT. It can receive financial and in-kind donations, employ volunteers, and can use public premises without paying rent. These legal conditions were essential for the organisation to start social enterprise activities. The volunteers ran the first operations using donated products, while grants and charity helped to renovate the building and to acquire production machinery.

### → Financial mechanisms

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"Budraiciai Community" during 15 years of activities has implemented more than 50 projects. The grants were used to renovate premises and purchase production equipment. The organisation's first grant was under UN GEF Small Grants Programme, and later the organisation applied to all LEADER programmes for rural development. Income from sales comprises around 60% of all income. Philanthropic donations, together with the member's fees do not comprise more than 10% of all income, because the region is economically weak and the most of the inhabitants are unemployed or receive a low income. Various *unit tantrum* grants and partial reimbursement of electricity costs by the municipality comprise around 30% of income. Voluntary work makes possible more than half of all activities. The organisation has not applied for loans or investment due to prohibitive requirements. It consciously avoids significant investments or obligations for business growth, aiming to focus on its main purpose and using business only as a mean to reach the social aim.

## Exploratory case 2

### REGSEDA, a work integration social enterprise for disabled persons

#### → Mode of creation

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The social enterprise was established in 1959, while Lithuania was part of the Soviet Union. It was operating as Klaipeda factory of the blind people. The factory was established by the community of the blind and visually impaired people and this ownership remains until now. It is worth mentioning that even during the Soviet Union period the owner of the factory was not the state, but the community of persons with disabilities. It can be said that such enterprises of people with disabilities are the oldest private enterprises in Lithuania since they were operating as private enterprises even during the Soviet period.

In the Soviet period similar factories, specifically established to employ people with disabilities, were operating in various towns of Lithuania. However, only a few continued activities later in the free market economy and did not close due to competition.

After Lithuania regained independence from the Soviet Union, the legal framework changed, and the community of the blind and visually impaired people applied the legal form of public enterprise (*Viešoji įstaiga*), and the factory became the limited liability company Reseda with the only shareholder being the public enterprise Union of blind and visually impaired people of Lithuania. The Union of blind and visually impaired people of Lithuania currently is an independent, self-sustaining NPO.

The main reason why the Union of blind and visually impaired people of Lithuania was still operating four social enterprises (*Regседа* is one of them) when many other similar factories were closed, is related to challenges for blind people to find work. People with other less severe disabilities were able to find work in many other work integration social enterprises, but not the blind people.

*Regседа's* main purpose is the employment, social integration and well-being of persons with disabilities, mainly the blind and visually impaired. The enterprise is one of the largest corrugated cardboard producers and packaging companies and one of the largest work integrations social enterprises in Lithuania.

#### → Types of recipients

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Regседа has two types of recipients: social clients (persons with disabilities) and conventional clients (purchasers of the production). *Regседа* has 188 employees, 84% being persons with disabilities. The social enterprise adopts workplaces for people with disabilities, and educates, trains and employs disadvantaged people. The enterprise also supports active life and social aims of the disadvantaged people and provides free premises to the centre of Union of blind and visually impaired people of Lithuania,

where a daycare centre provides social services, as well as cultural and leisure activities to persons with disabilities on a daily base. The social enterprise also finances some of these activities.

The social enterprise devotes special focus to children and youth, aiming to change their self-perception from people with disabilities to self-sustaining and socially active, empowered individuals. For six years the social enterprise has organised summer camps for blind or visually impaired children and youth, and some of them when they grow up become employees. The organisation constantly supports disadvantaged people with charity aid. The factory is specifically arranged to support independence and self-support of the employees. People with disabilities are encouraged to help each other; for example, if visually impaired people package, the employees with hearing impairment verify the work.

Conventional clients are large companies, such as IKEA, and small producers from Lithuania, Sweden, Germany and other countries, as well as various state institutions and municipalities.

#### → **Types of recipients**

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*Regseda* has 188 employees, 84% with disabilities, most of them a high disability level. The number of disabled employees is increasing in line with the growth of the enterprise, from 60 employees in 2009 to 188 in 2018. Disabled persons receive permanent state subsidies for wages under the Law of social enterprises (2004).

