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# SOCIAL ENTERPRISES AND THEIR ECOSYSTEMS IN EUROPE

Country report  
**ESTONIA**  
Katri-Liis Reimann

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 Estonia based on available information as of March 2019. 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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**ESTONIA**

Katri-Liis Reimann

This report provides an overview of the social enterprise landscape in Estonia based on available information as of March 2019. 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](#)). Katri-Liis Reimann from Tallinn University was responsible for the revision of the report.

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

No	Country	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

- > **EMSL** Network of Estonian Non-Profit Organisations
- > **ESEN** Estonian Social Enterprise Network
- > **NENO** Network of Estonian Non-Profit Organisations
- > **NFCS** National Foundation of Civil Society
- > **NPA** Non-Profit Association
- > **SBI** Social Business Initiative
- > **SIB** Social Impact Bond
- > **VAT** Value added tax

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## Executive summary

### Background

The origins of Estonian social enterprises can be traced back to at least the 19<sup>th</sup> century Soviet period when work integration was common. Socialism's transition to a liberal free-market economy heavily influenced the evolution of social enterprises. Estonia's current view of these enterprises as 'civil society' emerged from the third sector. Foreign aid and donations in the 1990s that have continued since 2002 have advanced the country's civil society concept. Funding has also had a major influence on the social enterprise sector's development. In this period, a number of civil society organisations developed a *de facto* social enterprise model. Use of the term 'social enterprise' can be traced back to 2005 in Estonia when the concept of 'social entrepreneurship' was first introduced. Currently, the terms social entrepreneurship and social enterprise are used interchangeably with little distinction between the former (mindset/trend cutting across different sectors—private, public and non-profit) and the latter (type of institution/typology of enterprise).

### Concept, legal evolution and fiscal framework

There is no separate legal structure for Estonian social enterprises. The three main legal forms for today's social entrepreneurial activities are: non-profit association (NPA) (*mittetulundusühing*), foundation (*sihtasutus*) and private limited company (*osaühing*). The commercial association (*tulundusühistu*) is a further social enterprise legal form of which there is currently only one example.

The characteristics that currently define social enterprises in Estonia were formulated by a group of main stakeholders in cooperation with the public sector and Social Innovation Task Force from 2016 to 2017. They align with the EU operational definition. Social enterprises have to clearly demonstrate that they have a social goal, a sustainable business model and profit distribution constraint (the profit of limited or NPA may be withdrawn by the owners). However, the legal forms that are currently available do not fully accommodate the needs of social enterprises.

### Mapping

In 2016 Estonia had 100 NPAs, nine foundations and 12 private limited companies that met the EU definition of social enterprise. Together they generated around 52 million EUR per year out of which 37 million EUR (72%) was generated from sales. Collectively, social enterprises employed 1,603 paid staff.

## Ecosystem

The Estonian Social Enterprises Network is one of the key representatives that raises awareness of the sector. Main support organisations include the National Foundation of Civil Society and the Good Deed Foundation. NPAs and foundations gain grants via the National Foundation of Civil Society (like other civil society organisations), whereas limited companies obtain grants via the government's Agency Enterprise Estonia (like other conventional companies). Although the National Foundation of Civil Society has had specific programmes in the past, none of the afore mentioned support organisations currently finance social enterprises. They have the opportunity to access support programmes only if they can fulfil other criteria that may not be suitable within the sector. Also, the Good Deed Foundation is looking for high-impact and financially sustainable initiatives that *may* but do not have to be social enterprises.

Social enterprises feature in several public policy documents. Social entrepreneurship is one of the Ministry of the Interior's priorities in its *National Development Plan for Civil Society 2015-2020*. The National Foundation of Civil Society has financed several calls for applications within the framework of this document. The new *Public Procurement Act* adopted in 2017 creates new opportunities for social enterprises by including a social value requirement within tendering documents. Another important document is the Ministry of Social Affairs' *Well-being Development Plan 2016-2023*. Social enterprises that pilot and finance services for people with reduced work ability operate within this plan's framework. In addition, social enterprises that support youth-led inclusion projects are mentioned in the *Youth Programme 2018-2021* promoted by the Ministry of Science and Education.

The Estonian start-up scene is dynamic and vibrant, and there are various initiatives and competitions where social enterprises can participate regardless of their legal form. Ajujaht, Estonia's largest start-up competition, hosts a special 'social enterprise award', which was presented in 2009-2010, 2012-2013 and since 2015-2016 has continued annually.

## Perspectives

In terms of future social enterprise trends, three main scenarios are foreseen: (1) they may be liberated and learn from the experiences of other countries that have embraced the sector more fully; (2) they may see gradual growth with some fiscal stimulus; or (3) they may remain peripheral to the mainstream business and services sector. The first scenario is dependent on legislative changes that may occur and provide clarity on tax benefits for non-profit and for-profit enterprises. More public awareness about how social enterprises benefit society would also be helpful as would better access to the financing of social enterprise activities via various instruments (e.g., state guaranteed loans, Social Impact Bonds and other forms of innovative finance/commissioning).

As a reduction in EU structural funds can be expected in forthcoming years, state institutions and municipalities may discontinue social welfare service funding that is currently provided by social enterprises in local communities.

Estonia is in the process of establishing a social enterprise ecosystem which could flourish with sufficient political support, start-up incubation and support structures. This development, if supported by a stronger impact measurement culture, could provide credible and sustainable solutions to societal problems, increasing public confidence in social enterprises and relieving pressure on stretched public services.



ESTONIA


# 1

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## BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

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The historical roots of social enterprises in Estonia extend back to the emergence of the first workshop established for the visually impaired people in the 19<sup>th</sup> century. During the Estonian Republic's period of independence (1918-1934) there was a widespread agricultural cooperative movement. During the Soviet period, private entrepreneurship was illegal. People were forced to work on collective farms or for cooperatives, which resulted in a lack of trust in collaboration and collective entrepreneurship in post-soviet Estonia and therefore cooperatives have a negative connotation. After the re-independence in 1991 the new social enterprise initiatives were union or association-led, international subsidiaries and new welfare service providers. The accession to the EU in 2004 had a broad impact on Estonian entrepreneurship scene. The concepts of social enterprise entered the public sphere after 2005 when the Good Deed Foundation introduced the term social entrepreneur but it took root only after 2009 with a special funding call. In 2012 Estonian Social Enterprise Network was established to unite and support any social purpose organisations with a sustainable business model. It has become the main advocate and promotion organisation for social enterprises. The evolution of Estonian third sector organisations and social enterprises is strongly embedded in civil society development, which enables people to pursue their interests and participate in decision-making processes and this is the reason for the non-profit association of being the main legal form for civic initiatives and also the main form for social enterprises.



## 14 | Background: social enterprise roots and drivers

Civil society's emergence in Estonia began in the 19<sup>th</sup> century and was clearly a bottom-up movement (Kulbok-Lattik 2015). **The evolution of social enterprises in Estonia is strongly embedded in either civil society or third sector development.** As a significant number of social enterprises are currently engaged in the provision of social and local community development services, this section provides a historical context regarding the emergence of social enterprises.

**The historical roots of social enterprises can be traced back to at least 1889 when Estonia was part of the Russian Empire and a 'social enterprise' employing visually impaired people started to sell a range of brushes manufactured in a workshop.** The organisation was active throughout the transition to independence and in 1941 'An Artell of Blind People' was formed, which has existed under different names since the Soviet occupation until today.<sup>1</sup> While the organisation has experienced a series of changes, a production unit still exists that is based on the 19<sup>th</sup> century initiative.

During the Estonian Republic's period of independence (1918-1934), new perspectives were opened in terms of civil culture, civil traditions and popular citizenship. Estonian rural economic development owes its success to the widespread agricultural cooperative movement. In 1928 two-thirds of all farmers were members of cooperative societies. They were part of the Estonian Cooperative League that was founded in 1919. The cooperative retail system's commercial hub was the central organisation of consumer societies known as the Estonian Co-operative Wholesale Society, established in 1917, which acted as the purchasing and selling agent for its membership (Smith 2016). Cooperatives continue today under the collective name of Coop Eesti, which unites 19 cooperatives all over Estonia with about 83,000 clients/members.<sup>2</sup> During the Soviet occupation, people were forced to work on collective farms or for cooperatives, which resulted in a lack of trust in collaboration and collective entrepreneurship in post-soviet Estonia. Therefore, unlike in other countries, cooperatives do not have a role in Estonia's current social enterprise sector due to their negative connotations.

From 1934-1940, as in other countries around Europe, Estonia's rigid nationalist and conservative ideas began to take hold, resulting in an autocratic regime that silenced public expression. Between 1940 and 1991 another oppressive, state-based intervention took place during Sovietisation: the implementation of Soviet state practices in societal restructuring (Kulbok-Lattik 2015). Forced collectivisation, which started in 1949, revoked the ownership of family farms and any remaining elements

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(1) As the enterprise had a monopoly on producing certain types of brushes during the Soviet period, societal changes in the 1990s meant huge challenges for them. Over the past three decades, their workforce has decreased considerably while they have struggled to survive in open market conditions (e.g., to compete with imported brushes that are much cheaper). For more information on Ajalugu, see <http://www.hariner.ee/Ajalugu.html>

(2) For more information on Coop Eesti, see <https://maksikook.coop.ee/tarbijate-uhistud/>

of traditional cultural networks. Society was frozen (Ruutsoo 2002). **During the Soviet period, private entrepreneurship was illegal, apart from some small exceptions (e.g., agricultural household plots).**

The first steps towards the recreation of Estonian private enterprises were taken in the second half of the 1980s through the legalisation of small state enterprises and private business activities. These were followed by the legalisation of public limited companies in 1989 and other companies in 1990 (Pöder 2017). When the Soviet Union collapsed in 1991, half of the Estonian rural population was employed within the agricultural sector. As collective and state farms also provided numerous services in rural areas, they were also a main source of non-agricultural employment. **Selling household produce from small plots was one type of private entrepreneurial activity that was allowed in Estonia.** The privatisation of medium and large-scale state enterprises was carried out relatively quickly after re-independence, contributing to an increase in private enterprises, which amounted to 90% of all enterprises by 1995 (Pöder 2017).

Since the 1990s most of the organisations that combine an economic and social dimension have been newly established as civic initiatives, however, sometimes in cooperation with public bodies. **The Estonian social policy environment has undergone enormous change since 1991, moving slowly away from the legacy of 'state-socialist welfare traditions' and closer to Nordic welfare traditions** (Kuuse 2017). This profound change has influenced social enterprise development patterns.

While there have been no studies concerning the transition process, three main categories of social enterprise initiatives can be identified from the 1990s onwards: (1) union or association-led; (2) international subsidiaries; and (3) new welfare service providers.

As certain forms of voluntary, self-organised activities were allowed in Soviet Estonia, some social enterprises grew out of unions and associations for the disabled (e.g., organisations for the blind and visually impaired) or organisations servicing them (e.g., sheltered workshops for people living with mental disabilities). These organisations were mostly able to provide public services and/or sheltered jobs immediately as a direct continuation of their previous activities.

A number of non-profit organisations were then started as subsidiaries of international organisations (e.g., SOS Children's Village and YFU Estonia) or based on internationally recognised practices (e.g., the Estonian Debating Society and the Federation of Estonian Student Unions). While initially formed with international funding, over time, some of them started to offer public services (e.g., Estonian Children's Village) or started to sell services to private individuals and organisations (e.g., the Estonian Debating

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Society that spun off its sales revenue generating activities as a social enterprise in the 2010s, YFU Estonia and the Federation of Estonian Student Unions). Some new non-profit organisations were created to address societal needs and, over time, became self-organised to provide welfare services and/or carry out other income generating activities (e.g., community-based Waldorf schools).

Both the European Union policy framework and liberal governments, promoting a strong free-market economic policy, have had their impact. This neoliberal perspective on public policy, which follows the similar relative simplicity of the early 1990s' post-socialist transition, has led to depleted public institutions and under-investment in necessary, supportive environments (Kuuse 2017).

**In the first half of the 1990s, a legal and strategic framework for social welfare policy was established.** Since 1995 Estonia's *Social Welfare Act* has remained a key piece of legislation underpinning social welfare needs and services. Challenges and respective actions related to major, state-level social policy milestones have not arisen by introducing the philosophical principles of a welfare state; instead, they have progressed in a rather pragmatic manner by addressing problems and solutions through the integration of international bodies or domestic needs. Although the move towards community-based social welfare has been evident for many years, it has increasingly gained attention over time. It was also a 2017 report topic for the State Chancellery task force aimed at reducing the burden on family carers. Recommendations included working out a community-based social protection strategy and action plan in support of volunteers as part of an organisation or community's remit that could contribute more broadly to caring and social protection.

**Estonian entrepreneurship at the beginning of the transition period was characterised by a lack of state intervention and control, a lack of support structures and legislative gaps.** The implementation of the *Taxation Act*, *the Accounting Act* and *the Commercial Code* in 1995 were important events in the general legislative framework creation for private entrepreneurship. The second half of the 1990s was characterised by an increase in state intervention alongside support and services for businesses, international projects and initiatives for the creation of business support structures, and attention to institutional harmonisation with EU regulations (Põder 2017).

**One of the most significant processes that has had a broad impact on Estonian development is the process of joining and integrating with the EU.** Estonian social welfare policy was visibly impacted through EU accession in 2004 and advanced by the use of EU structural funds.

The overall economic climate in Estonia in the 2000s was characterised by economic growth until 2008. Since the onset of economic recession that year, Estonian agriculture



has been characterised by crises and uncertainty, as both economic and political environments have been highly volatile.

**In 2005 more attention was paid to social entrepreneurship when the Good Deed Foundation—the first venture philanthropy organisation in the Baltics—introduced this new term alongside the existing term of ‘social entrepreneur’.**

The new term was first used in its communication campaign promoting Estonia’s first social entrepreneurship competition. The Good Deed Foundation simultaneously published its translation of David Bornstein’s book, *How to Change the World*, which introduced social entrepreneurship as a possible strategy for systematically identifying and solving societal problems that could potentially positively change Estonian society. The foundation promoted the term ‘social entrepreneur’ widely during 2005–2007 (e.g., by organising further social entrepreneurship competitions) since its core mission was to ‘support social entrepreneurs’.

However, the term did not take root. Stakeholders began to perceive it as conceptually hazy and thus unsuitable for the practical purpose of supporting change makers in society. Additionally, some civil society stakeholders viewed it as unnecessarily elitist as it was non-inclusive of grass-root social enterprises (e.g., financially sustainable local providers of non-innovative yet essential services for disadvantaged people).

By the end of 2009 other stakeholders had started to use the term ‘social enterprise’ as well. For example, the National Foundation for Civil Society launched their first call for social enterprise applications. But the Good Deed Foundation had also started to highlight a scalable impact model instead of entrepreneurship. As a result, a distinction emerged between:

- > social enterprise—not including the suggestion of creating systemic change;
- > high-impact non-profit—including the notion of creating systemic change in a financially sustainable manner, while not necessarily generating any sales income (Social impact measurement tools 2016).

**Presently, the concepts of social entrepreneurship and social enterprise are used interchangeably in Estonia to denote entrepreneurial activities with social purpose.** This will become evident in the discussion of strategic documents that follows.

In 2010 the National Foundation of Civil Society introduced support programmes specifically designed for social enterprises (NFCS website).<sup>3</sup> They began to be seen as a diverse and viable model that could help NPA to satisfy the needs of various target groups on a regular and long-term basis. **Not long after 2012, an umbrella organisation, the Estonian Social Enterprise Network (ESEN) was established to unite and support any social purpose organisations with a sustainable**

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(3) See <https://www.kysk.ee/toetatud-projektid>

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**business model for selling goods and/or services.**<sup>4</sup> The ESEN approach enables social enterprises to sell and provide all types of goods and services as long as they can demonstrate a societal or environmental mission and the positive outcomes/impact of their activities.

**In February 2016 the Estonian Government formed a task force for the public sector and social innovation structured under the Government Office; the ESEN was appointed as a full member.** One of its three sub-committees was dedicated to social entrepreneurship development. The task force's results and recommendations were published in autumn 2017. Among those recommendations fostering public sector innovation were measures to develop a social enterprise ecosystem. Other recommendations were: to raise awareness of social enterprise characteristics (see 2.1.2.); to increase potential; to encourage applications for social enterprise status according to agreed criteria; to guarantee access to support measures and establish a loan instrument for social enterprises. The implementation of social value criteria in public procurement and the option for reserved tenders were also recommended.

**The evolution of Estonian third sector organisations and social enterprises is strongly embedded in civil society development. Nationally, it enables people to pursue their interests, discuss public issues and participate in decision-making processes through self-initiated cooperation, as well as in cooperation-based associations, networks and institutions.** The third sector can be divided into two categories: (1) a professional non-profit category where paid workers are engaged in lobbying, advocacy and other services; and (2) a voluntary category in which representatives from the other two sectors (public and private for profit) manifest their civic initiative through voluntarism. In 2018 there were more than 33,000 NPAs in Estonia including about 12,000 housing associations. Of the remaining 11,000 organisations, about 2,200 were listed separately as tax-exempt by the government. Estonian NPAs are active in all possible fields: the majority in sport and culture; a large

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(4) Non-official translation of the member criteria of Estonian Social Enterprise Network is presented as follows:

- > It is an NGO or a company that has been registered for at least one year.
- > Its main objective and daily activities aim at achieving a clearly described positive societal change.
- > It is willing to measure its outcomes and evaluate its impact.
- > It uses its assets and profit only for achieving its main objective.
- > To achieve its main objective, the organisation utilises a sustainable business model (i.e., sales of goods and services) and the recommended proportion of its annual sales revenue compared with total income is at least 30%.

It respects the law as well as relevant voluntary codes of conduct. The criteria were agreed upon in 2012 after the extensive involvement of various stakeholders. Some of the criteria are likely to be debated and changed in forthcoming years (e.g., it is quite sure that the network will start requiring basic impact measurement and its communication in a standardised way). Limited profit distribution might be allowed.

number in social services, health and environment equalled by civic rights, education and local development; and fewer in philanthropy, policy analysis, etc.<sup>5</sup> However, only a small number of NPAs match the social enterprise criteria of the EU operational definition. Historically, the majority of NPAs were not market-oriented but this tendency has slowly changed over the past 15 years. In 2017 one fifth of NPAs generated some revenue by providing services or products (Survey 2019).

In summary, the Estonian sociopolitical context has influenced social enterprise development through a combination of two factors: (1) the establishment of a very simple legal framework at the beginning of the 1990s divided into three sectors—the public, private and third sector; and (2) a neoliberal approach identifying all enterprises as vehicles for generating profit.

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(5) See: <https://heakodanik.ee/en/civil-society/>




# 2

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## CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

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Based on the EU operational definition, social enterprises in Estonia can take one of four different legal forms: Non-Profit Association; (*mittetulundusühing*); Foundation (*sihtasutus*); Private Limited Company (*osaühing*); Commercial Association (*tulundusühistu*). Alongside the EU operational definition, an Estonian definition of social enterprise was also developed as criteria for membership of the ESEN. The Estonian definition aligns with the EU operational definition with a primary focus on the social dimension and a demonstrable business model. Regarding the legal framework, there is no legislation in Estonia specific to social enterprises. Other legislation plays a significant role in regulating Estonian social enterprises, e.g. the Non-Profit Associations Act brought clarity to the non-profit sector without singling out social enterprises. Generally, Estonian NPAs can pursue economic activities, granted they play a secondary role and the activities fulfil the general mission of public benefit. There are some limited fiscal benefits available to social enterprises and related start-up activities. Relevant fiscal incentives relate to donations to non-profit entities; and those employing people with economic disadvantage such as long term unemployed people.