The enterprise has a legal form of limited liability entity, and such legal form does not allow using volunteers. Thus social enterprise only relies on employees under work contracts.

#### → **Membership and governance model**

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The CEO and the board of directors manage the organisation. The board is comprised of disabled persons who are members of the Union of blind and visually impaired people of Lithuania, which is the only shareholder of the social enterprise. To make operational decisions, the CEO consults with employees and experts. Strategic decisions on investments and development, and financial accountability reports, are reviewed and confirmed by the board. The social enterprise provides financial reports to control institutions and additionally to the National Labour exchange because it receives state subsidies for the employment of people with disabilities.

#### → **Business model**

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*Regseda* applies the work integration social enterprise model. The business activities are executed in the factory. The enterprise reinvests 100% of profit into the main

aim of the social enterprise – the employment and social integration of people with disabilities. The enterprise in 2016 generated around 3.2 million EUR turnover.

The social enterprise has grown since 2010, though, before, the company was declining and almost reached a situation of bankruptcy. During the Soviet period the factory employed around 700 people, the state being the guaranteed purchaser of the production. When Lithuania regained independence and started to operate under free-market economy, Regseda lost state purchases and had to compete with other enterprises for clients. At that time the enterprise faced the challenge of being financially sustainable and preserving its social purpose. The enterprise suffered from managers who sold the enterprise's real estate and exploited people and other managers who were incapable of operating in the intense competitive environment.

Since 2011 Kristina Zibaliene has managed the enterprise. A true social entrepreneur, she has sound business management experience and a socially responsible perspective. The new CEO has signed contracts with the largest furniture producers in the country for production of packages and packaging services, and the enterprise invests in new machinery and develops new product lines. Historically, the enterprise was producing jar covers and stationery supplies, but now more than 90% of production comprises cardboard packaging.

The growing business demand and permanent contracts with large purchasers has increased capacities to employ more persons with disabilities, to renovate and improve the work environment, and to arrange more social, cultural and educational activities for the well-being of people with disabilities.

### → **Main barriers faced**

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The main barriers outlined by the manager of the social enterprise Kristina Zibaliene are related to the legal status of limited liability company. As mentioned above, the enterprise of such legal form under the legal framework of Lithuania can't receive charity nor voluntary work. If enterprises or donors wish to support the social enterprise activities, they provide charity to the founder organisation - the Union of blind and visually impaired people of Lithuania.

The social enterprise was considering changing the legal form from limited liability company to a public enterprise, which would be allowed to attract sponsorship and voluntary work. The decision was made not to do it because, in the transition, the enterprise would lose state subsidies for the employment of people with disabilities for six months, and such barrier puts risk to the survival of the enterprise.

Other barriers are related to the general attitude in the society toward social enterprises. Purchasers do not create any preferential conditions during the tenders or purchase procedures. The social enterprise often hides its social nature, because purchasers do



not trust persons with disabilities to guarantee high quality and often place additional requirements.

The Law on Public procurement requires that minimum 2% of public procurement in Lithuania would be purchased from work integration social enterprises, and the social enterprise uses this opportunity to sell office supplies. However, this share is minor in the total income structure.

### → **Key partners**

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Partners of the social enterprise are various NPOs, representing persons with disabilities or disadvantaged people as well other organisations: The foundation Foodbank, Municipality, Klaipeda oil terminal, Klaipeda Rotary.

The main contractual agreement is with National Labour Exchange, under which Regseda employs persons with disabilities and receives state subsidies for wages and assistant's services. Regseda participates in public procurement tenders. In 2015 the social enterprise participated in 14 public procurement tenders; in 2016, 14; and in 2017, 6.

### → **Fiscal breaks**

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The social enterprise under the legal framework is eligible for zero profit tax rate; it also is exempt from the real estate tax. The enterprise inherited from the Soviet period around 2.7 hectares of land and the large real estate premises for the factory, thus being exempt from the real estate tax comprises a significant support.