## 2.1. Defining social enterprise borders

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

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

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

This definition arranges social enterprise key features along three dimensions:

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

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

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them again 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 Estonia

The three main legal forms used by social enterprises are:

- a. Non-Profit Association (*mittetulundusühing*)
- b. Foundation (*sihtasutus*)
- c. Private Limited Company (*osäühing*)
- d. Commercial Association (*tulundusühistu*)

The ESEN's membership criteria is the most commonly known and referenced example of social enterprise definition in Estonia. However, certain companies may identify themselves as social enterprises by applying different criteria or a different

interpretation of the ESEN's criteria. Its criteria are primarily defined by the need to have a clear societal purpose. One important criterion is to have a financially sustainable business model (i.e., a financial model based on sales income). Companies which self-identify themselves as social enterprises have adopted a flexible approach to defining their societal purpose.

Estonian social enterprise characteristics, which have been commonly accepted among experts in the field, were identified in cooperation with the public sector and the Social Innovation Task Force in 2016–2017. These social enterprise characteristics are as follows:

- > The goal is to contribute to the welfare of people or environmental improvement.
- > The social enterprise can prove that its activities and outcomes are in accordance with its statute.
- > It is a business enterprise, which means that it trades products or services and sales are its main activity.
- > It uses its revenue for fulfilling statutory goals.
- > Upon completion of its activities, assets will be distributed among social enterprises with similar goals.
- > It is not under the influence of the state, local government, political parties business organisation(s) or associations (with some exceptions).

**In terms of an entrepreneurial and economic dimension, social enterprises identified according to these criteria comply with the EU operational definition.**

Social enterprises registered as NPAs and foundations receive more than half of their income from entrepreneurial activities; private limited companies receive 99% of their income from business activities. NPAs and foundations identified as social enterprises have total autonomy, however, as these legal forms allow them to be created by public sector organisations or companies. These social enterprises pay their employees; private limited companies cannot engage volunteers for legislative reasons. All social enterprises state their social purpose in their founding documents and comply fully with the social criterion set out in the EU operational definition. According to Estonian practice, only organisations that do not distribute profits are considered social enterprises. NPAs and foundations are not legally allowed to distribute profits. Asset locks are not regulated by law and it is up to the organisation itself to regulate assets from within its constitution. Private limited companies can distribute profits and assets, but social enterprises that are ESEN members have voluntarily committed to not distribute profits and assets to their owners unless it is stated in their statutes.

The highest NPA body is the general assembly which consists of all members and, in the case of foundations, is the supervisory board that plans activities, organises

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management and supervises foundation activities. Members of organisations are involved in the planning and supervision of activities, whereas boards take care of daily management. In the case of private limited companies, the board is a compulsory body but a council need only be formed if prescribed in the Articles of Association.

The fourth legal form is a very recent development: commercial associations are only just starting to emerge as Estonian social enterprises, the first example being the Good Cooperation Savings and Loans Association.

**Table 1. Estonian social enterprises vs. the EU operational definition**

Legal form	Compliance with the EU operational definition	Principle from the EU definition satisfied?
Non-profit Associations	<b>Entrepreneurial / economic dimension:</b> Entrepreneurial income varies but, in general, is ca 52% for all SEs in this category. They have paid employees but can also benefit from volunteers. There is an established procedure in case of bankruptcy.	Partially
Non-profit Associations	<b>Social dimension:</b> They clearly state their societal aims in all their documents and communication messages.	Yes
Non-profit Associations	<b>Inclusive governance-ownership dimension:</b> These organisations are not allowed by law to distribute profits. Asset locks are not regulated by law and it is up to the organisation itself to regulate it in their constitution. They are totally autonomous, established by private individuals and fully fulfil the criterion of independence. The highest body is the general meeting of members.	Yes
Foundations	<b>Entrepreneurial / economic dimension:</b> Foundations can carry out economic activity. They strive to achieve financial sustainability. Entrepreneurial income varies but, in general, is ca 72% for all SEs in this category. They have paid employees but can also benefit from volunteers. There is an established procedure in case of bankruptcy.	Partially
Foundations	<b>Social dimension:</b> They clearly state their societal aims in all their documents and communication messages.	Yes
Foundations	<b>Inclusive governance-ownership dimension:</b> They are not allowed by law to distribute profits. Asset locks are not regulated by law and it is up to the organisation itself to regulate it in their constitution. They are totally autonomous, established by private individuals. The highest body is the council.	Yes



Legal form	Compliance with the EU operational definition	Principle from the EU definition satisfied?
Private Limited Companies	<p><b>Entrepreneurial / economic dimension:</b> The main activity by law is entrepreneurial activity. These SEs might occasionally execute funded projects but are fully self-sustainable.</p> <p>They receive their major income from sales and only 1% from grants. They are allowed by law to distribute profits. Those that have joined the ESEN have committed to no profit allocation.</p> <p>They have paid employees, but the inclusion of volunteers is difficult due to legislation.</p> <p>There is an established procedure in case of bankruptcy.</p>	Yes
Private Limited Companies	<p><b>Social dimension:</b> Those that have joined the ESEN have clearly stated their societal aims in all their documents and communication messages. The constitution (Articles of Association) of a private limited company can be drafted to provide the features of a SE. For example, articles can include social purposes and provisions which limit shareholder dividends.</p>	Yes
Private Limited Companies	<p><b>Inclusive governance-ownership dimension:</b> They are totally autonomous, established by private individuals. The highest body is the management board.</p>	Yes
Commercial Associations	<p><b>Entrepreneurial / economic dimension:</b> The main activity of the commercial association by law is to support and promote the economic interests of its members through joint economic activity in which members participate. They are fully self-sustainable and communicate this in their statutes. Their income comes from entrepreneurial activity and from members' contributions. They are allowed by law to distribute profits. The distribution of profits is decided at general meetings based on approved annual reports.</p> <p>The identified SE has board and council members working on a voluntary basis and paid employees.</p> <p>There is an established procedure in case of bankruptcy.</p>	Yes
Commercial Associations	<p><b>Social dimension:</b> The one that has joined the ESEN clearly states its societal aims and contributes 100% to social projects. It has drafted its social purpose in its statutes.</p>	Yes
Commercial Associations	<p><b>Inclusive governance-ownership dimension:</b> They are totally autonomous, established by private individuals. The highest body is the general meeting.</p>	Yes

## 2.2. Legal evolution

**Estonia's legal environment is supportive of third sector organisations and most social enterprises currently belong to this sector.** However, they operate in a less clear space, which is not well understood by policymakers and the business sector. Despite third sector organisations existing within an enabling environment, there is not a legal framework designed specifically for social enterprises. Although the ESEN helps to develop the social enterprise sector, there is no formal accreditation or approval process that recognises an organisation's social enterprise credentials in Estonia unlike in certain other EU countries.

There are currently four legal forms available to Estonian social enterprises. NPAs, foundations and private limited companies constitute the three main forms that have been used by social enterprises since 1990s. The fourth commercial association form has so far been under-represented but has seen recent development.

There are various advantages and disadvantages related to each specific legal form, which will be discussed. Motivation for choosing a legal form reflects the likelihood of achieving favourable taxation conditions and taking advantage of both business and civil society development grants for investment needs.

### a) Non-profit association (NPA)

According to the Non-Profit Associations Act<sup>6</sup> an NPA is a voluntary association of persons whose objective or main activity should not be income earned from economic activity. The same Act also stipulates that 'the income of a non-profit association may be used only to achieve the objectives specified in its articles of association. A non-profit association shall not distribute profits among its members'. Furthermore, a NPA will be dissolved by a court of law if economic activity becomes the NPA's main activity.

This is the most common legal form for Estonian social enterprises. In certain cases, particularly successful social enterprises with advanced business models do engage in economic activity that can be considered their main activity. Even the National Development Plan for Civil Society acknowledges NPA earnings from entrepreneurial income when it is of benefit to the public. In practice, it is complicated to determine an NPA's main goal, whether carrying out production or service activities that generate income or achieving the objectives specified in its Articles of the Association. In addition, this part of the clause services social enterprises by stipulating that associations are free to conduct any economic activity (in any field) provided that the income they generate is reinvested to achieve their statutory social goals.

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(6) See <https://www.riigiteataja.ee/en/eli/515012018007/consolide>

The term public interest correlates with income tax benefits for NPAs and foundations in relation to the Income Tax Act. However, this is an undetermined legal term and refers to organisations having broad societal goals, being transparent and acting in the benefit of groups that would not cope on their own.

## b) Foundations

The Foundations Act stipulates that a foundation is a legal person in private law with no members that is established to administer and use assets and incomes only to achieve the objectives specified in its Articles of Association. The supervisory board requires at least three members.

According to the ESEN, the foundation is a more suitable legal form than the NPA for social enterprises as it permits profit-making for the societal objectives specified in its Articles. The foundation's compulsory supervisory board places additional administrative burden on social enterprises when compared with those operational as small and medium-sized companies. In relation to other legal forms, the foundation's treatment is unequal, as it has to carry out an annual review of accounts. Indeed, the *Auditors Activities Act*<sup>7</sup> stipulates that an annual review is compulsory for a foundation whose yearly sales revenue or income is more than 15,000 EUR or its total assets from its balance sheet exceed 15,000 EUR. Conversely, NPAs, private limited companies or commercial associations that are small and medium-sized enterprises do not have to fulfil this annual review requirement.

In addition to the above issues, investors cannot be incorporated in a foundation as they cannot receive dividends. Theoretically, it would be possible to take a loan, but, in practice, according to some stakeholders' interviewed for the purpose of this study, the sector's 'non-profit' image and the fact that profits cannot be maximised does not make them reliable and financially attractive propositions for banks.

## c) Private limited companies

According to the *Commercial Code*,<sup>8</sup> the sale of goods or provision of services is considered a permanent activity for a private limited company. Social enterprises operate in this way by establishing their private societal aim and stating it in their Articles of Association. Benefits include the possibility for private limited companies to apply for start-up funding and participate in the small entrepreneur's development programme of the governmental agency Enterprise Estonia, which is not available for NPAs and foundations.

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(7) See <https://www.riigiteataja.ee/en/eli/516112017003/consolide>

(8) See <https://www.riigiteataja.ee/en/eli/519122017001/consolide>

The limit on value added tax liability supports small enterprises. Organisations whose revenue is more than 40,000 EUR annually are liable for VAT. This makes trading with other companies easier for small social enterprises (operating as NPAs) because they can sell products and offer services to individuals and legal persons cheaper than mainstream businesses that are not value added tax (VAT) liable; VAT is not added to their invoices.

A person who is unemployed and registered within the Estonian Unemployment Insurance Fund can receive a business start-up subsidy to start economic activity through a newly founded private limited company or sole proprietorship (*Labour Market Services and Benefits Act*<sup>9</sup>) and not as an NPA or foundation.

**Volunteers are restricted from working for private limited companies unless the businesses engage in charitable ventures outside of their main pursuits.**

If they engage volunteers in regular business activities, they have to pay taxes on the benefits volunteers receive (transport, accommodation, food) in line with other employees. Another restriction involves board member investments: if all members want to invest in the organisation with a broad variety of shares, they may prefer the private limited company legal form, as NPA board members might substitute those who have invested much more than others.

#### d) Commercial associations or cooperatives

The fourth potential legal form for social enterprises is the commercial association, which can also be termed a 'cooperative'. According to the EU operational definition, the only Estonian commercial association that can be considered a social enterprise is the Good Cooperation Savings and Loans Association. It lends money to ecologically and socially responsible projects. The bank uses its finances, networks and technological skills to support individuals, enterprises and projects whose values and activities are in tune with their own principles. Its social purpose is stated in the Articles of Association.

**Due to its historically negative connotations, this form of cooperatives has not been greatly promoted in Estonia; its use has only very recently been applied. During the communist regime people were forced to work on collective farms or cooperatives, which in the post-Soviet era led to a lack of trust in collaboration and collective entrepreneurship.** So far the most prevalent commercial associations or cooperatives are apartment associations. They operate under the *Apartment Ownership Act*.<sup>10</sup> Apartment owners begin a social enterprise to share the management of the legal shares of buildings and land as part of the objective of apartment ownership and the representation of apartment association members' shared interests. As these

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(9) See <https://www.riigiteataja.ee/en/eli/509042018003/consolide>

(10) See <https://www.riigiteataja.ee/en/eli/520062017011/consolide>

associations have no social purpose, they do not fulfil the criteria set out in the EU operational definition for social enterprises. In comparison with NPAs, this form allows profits to be used on a more solidarity basis and combines democratic governance with business goals.

As illustrated above, the current legislation for NPAs and foundations does not fully accommodate social enterprise needs in terms of profit earning; therefore, it can be concluded that NPAs and foundations are not the most suitable legal forms for pursuing entrepreneurial activities. Moreover, those social enterprises registered as foundations that are small in terms of turnover are disadvantaged when compared with other legal forms. Their annual accounts need to be reviewed. This expensive procedure results in inequality when compared with small private companies of a similar size.

Some social enterprises—e.g., Sõbralt sõbrale (see case study in appendix 3)—have solved this issue by establishing two organisations with different legal forms. The NPA pursues their mission of helping vulnerable groups and the private limited company, as a subsidiary company, engages in economic activities such as trading second-hand goods.

In 2017 the public sector and social innovation task force structured under the government office recommended the establishment of a commission which would recognise social enterprises and provide them with a label according to a defined set of criteria. It also recommended removing barriers to funding and consultancy opportunities that currently restrict social enterprises.

In conclusion, there is no evidence that a separate legal form is required, but the Acts could be amended considering the *de facto* situation of social enterprises, which would allow for a better fit.

## 2.3. Fiscal framework

Taxes and fiscal exemptions play a role in social enterprise legal form selection. There are advantages and disadvantages depending on the legal form chosen.

The *Income Tax Act*<sup>11</sup> does not give benefits to organisations pursuing entrepreneurial activities. It stipulates that NPAs and foundations can only benefit from income tax incentives if they are on the approved Tax and Customs Board list obtained after a committee of experts' recommendation. NPAs and foundations operating for charitable purposes and in the public interest have to meet the requirements listed below of the Income Tax Act (para 11) to be included and receive income tax incentives:

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(11) See <https://www.riigiteataja.ee/en/eli/504072018002/consolide>

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1. The association operates in the public interest.
2. It operates for charitable purposes, offering goods, services or other benefits primarily free of charge or in another non-revenue seeking or publicly accessible manner.
3. It does not distribute its assets or income, grant monetarily appraisable benefits to its founders, members, members of the management or controlling body, persons who have made a donation to the association during the last twelve months or to the members of the management or controlling body of such person or to the persons associated with such persons.
4. Upon dissolution of the association, assets that remain after satisfying creditors' claims shall be transferred to an association on the list or a legal person in public law.
5. The association's administrative expenses correspond to the character of its activity and the objectives set out in its Articles of Association.
6. The remuneration paid to employees and members of the management or control body of the association does not exceed the remuneration normally paid for similar work in the business sector.

However, the law does not define what operating in the public interest actually means.

Inclusion on the list enables NPAs and foundations to receive donations by legal entities, which can make tax-free donations of up to 10% of their previous year's profit or up to 3% of their personnel costs during the current year to eligible NPAs and foundations. It also allows tax exemptions when reimbursing expenses such as transport, accommodation or catering costs to volunteers.

Private limited companies cannot accept donations. Employers have to pay the full amount of income and social tax calculated on granted fringe benefits. If they engage volunteers in charitable activities and cover their transport, accommodation or catering costs, these outgoings are taxed similarly to employee costs. For physically and mentally impaired employees who are unable to use public transport, travel expenses incurred between their home and place of work are not classified as fringe benefits.

Although non-distributed profits are not tax exempt, Estonia does not have a corporation tax and taxes only need to be paid when dividends are paid out.

The general VAT rate is 20% of a goods or services taxable value. There is a limit placed on value added tax liability that supports smaller NPAs and foundations. If social enterprises would like to increase the scale and/or scope of their activities and sell more, their expansion decisions might be influenced by the consequence of becoming VAT liable. All VAT liable organisations have strict reporting stipulations that

require VAT declarations to be submitted on a monthly basis, which might prevent social enterprises from expanding.

**No organisation regarded as a social enterprise benefits from additional exemptions for other indirect taxes that are occasionally paid.** However, any type of enterprise that hires disadvantaged workers or working members benefits from indirect labour cost exemptions (e.g., social security costs) or employment subsidies. These exemptions are limited in time. Subsidies are provided on a monthly basis for each hired worker who belongs to a protected employment group, is long-term unemployed, young, of reduced working ability or who has been released from prison. The wage subsidy amounts to 50% of the employee's gross salary and can be requested for both fixed-term and unspecified-term employment contracts. A legal person in private law, natural person or authorised local government agency officer can apply for the subsidy. Subsidies are paid for six months with the exception of the 'My first job' programme which is supported for 12 months. This programme helps young people (16–29) who have little work experience. The hired young person's training costs are remunerated (up to a value of 2,500 EUR over two years from when the young employee commenced work). The wage subsidy is also paid for 12 months for a person with reduced work ability.

The current social insurance (social tax<sup>12</sup>) rate is 33% of the employee's gross earnings. An employer who hires a worker with reduced work ability (who has been established as having partial or no ability to work or at least 40% permanent incapacity for work) can apply for a social tax incentive from the Unemployment Insurance Fund. The state will continue to pay social tax for an employee with reduced working ability via the fund in accordance with the monthly rate (470 EUR in 2018).

**There are some limited tax/fiscal benefits granted to individual donors who financially support social enterprises.** The total amount that individuals are allowed to deduct from their personal income—representative of total donations, training expenses, and other costs—was lowered from 1,910 to 1,200 EUR per year after the new Estonian government came into power in 2015. Donations above this limit are not tax-deductible.

No tax/fiscal benefits are specifically expected to go to start-up activities for the considered typologies of social enterprises.

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(12) See <https://www.emta.ee/eng/business-client/income-expenses-supply-profit/social-tax>






# 3

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## MAPPING

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Taking all available information into account there were 121 social enterprises in 2016 although it is recognised through the expert interviews that this number is likely to be far greater as many enterprises with a social and or environmental mission do not define themselves as social enterprises. The majority of officially recognised social enterprises (93%) are NPAs operating in the human health and social sectors or in education. About 40% of NPA social enterprises help people with reduced work ability, focus on their rehabilitation and support their daily well-being. Out of four legal forms identified, the most numerous are NPAs with 100 social enterprises, 9 foundations and 12 private limited companies. When looking at the surplus and deficit created from activities operated by all revenue groups, it can be concluded that social enterprises that earned more in total (100,000-999,000 EUR) ended their annual year with a surplus (75%) rather than a deficit. 62% of all social enterprises that earned less than 10,000 EUR suffered losses by the end of 2016. The bigger the general income, the more likely the social enterprise was to end the year in profit. According to the surveys, the full potential of social enterprises has yet to be harnessed in Estonia. Local governments and mainstream companies still tend to view social enterprises as organisations that might lead to unfair competition.



### 3.1. Measuring social enterprises

The scale of social enterprise distribution in Estonia has been determined from government statistics (Statistics Estonia) and other stakeholders (ESEN and EMSL). Based on combined estimation methods, the final sample of Estonian organisations that fulfil the EU operational definition of social enterprise was 121 in 2016.

Figure 1 shows that out of 121 social enterprises there were 100 social enterprises in the form of NPAs, 9 in the form of foundations and 12 in the form of private limited companies. Further detailed information about the estimation methods used are provided in appendix 6.