### → **Financing mechanisms**

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There are four main sources of financing at *Regseda*:

1. Subsidies for work integration social enterprises for the employment of persons with disabilities. These subsidies partially cover costs for wages and social insurance tax as well as finance services of assistants. These subsidies comprise around 20% of all income.
2. The unit tantum grants for the creation of new jobs for people with disabilities. The grant for new job creation cannot exceed 40 minimal wages per year–16,000 EUR. Every year the social enterprise creates 2-3 new jobs and uses the grant to purchase new equipment or renovate infrastructure.
3. Income generated from sales of goods and services in the market.
4. Public procurement contracts represent 1.5-2% of yearly income, and main contractors are Klaipeda County police commissariat, Customs Department and other. Through public procurement tenders, the social enterprise sells stationary equipment products.

The shareholder of the social enterprise decided not to take any credits or loans. Therefore *Regseda* is operating from its profit. However, when the enterprise applies for new job creation grants, it asks for the additional guarantee from the bank. The social enterprise does not use any other investments of financial instruments.

### Exploratory case 3

#### Foodbank Foundation

##### → Mode of creation

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The Foundation *Maisto bankas* (“Foodbank”) was established in 2007 by three volunteers with the main purpose to provide healthy and quality food for people in poverty, and to promote responsible and zero waste food consumption in the society through a partnership with food producers and retailers. The legal form of foundation in Lithuania does not require having financial assets and can be simply established by the individuals aiming to support disadvantaged people in need. In 2008 *Maisto bankas* became a member of FEBA (European Food Banks Federations).

In 2009 *Maisto bankas* established the first regional units in Vilnius and Panevezys; later units opened in Kaunas Klaipėda and Šiauliai. In the start-up stage, activities were implemented by volunteers and were financed through grants or donations, but in 2011 the organisation started to generate market income and applied the social enterprise model.

##### → Types of recipients

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The organisation's main recipients are people living in poverty in all regions of Lithuania. The organisation reaches these people through partners: NPOs, social enterprises, state institution, and the church (also sometimes directly).

In 2016 the organisation provided food to around 202,000 people in 46 Lithuanian districts. *Maisto bankas* currently provides food to 754 social organisations, which take care after people in poverty. The number of recipients since 2013 has been growing yearly by about 15%.

##### → Membership and governance model

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*Maisto bankas* governance is executed by a CEO, a management board, and shareholders. The CEO executes operational decisions consulting with the personnel. Also, the organisation constantly collects feedback from social partners and customers. *Maisto bankas* personnel is comprised of 684 permanent volunteers and 38 employees

under work contract. The organisation also attracts more than one thousand temporary volunteers during the food collection campaigns.

### → **Business model**

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The organisation's main service is collection of food from the producers, farmers, and retailers; and storage and redistribution to the poor through the partners: municipal organisations, communities, and charity or social organisations. In the beginning, *Maisto bankas* was operating as a charity organisation and relied on donations, grants, and voluntary work. In 2011 the organisation started to collaborate with retail supermarkets and expanded too fast, creating a crisis. It was not able to meet obligations to partners and personnel; it lacked operational finances and considered bankruptcy.

That was a break-through moment. The organisation moved from charity organisation toward more self-sustaining social enterprise model. The social enterprise introduced a fee for the food processing. The fee partially covers operational costs and creates permanent income streams. The fee is charged to various NPOs, social partners who are using the food for their own activities; for example, a municipal daycare centre that provides meals for children attending the centre; or a local community, that provides food to its inhabitants. Such *Maisto bankas* services create an opportunity for many social organisations to reduce costs of meals for their clients.

According to the CEO, the organisation reinvests 100% of profit to the main purposes; the largest investments are for the renovation of machinery, infrastructure or development.

Since the very beginning, the organisation has been growing exponentially by adopting wide (or surface-level) mechanisms. The social enterprise mainly organises public food collection campaigns supported by media and a broad network of volunteers and social partners. The collected food is stored and redistributed to social partners.

However, the last five years the organisation has been combining other strategies, targeting more complex needs of the clients. The social enterprise started to promote healthy eating at schools and encouraging society toward responsible and zero waste consumption, in addition to poverty reduction, which is the main purpose.