**Figure 1. Distribution of social enterprises by legal form, 2016**

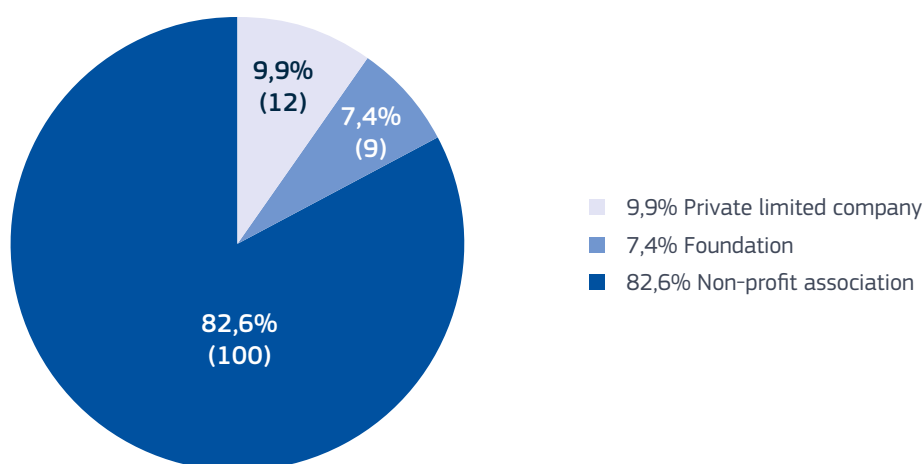


Table 2 shows changes in the social enterprise market from 2012 to 2016. In total, social enterprises employed 1,603 people in 2016, which is 303 more people than in 2012. In 2016 NPAs employed 1,124 people, foundations 87 people and private limited companies 392 people.

In the case of NPAs, the share of business income remained the same—52% of revenue was generated from traded income. Private limited companies received 99% of their income from selling goods and providing services both in 2012 and 2016. Foundations increased their share of business income from 67% in 2012 to 72% in 2016.

When looking at the surplus and deficit created from activities operated by all revenue groups, it can be concluded that social enterprises that earned more in total (100,000-999,000 EUR) ended their annual year with a surplus (75%) rather than a deficit. 62% of all social enterprises that earned less than 10,000 EUR suffered losses by the end of 2016. The bigger the general income, the more likely the social enterprise was to end the year in profit.

Table 2. Data on social enterprises from Statistics Estonia

Year	Number of social enterprises	Number of employees	Business income in thousand EUR	Total revenue in thousand EUR	Growth rates of business income
2016	121	1,603	37,700.9	52,361.5	1.20
2015	122	1,541	31,471.0	45,665.1	1.08
2014	127	1,434	29,206.3	44,134.5	1.06
2013	127	1,403	27,523.3	39,637.6	1.14
2012	125	1,300	24,071.0	35,517.2	-

## 3.2. Social enterprise characteristics

Estonian social enterprises operate in very different domains. **The majority of social enterprises (93%) are NPAs operating in the human health and social sectors or in education.** Most are located in the two largest cities (the capital city, Tallinn, in the north and Tartu in the south) and are typically small micro-organisations (one to four persons). More economically successful and sustainable social enterprises are registered as private limited companies and employ more people (Lepa and Naarits 2014). According to the Estonian Statistics survey undertaken for this report, in 2016 social enterprises in the form of private limited companies employed 32.6 people, NPAs employed 11.2 people and foundations 9.6 people on average.

**About 40% of NPA social enterprises help people with reduced work ability, focus on their rehabilitation and support their daily well-being.** The work integration of disabled people is one of the fields of social enterprise engagement. As public agencies, the Social Insurance Board, Employment Support Service and Estonian Unemployment Insurance Fund organise public tenders to buy sheltered workshop services and social enterprises (whether NPAs, foundations or private limited companies) apply to provide them (see case studies on Sõbralt sõbrale, Hea hoog and Solve et Coagula in appendix 3).

Other sectors of activity are environmental protection, hobby, education and culture. Some newer social enterprises are emerging in areas such as sustainable production

and consumption, and health related issues (e.g. mental health) (see the Vaikuseminutid case study in appendix 3). According to interviewed stakeholders, social enterprise growth is lower in traditional fields such as supporting people with reduced work ability when compared with more recent domains of engagement. In 2019 entrepreneurship consultants in Estonian county development centres collected examples of NPAs, including social enterprises that generate their own revenue. The collected examples show that approximately one third of those organisations mapped by consultants contribute to improving the well-being of disadvantaged people due to work integration. **An additional, key target group is children and the elderly. About one fourth are engaged in providing self-development opportunities and hobby activities, offering new skills to parents or raising the natural environment awareness of school children.** A significant number of organisations are active as community centres (including the provision of free time activities) for local people. These organisations also promote tourism, environmental protection and sustainable consumption, the provision of cultural activities or participation opportunities. Several combine the provision of diverse activities, including for instance cultural activities and tourism services.

Based on the mapping exercise undertaken by entrepreneurship consultants, it can be concluded that social and education services contracted out by public authorities by means of public tenders at a national and local level provide the predominant source of income. **Private persons as well as companies and schools are the main clients of handicraft products produced by social enterprises that integrate disadvantaged people.** Social enterprises usually combine several revenue streams due to their relations established with local governments and state institutions like the Social Insurance Board or Unemployment Insurance Fund. More than half generate their income by providing services to private persons and organisations, which can be either private limited companies, non-profit organisations or public sector organisations, including schools. Most provisions include training, counselling and renting rooms. One fifth is engaged in making products, handicraft and providing catering. Various revenue streams tend to be combined, including free of charge services addressing the needs of disadvantaged groups (contracted out by public authorities through public tenders) and paid services addressed to private customers. Diverse cases exist, for example, in retail that combine sustainable consumption and second-hand shops (Hea Kodanik 2019). Out of all ESEN members, 55% address the needs of disadvantaged societal groups and eight (in 2018) are directly engaged in providing employment opportunities for vulnerable groups.

Social enterprises engage a significant number of volunteers especially in their start-up phase. High Estonian labour costs tend to impact a substantial reliance on volunteers rather than regularly employed workers. If people are employed, the employer is required to pay at least the minimum salary (equivalent to the minimum required social tax payment) in order to guarantee access to sickness insurance payments.

The full potential of social enterprises has yet to be harnessed in Estonia. Local governments and mainstream companies still tend to view social enterprises as organisations that might spoil the market due to unfair competition. This challenging environment pushes social enterprises to engage in areas where there is a shortage of customers or low profit margins hamper their development. This often leads to forced volunteering and burn-out.




# 4

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## ECOSYSTEM

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Key players in the Estonian social enterprise ecosystem include the Good Deeds Foundation, NFCS, several public bodies; the umbrella organisation ESEN; Tallinn University which is active both in topical research and education; banks which are developing programmes targeting social enterprises including especially SEB bank; and business incubators which include social enterprises. Despite a broad range of activity and dynamic players, the sector as a whole still lacks general political and public support on the one hand, and strong representative bodies and lobbying power on the other. That said, there are in development a number of key policy documents where social enterprise features although there is no one cohesive social enterprise framework. Funding for social enterprises in Estonia has come mainly from public sources (mostly grant schemes administered by NFCS or EU funding programmes). In addition to the limited support measures targeting social enterprises there is an underdeveloped social investment market although there are signs of progress being made in that direction. There is financial support to employ people with disabilities and the long term unemployed and these employment policy tools are available to all legal forms.



## 4.1. Key actors

**Estonia is in the process of developing a social enterprise ecosystem. The country's policy context and evolution of legal regulations is being channelled through 47 development plans directing its different fields of activities.** Several of the societal problems listed in these development plans could be tackled by social enterprises. The most relevant policy documents will now be discussed.

The National Development Plan for Civil Society 2015-2020 developed by the Ministry of the Interior (approved in February 2015 by the Estonian Government) includes 'social entrepreneurship, public services and social innovation' as one of its three chapters. The development plan focuses on two priorities: (1) the participation of citizens' associations; and (2) their effect on the prevention and resolution of social problems. Social enterprises are described as stakeholders that could help reduce problems related to an ageing society and provide long-term impact for environmental, demographical, well-being and health care issues. The previous development plan initiated National Foundation of Civil Society (NFCS) support mechanisms for social enterprises that included incubation programmes. The current plan focuses on diversifying social services, encouraging better access to services and increasing the number of people using them. Goals include raising awareness of the various approaches used to tackle social problems and increasing the capacity of civil society organisations to enable sustainability and develop their own revenue base. The legal framework's development is also a focus, including cooperation between state institutions, counselling services and the introduction of new tax incentives. The biggest share of the development plan's budget is devoted to NFCS; about 10% has been allocated to social innovation and the development of social entrepreneurship. Important measures include: networking, development programmes, knowledge exchange, the development of expertise in using tools that tackle social problems, empowering organisations, financially supporting pilot projects, environmental development facilitating impact measurement, and legal and tax environment development. The Ministry of the Interior is the authority in charge of the plan and has chosen the ESEN as one of its strategic implementation partners.

The ESEN has impacted the ecosystem in various ways. It has revised corporation law by including social enterprises as a sub-topic within the 2016-2020 commission established by the Ministry of Justice. The revision includes legislation covering legal bodies (private limited companies and NPAs) and a systemic analysis of legislative harmonisation and updating. It has determined the criteria for social enterprises within an Estonian context, undertaken consultation and provided expertise regarding the inclusion of volunteers in social enterprises.

The network leads a working group on social enterprise as part of the new National Development Plan for Civil Society's compilation process (2021-2030). The previous



plan's impact is under review and being analysed by the Baltic Studies Institute; its results are not yet available. However, the budget related to the National Development Plan for Civil Society's action plan, which includes social innovation, social enterprise and public service provision activities, has been under financed. **For some years now no funding has been assigned to implementing activities. Funding for the strategic partnership has been very limited. Despite this, the ESEN has successfully introduced social enterprise ecosystem development ideas to Estonian policy documents.** It has also worked out a social enterprise strategy for young people together with the Youth Work Centre and runs 'Changemakers Academy', a successful youth social enterprise programme.

In 2017 a new Public Procurement Act was adopted that creates new opportunities for social enterprises to successfully compete for tenders using social value criteria. For example, it is now possible to oversee tender requirements that only allow social enterprises to participate (more details are provided in section 4.3.).