### → **Main barriers faced**

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The main barriers highlighted by the CEO of the social enterprise were related to internal limitations, such as lack of management and financial planning skills.

### → **Key partners**

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*Maisto bankas* has developed an extensive partnership network. Partners are social organisations that are involved in volunteer activities for collection and redistribution of food. Financial donors or food suppliers are retail supermarket chains, large and small food producers, and farmers all over the country. Besides its main activity of

fighting poverty, *Maisto bankas* also seeks to promote healthy eating and wasteless responsible consumption. It organises educational, healthy living campaigns at schools and kinder gardens, in 2015 it collaborated with 560 educational organisations. The organisation also has an extensive network of media partners, financial donors, logistic service providers and other contributors.

*Maisto bankas* also started to participate in public procurement tenders organised by various municipalities for the charity canteen or food provision to low-income families. Over time, the organisation also discovered other creative ways of generating income and meeting positive social impact in diverse areas. For example, it now has a contract with Vilnius city airport, where it collects plastic bottles. The organisation collects various food packaging and sells it to recycling companies.

*Maisto bankas* has the contract to distribute European Food Aid Programme (FEAD) food parcels to the country's most vulnerable citizens. The organisation, through public procurement procedures, won tender to provide services for a charity canteen in Klaipeda municipality; this contract reached 300,000 EUR. Other municipalities and state and municipal institutions also purchase food services provided by *Maisto bankas*. In 2017 the organisation participated in four public procurement tenders and won three of them.

#### → **Fiscal breaks**

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*Maisto bankas* is a non-profit legal entity. It is eligible for zero profit tax rate, can receive financial and in-kind donations, can employ volunteers, and can use public premises without paying rent. These legal conditions are significant support as most of the work is implemented through voluntary work and main assets are generated through donations.

#### → **Financing mechanisms**

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The structure of the income of *Maisto bankas* consists of market income, donations and partial compensation of activities by European FEAD programme. In 2016 *Maisto bankas* in total income structure generated 16% of income from sales of food provision services and the fee, paid by the clients, comparing to 7% in 2015. The foundation also receives income from state institutions through public procurement, comprising 15% in 2016 and 43% in 2015. Donations comprise more than 50% of income. The organisation does not seek credits or social finance instruments, due to high requirements.

## Exploratory case 4

### Mano Guru, a social café in Vilnius

#### → Mode of creation

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In 2002 the ministry of labour and social affairs transferred to the municipalities provision of services for rehabilitation and reintegration of people in addiction. The mayor and a delegation from Vilnius municipality visited a Prague social enterprise, a café for people with disabilities, and came up with the idea to open such a social café in Vilnius for the reintegration of people in addiction recovery. Thus, Vilnius municipality initiated the social enterprise.

In 2002 the public organisation “Social support projects” (*Viešoji įstaiga*) was established by three founders: Vilnius city municipality, Vilnius addiction diseases centre (a state institution), and the limited liability enterprise *Viršupis*, the administrator of café and restaurants network in Vilnius. The social enterprise opened café Mano guru that is publicly known under this title.

The main purpose of the enterprise is a social café for the reintegration of people in addiction. It aims to help solve a problem related to the reintegration of people with addictions into society. People from Vilnius, who undergo programmes in closed rehabilitation communities, return to the city and the same environment, with a high risk of relapse. Thus, the social enterprise becomes “the first step” to self-sustaining life and new friends.

The co-founders shared responsibilities. Vilnius, the addiction diseases centre, was responsible for delegation, consulting and psychological support for people who passed through rehabilitation and started the reintegration process. The Limited liability enterprise *Viršupis* is the conventional enterprise, having considerable experience in the café business, was responsible for opening a salad bar and sharing know-how. The Vilnius city municipality provided the premises at the centre of the city under the usage contract with zero rent charge.

#### → Types of recipients

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The social enterprise has two types of recipients: social beneficiaries and conventional clients. The social beneficiaries, persons with various addictions, comprise the main group of recipients. These people come to the café after they pass through rehabilitation programmes in various centres. Here they come for execution of the last stage in the rehabilitation process – reintegration into society and labour market. While people work here, the social enterprise provides living space (rents flats), psychological support, social worker services, and skills training, mentoring and supervision through the work process. Usually, people stay at the social enterprise social reintegration programme from 6 to 12 month. The incidence of relapse of the participants in the programme is

very low (up to 1 % comparing to the average statistic, 10%). Around 90% of all the participants successfully integrate into society, find jobs, and start families.

Over time other types of social recipients have joined. In the beginning, the main focus was for the drug addicted people, later joined alcoholics, homeless, ex-prisoners, young persons from orphanages, and other people who have difficulties integrating into society and the labour market. Currently, the social enterprise executes a special project with the prison and sees the high need to create jobs for ex-prisoners.

Conventional clients are private individuals, companies, and state institutions. On Sundays, the social enterprise organises farmers markets in the café and thus supports small local organic farmers. It also uses products from these farms at the café.

Under the founding contract, 50-70% of employees at the café shall be persons with drug, alcohol or other addiction problems. Since the beginning, around 400 persons with addictions have worked at the café.

#### → **Membership and governance model**

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The governance of the social enterprise is mainly executed by the CEO, Reda Sutkuvienė, who is a real social entrepreneur, the protector, and promoter of the main purpose. There is also a management board and yearly shareholders meeting. The CEO has a broad decision-making scope; she is executing operational decisions consulting with the personnel and partners. The organisation constantly collects feedback from social partners and customers.

On average in the social enterprise there are 17-25 persons working and a minimum of half of them are persons with addictions. Sometimes, for example during the renovation process, the social enterprise attracts volunteers.

As was mentioned above, the shareholder structure of the social enterprise significantly changed. In 2002 there were three shareholders, and two of them were state institutions: The Vilnius city municipality and Vilnius addiction diseases centre. Thus the state influence was significant, which created more challenges than support. The politics and changing government strategies threatened the social enterprise's sustainability. There were several debates to take away the premises, located in the prestigious city centre, from the social enterprise. The CEO, however, with the support of society, protected the interests of the social enterprise.

To lessen the shareholders' hold by the state institutions in the social enterprise ownership structure and to move toward the non-governmental organisation, in 2017 two more new shareholders joined: the Chamber of Judicial officers of Lithuania and private person Leonarda Kuodienė. The Chamber of Judicial officers of Lithuania was invited to join, because many with addictions have a lot of judicial issues, and the social enterprise lacked the competence to solve them. This shareholder provides

consultancy and support in solving financial responsibilities and other judicial questions of persons with addictions. Leonarda Kuodienė, the famous human rights activist, an expert in the field of addiction helps the social enterprise to attract more volunteers.

### → **Business model**

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Mano guru, from the very beginning, was operating as a social enterprise. It had a social purpose at the foundation and generated income from market activities – alcohol-free salad café and catering services. In the beginning, the enterprise was fully self-financed, and for the investments it took the bank credit with the state guarantee.

When EU structural funds became available, it applied to various European Social Funds programmes. Through EU grants the social enterprise mainly supports social activities and sometimes gives scholarships to the programme beneficiaries, people with addictions. Such grants for projects also help the social enterprise to develop new methodologies and improve social skills, as well as creating opportunities to gain know-how working with other target groups, such as ex-prisoners and the homeless.

All the investments for renovation as well as cost of wages, the social enterprise earns from the café. Sometimes the social enterprise participates in the public procurements. The yearly turnover of the social enterprise reaches about 300,000 EUR (without project grants), and, more than 500,000 EUR (with the grants). The organisation reinvests 100% of surplus to the main purposes; wages, renovation of machinery, infrastructure or development.

The enterprise in special cases, such as special events or renovation activities, attracts volunteers and charity.

The social enterprise was not scaling wide, but through time was oriented toward different target groups and improved methods and practises for the best positive impact. The enterprise started from people with drug addictions and now works with a wide range of clients, such as ex-prisoners and the homeless. The enterprise also developed trust for its services: in 2018 it took over the administration of a second café. It shows growing trust from society toward social enterprise and recognition of the high service quality provided by *Mano guru*.