Social enterprises are mentioned in the *Youth programme 2018–2021* (Ministry of Science and Education) which supports youth-led projects and initiatives that result in inclusive social enterprises of community benefit.

*The Social Welfare Act* (2015)<sup>13</sup> emphasises principles that aim to empower individuals in an inclusive manner so that they can cope independently with challenges and describes community-based service frameworks.

Another important document that includes social enterprise sector objectives is the *Well-being Development Plan 2016-2023* developed by the Ministry of Social Affairs, which includes the strategic goals of social protection policy, employment policy and equal opportunities. Social entrepreneurship's importance is mentioned in connection with various goals. **One of the most important relates to employment policy and aims to increase employability, retain employees in the market and bring people with low employability into the labour market. Employment opportunities are expected to increase by mapping best practices.** One of the strategy's secondary goals focuses on the work integration of disabled people, which is a social enterprise field of engagement.

The plan encourages social innovation and emergent social enterprises in the social welfare system. Within the development plan's framework, the Unemployment Insurance Fund and Social Insurance Board have funded and piloted services for people with reduced work ability. Social enterprises are amongst those with successful tenders.

The *Estonian Entrepreneurship Growth Strategy 2014-2020* focuses on, amongst other areas, productivity growth and increased employment. This strategy is closely

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(13) See <https://www.riigiteataja.ee/en/eli/517012017002/consolide>

linked with other relevant strategies, including research, development and innovation, as well as life-long-learning strategies. As Estonia has become an internationally recognised hub for start-up enterprises, this boosts them further. Although several national development plans in addition to the Growth Strategy contribute either directly or indirectly to business development, they do not separately address social enterprises. The *Estonian Regional Development Strategy*, for example, includes regional businesses as a target group, amplifying emergent enterprises both in cities and beyond. The *Estonian Rural Development Plan 2014-2020* and *Estonian National Tourism Development Plan 2014-2020* focus on the development of entrepreneurship in certain economic sectors, whilst addressing specific bottlenecks. Although regional businesses can be considered closest to social enterprises, no specific support measures have been identified for them within the strategic documents.

Development plans under the Ministry of Social Affairs'<sup>14</sup> jurisdiction address social challenges and goals in detail, including reducing inequality and poverty, improving quality of life and health, and aiming for high-level entrepreneurship. **Social affairs-related development plans identify the challenges that can be addressed by social enterprises to empower people rather than outlining the development of social enterprise support systems.**

Social enterprise sector development is instead reflected in the Ministries of Social Affairs and Ministry of the Interior's development plans. One of Estonia's key advocacy organisations representing the country's social enterprises and developing awareness is the ESEN.<sup>15</sup> The main support organisations promoting and supporting social enterprises in Estonia are the National Foundation of Civil Society and the Good Deed Foundation.<sup>16</sup> Ajujaht is the only competition that finances social enterprise start-ups. In 2018 Tallinn University launched its Social Entrepreneurship Masters Degree programme.

Key actors and influencers are listed in the table below. They will be discussed in detail in the following sub-sections.

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(14) See <https://www.valitsus.ee/et/eesmargid-tegevused/arengukavad>

(15) See <https://sev.ee/en/>

(16) See <http://www.heategu.ee>

Table 3. Actors in the Estonian ecosystem

Type of institution/Organisation	Actor
<b>Policymakers - Governmental departments or institutions designing or implementing policy, supporting instruments and measures for social enterprise infrastructures</b>	<ul style="list-style-type: none"> <li>&gt; Estonian Ministry of the Interior (responsible for implementing the Civil Society Development Plan)</li> <li>&gt; Estonian Ministry of Social Affairs</li> </ul>
<b>Authorities designing and enforcing public procurement legislation</b>	<ul style="list-style-type: none"> <li>&gt; Ministry of Financial Affairs</li> </ul>
<b>Authorities designing and enforcing legal, fiscal and regulatory frameworks</b>	<ul style="list-style-type: none"> <li>&gt; Ministry of Financial Affairs</li> </ul>
<b>Organisations promoting and awarding business prizes</b>	<ul style="list-style-type: none"> <li>&gt; National Foundation of Civil Society (NFCS <i>Kodanikuühiskonna Sihtkapital</i>)</li> <li>&gt; Brainhunt (<i>Ajujaht</i>) competition</li> </ul>
<b>Institutions and initiatives promoting social enterprise education and training</b>	<ul style="list-style-type: none"> <li>&gt; Tallinn University, School of Governance, Law and Society</li> <li>&gt; Estonian Business School</li> <li>&gt; Tallinn University of Technology, School of Business and Governance: Department of Business Administration</li> <li>&gt; Tartu University, Faculty of Economics and Business Administration</li> <li>&gt; Tartu University, Centre for Entrepreneurship and Innovation. The centre is a member of the Social Entrepreneurship Research Network for the Nordic Countries (SERNOG)</li> <li>&gt; Junior Achievement</li> </ul>
<b>Observers and entities monitoring development and assessing social enterprise needs and opportunities</b>	<ul style="list-style-type: none"> <li>&gt; Estonian Social Enterprise Network (ESEN <i>Sotsiaalsete Ettevõtete Võrgustik</i>)</li> </ul>
<b>Incubators</b>	<ul style="list-style-type: none"> <li>&gt; Social innovation Incubator (<i>NULA</i>) created in cooperation with the National Foundation of Civil Society (NFCS) and the Good Deed Foundation (<i>Heateo SA</i>)</li> <li>&gt; Philanthropic Impact Fund launched by the Good Deed Foundation</li> <li>&gt; 'Step change' grant programme by National Foundation of Civil Society</li> </ul>
<b>Facilitators of learning and exchange platforms</b>	<ul style="list-style-type: none"> <li>&gt; Estonian Social Enterprise Network (ESEN)</li> <li>&gt; Changemakers Academy</li> </ul>

Type of institution/Organisation	Actor
<b>Organisers of social enterprise networks and associations that engage in advocacy, mutual learning and facilitating joint action</b>	<ul style="list-style-type: none"> <li>&gt; Estonian Social Enterprise Network (ESEN)</li> <li>&gt; Good Deed Foundation</li> <li>&gt; National Foundation of Civil Society (NFCS)</li> <li>&gt; Network of Estonian Non-Profit Organisations (NENO)</li> </ul>
<b>Organisations providing assistance to enhance the investment and contract readiness of social enterprises</b>	<ul style="list-style-type: none"> <li>&gt; Estonian Social Enterprise Network (ESEN)</li> </ul>
<b>Financial intermediaries (social impact investors or funds, philanthropic investors or funds, crowdfunding platforms etc.) for social enterprises and support infrastructures</b>	<ul style="list-style-type: none"> <li>&gt; Enterprise Estonia (EE <i>Ettevõtluse Arendamise Sihtasutus</i>)</li> <li>&gt; Estonian Unemployment Insurance Fund (<i>Töötukassa</i>)</li> <li>&gt; National Foundation of Civil Society (NFCS)</li> <li>&gt; Crowdfunding platform Kickstarter (<i>Hooandja</i>)</li> </ul>
<b>Other funding programmes</b>	<ul style="list-style-type: none"> <li>&gt; Erasmus education programme</li> <li>&gt; Ministry of Science and Education's Adult Education Programme</li> </ul>

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

The following section is based on: the knowledge of experts consulted for the purpose of this study; the first-hand experience of national researchers from various funding schemes; and the Discussion Paper on Social Impact Investment in the Nordic-Baltic Region (NCM 2018).

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

Support mechanisms for conventional enterprises typically exclude NPAs and foundations. One of Estonia's main funding organisations that serves conventional enterprises, including private limited companies, is Enterprise Estonia, a foundation established in 2000, which is managed and supervised by state officials and entrepreneurs. After accession to the EU, Enterprise Estonia became an implementing body of EU structural funds. It offers a large number of financial instruments (about 70)

and measures to support start-up companies towards quicker growth and expansion. The foundation specifically focuses on regional entrepreneurship, tourism and creative enterprises. None of its measures are particularly designed for the development of social enterprises. Enterprise Estonia also supports a cluster of companies and organises various development programmes. Social enterprises are only eligible to participate in these development and mentoring programmes and clusters if they are registered as private limited companies. **The foundation participates in organising ‘Ajujaht’, the country’s largest business ideas competition, which has a special award for social enterprises administered in cooperation with the NFCS, ESEN and SEB bank.**

The Unemployment Insurance Fund offers support to launch private limited companies. Anyone registered as unemployed can receive counselling and training on how to create a business plan. Regional development centres provide consultancy on the sustainability of business plans and advice on which other funding programmes may be used.

Even if these measures do not specifically target social enterprises, there are many instances where social enterprises are eligible in principle, including regional development initiatives and LEADER,<sup>17</sup> which is especially relevant for community-based social enterprises.

Foundation Innove<sup>18</sup> established by the Ministry of Education and Science supports employment market-related services. Its activities and services address risk groups such as the long-term unemployed, NEET youth, vulnerable groups, etc. The foundation’s measures are open to private limited companies, foundations or NPAs depending on their particular funding call.

#### 4.2.2. Support measures addressing non-profit associations and foundations (and which may benefit social enterprises)

**While the NFCS is Estonia’s most important supporter of social enterprises, it only aids NPAs and foundations that benefit the public. It is important to note that social enterprises registered as private limited companies or founded by private limited companies or the public sector are not eligible for support.**

The NFCS’s programme ‘Step of change’<sup>19</sup> addresses business model and investment development. It supports new entrepreneurs to develop and implement business plans and develop products and services. There are two capacity-building calls per year. One is dedicated specifically to strengthening the financial sustainability of applicants and

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(17) See <https://maainfo.ee/index.php?page=66>

(18) See <https://www.innove.ee>

(19) See <https://www.kysk.ee/taotlusvoorud>

capital costs are eligible. The maximum grant amount is 12,000 EUR for nationwide organisations and 9,000 EUR for local organisations. Capital investments are supported once a year.

If a non-profit organisation has been successful in any EU-funded calls, the NFCS co-finances its projects. There are also instruments for support services and cooperation networks.