### → **Main barriers**

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The social enterprise faced different challenges through different stages of development. In the beginning, when the social enterprise announced to the public that premises at the city centre would become a workplace for people with drug addiction, the local community protested. Local inhabitants and business were afraid that such place would attract drug dealers, drug addicts, etc. to the place. However,

finally, the local community agreed and through time discovered, that fears were unfounded.

Later, when the social enterprise started to succeed, and the management of the municipality changed, there were few attempts to take away the premises and to move the social café outside the city centre to less prestigious regions.

The other barriers were related to the negative attitude of the municipality and state institutions as well as some companies toward social enterprises. Corporate clients did not trust service provided by people with drug addictions and avoided purchase or raised requirements too high. The social enterprise also lacked management, marketing capacities and services.

The social enterprise also was applying for Work integration social enterprise status, but since 2015 the organisations having a legal form of public organisation have not been eligible applicants.

In 2017 the renovation of the street where *Mano guru* café was located required that the café be temporarily closed, causing the café to lose clients and have a very hard time. During this period, there were no related calls for grants and the social enterprise had a significant shortage of income. No banks were giving credits, because the social enterprise was not financially viable due to fall of income. The enterprise was thinking of bankruptcy. However, this difficult time became a transformation moment. The social enterprise changed the shareholder's structure, stopped expecting support from the municipality (co-founder), and started to ask for help from the outside actors. The enterprises gave credits and provided services on a voluntary basis. People joined and arranged public campaigns and communities of carpenters and ordinary citizens joined together to renovate the social enterprise. The CEO said: "I had never asked for help or charity from outside; we aimed to earn income by ourselves. But we were in trouble recently, and I was very surprised and inspired that everybody we asked helped."

### → Key partners

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*Mano guru's* main and long-term partners are rehabilitation centres for persons with addictions disease, which recommends persons with addictions to work in the café. Other partners are involved in various project activities.

The social enterprise has only a contractual agreement with Vilnius municipality for the use of premises. The social enterprise also participated in two public procurements, in 2015 and 2017. It provided catering for the President chancellery and public organisations such as "Vilnius centre of psychological health".



### → **Fiscal breaks**

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The social enterprise benefits from the fiscal breaks applied to non-profit legal entities, mentioned in the previous cases. The mentioned legal conditions were significant support especially the usage of premises without rent fee.

### → **Financing mechanisms**

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The structure of income of *Mano guru* consists of mainly market income and una tantum project grants; other income such as volunteer work and charity comprise a small (less than 5%) share.

The social enterprise pays out credit that was received from the bank using the state guarantee. The credit is used for investment in infrastructure and equipment. In 2017 the social enterprise received other small credits from private companies to invest into the renovation of equipment and infrastructure. The social enterprise also receives a deferment of payment from suppliers as a form of financial support.

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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
Vytautas Adomaitis	Public enterprise “Enterprise Lithuania” ( <i>Versli Lietuva</i> )	Manager	ACA
Ieva Adomaitytė	Vilnius University	Lecturer	ACA
Laura Aidukienė	Public enterprise “Innovation bureau” ( <i>Inovacijų biuras</i> )	Project coordinator	SUP
Viktoras Andrejevas	Public enterprise “My tutor”	Manager	PRAC
Angelė Andrikonienė	Union of Cooperatives of Lithuania	Chairwoman	SUP
Živilė Baušienė	Public enterprise “Enterprise Lithuania” ( <i>Versli Lietuva</i> )	Senior project manager	POL
Marija Bindokaitė	Association of Kaunas community centres ( <i>Kauno bendruomenių centrų asociacija</i> )	Project manager	SUP
Marija Bunkaitė	Public enterprise “Dignified home” ( <i>Orūs namai</i> )	Manager	PRAC
Guoda Burokienė	Parliament of Lithuania	Member	POL
Raimonda Damulienė	Association „Pajūrio kraštas“	Manager	SUP
Renata Domeikaitė	Public enterprise “Citizens’ initiatives” ( <i>Piliečių iniciatyvos</i> )	Co-founder	PRAC
Violeta Jankauskiene	Network of Local action groups	Manager	SUP

Full name	Organisation	Role	Stakeholder category
Artūras Jakubavičius	Vilnius Gediminas Technical University	Professor	ACA
Ilona Javičienė	Ministry of Internal affairs Department of Public management policy Local governance unit	Manager	POL
Angelė Jokubynienė	Association “Valai village community” ( <i>Valų kaimo bendruomenė</i> )	Manager	PRAC
Darius Joneikis	Movement “Stop Crime” Domeikava unit	Manager	PRAC
Rasa Kavaliauskaitė	Association “Lithuanian Association of persons with disabilities” ( <i>Lietuvos žmonių su engalia sąjunga</i> )	Manager	SUP
Reda Kneizevičienė	Association “Sūduva Local Action Group” ( <i>Sūduvos vietos veiklos grupė</i> )	Manager	SUP
Tomas Lavišius	Ministry of economy/Unit of small and medium business policy	Senior specialist	POL
Dalia Masaitienė	Ministry of Internal Affairs, Department of Public management policy, Local governance unit	Manager	POL
Danys Mindaugas	Public enterprise “Social investment fund” ( <i>Socialinių investicijų Fondas</i> )	Manager and founder	SUP
Viktorija Nausėdienė	Public enterprise “Resource for sustainable development” ( <i>Resursai tvariai plėtrai</i> )	Manager and founder	PRAC
Ramūnas Navickas	Association “Lithuanian NGO coalition” ( <i>Lietuvos NVO koalicija</i> )	Manager	SUP
Žavinta Pašiulevičė	Caritas Lithuania (“Caritas Works” project)	Project manager	PRAC
Jolanta Pupkevičienė	Public enterprise “Charity for children” ( <i>Labdara vaikams</i> )	Founder	PRAC
Aistis Ramanauskas	Association of social businesses	Manager	SUP
Jurgita Ribinskaitė-Glatzer	NGO “Reach for change”	General Secretary	SUP



Full name	Organisation	Role	Stakeholder category
Andželika Rusteikienė	Public enterprise “Junior Achievement Lithuania”	Manager	SUP
Helena Simonaitienė	Association “Union of communities of Pasvalys district” ( <i>Pasvalio rajono bendruomenių sąjunga</i> )	Manager	SUP
Arūnas Survila	Public enterprise “National institute of social integration” ( <i>Nacionalinis socialinės integracijos institutas</i> )	Manager and founder	PRAC
Andrius Stasiukynas	Mykolas Riomeris University	Manager	ACA
Neringa Stroputė	Public enterprise “Enterprise Lithuania” ( <i>Versli Lietuva</i> )	Project manager	PRAC
Reda Sutkuvienė	Public enterprise “Social support projects” ( <i>Socialiniai paramos projektai</i> )	Manager	PRAC
Marius Tavoras	Association “Sitkūnai community” ( <i>Sitkūnų bendruomenė</i> )	Manager	PRAC
Virginija Umantienė	Association “Budraiciai community” ( <i>Budraičių bendruomenė</i> )	Manager	PRAC
Danutė Užkurėlytė	Ukmergė district municipality council	Member	POL
Henrika Varnienė	Association “Lithuanian disability forum” ( <i>Lietuvos neįgaliųjų forumas</i> )	Manager	SUP
Artūras Vasiliauskas	British Council Lithuania	Manager	SUP
Jurga Vestertė	Vilnius Gediminas Technical University	Lecturer	ACA
Deimantė Žebrauskaitė	Foundation “Foodbank” ( <i>Maisto bankas</i> )	Manager	PRAC
Kristina Zibalienė	Work integration social enterprise “Regseda”	Manager	PRAC
Martinus Žaltauskas	Foundation “NGO information and support centre” ( <i>Nevyriausybių organizacijų informacijos ir paramos centras</i> )	Manager	SUP

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