EU funds did not play a role in Estonian social enterprise development until the 2000s. By the end of the decade, EU funds began determining what kind of services could be provided, to whom, and in what format public services are delivered. EU funds have been managed and distributed by public authorities according to EU-defined criteria.

There are various financial instruments provided by ministries that are solely designed for NPAs and foundations. For example, the Ministry of Social Affairs provides support to health, employment and social affairs projects. The Ministry of Education supports youth work and education-related projects.

### 4.2.3. Support measures specifically addressed to social enterprises

The NFCS is one of the main financiers of Estonian social enterprises. It provides project-based support to a large variety of social enterprises, whether nationally or community-focused and in a start-up phase or already established. In 2013-2014 there were special calls to develop social entrepreneurship and public services; business plan development and its implementation is always addressed in separate calls.

**The main Estonian business idea competition, Ajujaht,<sup>20</sup> recognises social enterprise start-ups in a separate category in collaboration with the SEB bank and NFCS.** Social enterprises have advanced their ideas over the years and competition has grown. The experience, age and education of contestants are higher every year. In general, Estonia's banking sector has not fully embraced social enterprise business models. However, the SEB bank has been Ajujaht's main sponsor since its beginning and, as mentioned, provides the special prize for social enterprises. Within its corporate social responsibility strategy, the bank is strongly committed to the support and growth of social enterprises.

Various support and development programmes have been launched to aid societal ideas. For example, the National Foundation for Civil Society and the Good Deed Foundation established the Social Innovation Incubator in 2016. Annually, the programme hosts six to seven enterprises, three of which that pass can receive up to 25,000 EUR per idea to implement and test it. Incubator projects can take the form of social enterprises.

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(20) See <http://www.ajujaht.ee>

### 4.3. Public procurement framework

Estonia introduced a new *Public Procurement Law* based on Directive 2014/24/EU of the European Parliament and the council's public procurement and repealing Directive 2004/18/EC that became effective on 1 September 2017. **The new law stipulates that a contracting authority may reserve the right to participate in the public procurement of sheltered workshops and economic operators whose main aim is the social and professional integration of people with disabilities, those with reduced ability to work or disadvantaged individuals.** A contracting authority may provide public contracts to be performed within the context of sheltered employment programmes provided that at least 30% of the employees of those workshops, economic operators or programmes are people with disabilities, have reduced ability to work or are otherwise disadvantaged. Although social enterprises should be able to gain easier access to public contracts as a result, the practical implementation of this advantage is yet to be seen.

**According to some of the stakeholders who were consulted for this study, Estonia's current public services market is not only unfavourable but even harmful for the growth and development of social enterprises that offer public services.** In practice, most public service contracts are awarded to the cheapest offers; most tenders have used team qualifications (based on CVs) as a proxy for quality and impact. Whereas in many areas such as IT development contracts allow winners to have a healthy profit margin, social sector tenders usually require winners to subsidise their budgets with grants, volunteering or 'doing more with less'. As most social enterprises have a clear mission to help their target group, many 'play along' with the rules, which results in negative, long-term consequences for their teams and organisations. This is owed more than anything to a prevailing culture of compliance.

According to respondents of the survey conducted for this study, the generally low demand from the public sector and potential investors for societal impact creation also affects public procurement awards. A general lack of expertise and tools is associated with social impact measurement. Guidelines for contracting authorities were ordered by the State Chancellery and produced in 2017 (CENTAR 2017) to help promote and raise awareness of the new procurement value clause. The guidelines clarify how contracting authorities could better enhance the employment of risk groups. They suggest that public procurement could be useful for finding solutions to employment market challenges that are related to a lack of employer knowledge or the lower productivity of some employee groups in today's marketplace. **The inclusion of employment requirements for risk groups in the procurement processes would make employers more alert to these needs.** It would also make them follow employment regulations better if they were more aware of their related circumstances.

It is hoped that this would result in a rise in employment rates for those in risk groups and increased compensation for productivity costs; overall higher public procurement costs could be balanced by associated savings made elsewhere in the state's budgets.

## 4.4. Networks and mutual support mechanisms

Estonia has a network for associations and foundations—the Network of Estonian Non-Profit Organisations (NENO)<sup>21</sup>—and one for social enterprises—ESEN. NENO's main role is to implement and protect the public interests of Estonian non-profit organisations. It was established in 1991 as the Estonian Foundation Centre and became the largest Estonian organisation to unite public benefit non-profit organisations in 1994. It only accepts organisations that operate out of public interest as its members. NENO unites 107 active and operational Estonian non-profit organisations from all fields; the information network involves about 4,000 organisations. NENO's main objectives include: advocating on behalf of Estonian public benefit organisations; promoting the joint activity of NPAs and foundations operating in Estonia; implementing and protecting the common interests of members; introducing and implementing good practices of joint activities; and involving the public and NENO members in the development of Estonia's civil society. The Estonian Civil Society Development Concept initiated in 2002 is one amongst many of its achievements. Its manifesto proposing ways that could help strengthen civil society and non-governmental organisations to the country's main political parties helped create an agreement on Good Campaigning Practices for local and national elections. Several initiatives financed by the state budget in 2007 have been launched to encourage participation in discussions and decision-making over public matters and conduct public consultations on the NFCS role.

NENO has initiated projects that have led to the formation of several good practice agreements between non-profits and the public sector, has been represented in government committees, commented and amended legislative documents relating to Estonia's non-profit sector, and organised training for NPAs and public sector representatives.

ESEN was established in 2012 and has 51 members. Its goal is to increase the number, capacity and societal impact of Estonian social enterprises. The network is commissioned as a strategic partner by the Ministry of the Interior to help achieve the National Strategy for Civil Society's 2015-2020 objectives. It advocates that the social enterprise concept and practical support measures are included in the *National Strategy for Civil Society 2015-2020*, an *Income Tax Act* and the new *Public*

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(21) See <https://heakodanik.ee>



*Procurement Law*. ESEN has managed several projects and programmes for social enterprise development that have concentrated on increasing sales and improving the scope, quality and impact of social enterprise activities, using a variety of methods such as design thinking and action learning. It works closely with the main stakeholders from Estonia's formal and non-formal education sectors. For example, the network is currently implementing an informal strategy to help young social entrepreneurs together with the Estonian Youth Work Centre and Estonian Ministry of Education and Research. **One of their youth programmes is Changemakers Academy, an intense learning-by-doing programme for high school students where multi-lingual youth create marketing solutions for local, community social enterprises.** The network organises the competition, which is supported both by national (e.g., the NFCS and the Ministry of Culture) and international funders (e.g., Nordic Council of Ministers and the British Council). The chairman is a member of the European Commission's Expert Group on Social Entrepreneurship (GECES).

## 4.5. Research, education and skills development

### 4.5.1. Research and educational programmes

Research and educational programmes focus on social entrepreneurship and social innovation rather than social enterprises. Currently, the Ministry of Education and Science leads the entrepreneurship programme Edu&Tegu<sup>22</sup> (2016–2020), which aims to promote and enhance an entrepreneurial mindset and entrepreneurship in schools at all levels. It has created an entrepreneurship education programme for vocational schools and universities. One of its modules specifically addresses social entrepreneurship. The programme is being piloted in Estonian higher education institutions within existing courses or separately created courses from 2017 to 2020.

The following universities have Social Entrepreneurship Development courses: Tallinn University (School of Governance, Law and Society), the Estonian Business School, Tallinn University of Technology (School of Business and Governance, and the Department of Business Administration), Tartu University (Faculty of Economics and Business Administration, and the Centre for Entrepreneurship and Innovation, which is a member of the Social Entrepreneurship Research Network for Nordic Countries). **Tallinn University has a special master's degree programme in social entrepreneurship, which it launched in 2018.<sup>23</sup> It focuses on project-based learning providing knowledge and support for students to establish their own social enterprises.**

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(22) See <https://ettevõtlusõpe.ee/>

(23) See <https://www.tlu.ee/en/yti/social-entrepreneurship>

Tallinn University, the Estonian Academy of Arts, the Estonian Academy of Music and Theatre, the Estonian Business School and Estonian Entrepreneurship University of Applied Sciences run an extracurricular entrepreneurial business development programme called STARTER.<sup>24</sup> The programme enables students to develop their ideas into recognised business models. Its hands-on workshops are integrated with mentoring sessions. Mentors are start-up founders or entrepreneurs from different business sectors. Students can turn their ideas into reality by participating in inspirational events, workshops, meet-ups with entrepreneurs and pitching competitions. Two public universities have their own innovation hubs for bringing companies, academics and students together to generate ideas and support enterprise creation: Tartu University has Idea Lab<sup>25</sup> and Tallinn University of Technology has Mektory.<sup>26</sup>

Junior Achievement Estonia runs entrepreneurship programmes for high school students that not only aim to equip them with entrepreneurial skills but also help create enterprises, including social enterprises. The programme also supports teachers. Another educational programme 'Entrepreneurial School' supports the development of entrepreneurial skills in high schools. In 2018 a new *Economy Study Book* was published in cooperation with the Estonian Business School and SEB Bank for high school students with a separate chapter on social entrepreneurship. Information about career options for young social entrepreneurs has been updated by the ESEN and Estonian Youth Work Centre through the information portal Teeviit.<sup>27</sup>

#### 4.5.2. Other initiatives

The Estonian start-up community is very vibrant. There is a large number of development programmes for start-ups and regular hackathons are organised to generate information and communication technology-related prototypes. Even though not specifically designed for them, several of the programmes welcome social enterprises (see 4.2.).

The Estonian Social Enterprises Network provides various development programmes. Changemakers Academy is a recently launched competition for high school students encouraging them to develop their own social enterprise ideas with mentors. The social entrepreneurship competition is run in cooperation with the British Council. It supports multi-lingual high school students to create their first social enterprise marketing concepts. Young people experience marketing and business strategies with companies. It is a yearly event that takes place from January until March and includes about 60 students. The ESEN has a register of Changemakers<sup>28</sup> as a web platform that provides

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(24) See <https://starteridea.ee>

(25) See <http://ideelabor.ut.ee>

(26) See <https://www.ttu.ee/mektory-eng>

(27) See [www.teeviit.ee](http://www.teeviit.ee)

(28) See [www.maailmamuuutjad.ee](http://www.maailmamuuutjad.ee)

information on civil society organisations, including social enterprises focusing on societal changes and demonstrating impact.

The student competition Negavatt,<sup>29</sup> focuses on ideas that can be developed into environmentally sustainable and resource efficient start-up enterprises.

Creative Estonia provides support and development programmes for creative industry ideas in its Innolab<sup>30</sup> and TeamLab,<sup>31</sup> a PESA<sup>32</sup> incubation programme. PESA is an online enterprise development programme which welcomes social enterprises.

Many development programmes service the technology sector. Garage 48<sup>33</sup> runs thematic 'hackathons' to develop apps and prototypes over a period of 48 hours. The Prototron<sup>34</sup> fund created in 2012 helps to turn smart and innovative ideas into tangible prototypes that can grow into major businesses. It offers a prize of 35,000 EUR, mentoring advice and training. Entrants may be individuals as well as businesses with projects from all sectors. In the 2018 spring round, more attention was paid to ideas regarding the digitalisation of industry, big data in energetics and fintech.

These development programmes are open to all regardless of legal form. They focus on finding suitable business models and are therefore highly relevant for social enterprises.

## 4.6. Financing

The *Discussion Paper on Social Impact Investment in the Nordic-Baltic Region: Ideas and opportunities, needs and challenges* has identified that both supply and demand are weak in Estonia and should be addressed simultaneously.

According to the *Social Impact Investment Report of the Nordic Countries* (Social Impact 2018), the current challenges for developing the region's social impact investment fall into four main categories relevant to all enterprises, including social enterprises:

1. Low awareness of the topics and possibilities related to social impact investment.
2. Potential developers of the social impact investment ecosystem lack skills and the capacity to take ownership and initiative.
3. The demand for social impact investment is weak.
4. The supply of social impact investment is weak.

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(29) See <https://www.negavatt.ee>

(30) See <https://www.looveesti.ee/loov-eesti-maa/innolab/>

(31) See <https://www.looveesti.ee/loov-eesti-maa/teamlab/>

(32) See <https://www.looveesti.ee/loov-eesti-maa/pesa/>

(33) See <http://garage48.org>

(34) See <http://prototron.ee>

The public sector and potential investors do not create much demand for societal impact. A lack of expertise and tools associated with social impact measurement is considered a general problem. Awareness of social enterprises as a concept is low because there are relatively few social enterprises. Although Estonia has a large number of start-up support instruments, no specific intermediary exists between social enterprise investors and investees. As a consequence, there are also few success stories to show the potential of social impact investment. Potential developers of the country's social impact investment ecosystem lack the skills and capacity to take ownership and initiative; social impact investment mechanisms require a multi-disciplinary approach (e.g., financial, legal, social sciences). The demand for social impact investment is weak as many social entrepreneurs are not ready to involve investors and:

- > perceive themselves as leading non-governmental organisations, not social businesses;
- > are used to grants and have no prior experience of investments;
- > are averse to risk and the potential loss of control related to involving outside investors;
- > lack some of the critical skills that are needed for an organisation to find investment and be scaled up.

#### 4.6.1. Demand for finance

**The access that social enterprises have to finance mostly relates to the legal form they have chosen.** As described above, some financial instruments are only available to social enterprises as private limited companies and others—mainly grants—only to NPAs and foundations. According to a PricewaterhouseCoopers report (2013), the main problem for social enterprises includes difficulty finding finance for growth and development. At the same time, the demand for loans and risk financing is low as there is little knowledge and willingness for risk taking among social enterprises.

On the one hand, a lack of access to funding that would support their growth is common to all of the social enterprises included as case studies (Appendix 6.3.). On the other, it is clear that organisations also lack some of the fundamental tools to evidence impact and demonstrate robust business planning.

## 4.6.2. Supply of finance

The financing of projects with a social purpose is very varied in Estonia. The amount of EU finance differs from programme to programme. Those provided by ministries are mainly co-financed by EU Structural Funds. The NFCS programmes are financed from the state budget. There are also European Economic Area programmes financed by Norway, Iceland and Lichtenstein that support social projects. Social enterprises that provide services in Estonia often sell their provision to local governments and are financed by local funding.

**The social investment market is not yet well developed in Estonia. One reason for this concerns investors that have little interaction with start-ups in their developmental phase but expect close cooperation with companies when making investment decisions that should often be based on trust.**

The crowdfunding platform *Hooandja* (Kickstarter) has been operational since 2012. Over the years, 83,000 people have contributed to creative and civil society projects and ideas with a collective investment of more than 2.4 million EUR. **As a trend, social enterprises have begun to utilise the possibilities of crowdfunding to collect money for their specific projects.** However, crowdfunding platforms like Hooandja<sup>35</sup> are not always the best places to find specific investors as the system necessitates appealing to a wide range of investor expectations (Elenurm 2017). Exclusive charity projects are not welcome. As example, a social enterprise that offers mindfulness programmes mainly for nursery school and older children received support to develop a mindfulness mobile application and a handbook for parents. It received a sum of 11,068 EUR (see exploratory case).

The Good Deed Foundation's Impact Fund is a very recent development. Although the fund targets high-impact organisations that can be scaled up whether they are social enterprises or not, the foundation views its fund as a strategic initiative that in the long-term will help prepare investment-ready organisations. The volume of the Impact Fund is 500,000 EUR for three years. The foundation intends to support four to six impactful initiatives both financially and with expertise. Selected initiatives need to focus on solving important Estonian societal problems, propose their measurable impact, have strong teams and a convincing business model idea.<sup>36</sup>

**Traditional banks do not provide specific loans or investments for social enterprises.** NPAs and foundations find it very hard to get loans from banks even if they have stable cash flows. Access to finance is also difficult for small and medium-sized companies due to the lack of sufficient guarantees and/or stable cash flow. According to expert interviews, start-up enterprises with a limited track record and no

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(35) See <https://www.hooandja.ee>

(36) See <http://www.heategu.ee/mojufond>

sufficient guarantees for loans have particular difficulty growing their companies due to insufficient cash flow (Lõpparuanne, 2013). NPAs and foundations can organise small loans using the guarantee of a private person or real estate (e.g., a building).

**Some banks do support various social projects, however. Swedbank has a donation environment ‘I’d love to help’ (*Ma armastan aidata*)<sup>37</sup>, which includes 56 NPAs whose activities and projects are supported by donors. It was established with the Good Deed Foundation in 2008 and operates through the Swedbank’s internet banking site, which has been open to all donors since 2014.** Over the years 1.9 million EUR has been collected in support of social projects, out of which Swedbank has supported 41.5%. Four main areas are represented: children and families, health and welfare, animals and nature protection, and equal opportunities. Donations are given to NPAs that have proven they are sustainable.

The Good Cooperation Savings and Loans Association<sup>38</sup> (*Hea Koostöö Hoiu-laenuühistu*), a private financial institution, was established in 2015. It promotes itself as Estonia’s first ethical financial institution, which was initiated in Tallinn with 48 founding members. It takes deposits and lends money to ecologically and socially responsible projects. Those who would like to receive money from the institution have to become members. The Good Cooperation SLA mainly focuses on three target groups:

- > private persons whose values and projects are in line with the association’s principles;
- > companies whose activities match its values (e.g., organic food production and shops, renewable energy supply and social enterprises)
- > social projects and communities such as Free Schools, Waldorf/Steiner schools, nursery schools, ecovillages, etc.

**Estonia currently has no Social Impact Bond (SIB). In 2014 the Good Deed Foundation in cooperation with the ESEN and Praxis Centre for Policy Studies initiated a feasibility study and cost-benefit analysis for launching Estonia’s first SIB.** The year-long project involved mapping the readiness of Estonia’s public sector, investors and NPAs to implement this novel financing model and prepare for the first model’s impact and financial and legal framework. Although the feasibility study did not result in Estonia’s first SIB, the process was invaluable as a tool to educate stakeholders and point out systemic challenges that need to be overcome when developing Estonia’s social impact investment ecosystem.

Few social enterprises have been created with a view to attracting investment. As most social enterprises are registered as NPAs, they are not allowed to pay dividends (i.e.,

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(37) See <https://www.armastanaidata.ee>

(38) See <http://heapank.ee>

equity investments are not possible due to legal restrictions). There is some evidence of NPAs setting up private limited companies, but they usually remain sole owners. More often NPA social enterprises rely heavily on grants and donations. According to research (PWC 2013), private individuals would be ready to co-finance projects if income generated from the enterprise's impact based on delivered outcomes were used to pay them back, but the main part of the investment would still need to be guaranteed by the state. Realistic interest could exist that would finance start-ups and social enterprises. Platforms such as Bondora<sup>39</sup> established in 2009 and crowdsourcing platform Hooandja established in 2012 have already proven that non-banking digital consumers can provide unsecured consumer loans with principal amounts from 500 to 10,000 EUR (repayment terms 3-60 months). Today's private sector has an interest in investments but lacks a structure which would help bring supply and demand together and assist in pooling funds.

Globally, the number, volume and diversity of national and international social impact investment funds are growing steadily. It is not an Estonian trend because of low-level awareness and investors who have to keep their investments and charitable donations separate.

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(39) See [Bondora.com](http://Bondora.com)





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## PERSPECTIVES

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Social enterprises have very slowly emerged over the past years. The debate about their status has recently emerged due to the renewal of the Civil Society Development Plan until 2030. There are issues that create difficulties for social enterprises, such as the financing which is clearly dependent on the legal form the social enterprises have chosen, the lack of a broader political support, the lack of private investments into social enterprises and inadequate recognition by the wider public. The obstacles for social enterprise development are rooted in the historical context where the term “social” is still associated by the wider public with either socialism and planned economy of the Soviet period or social services as something poor or underdeveloped. Opportunities identified by the stakeholders consulted for the purpose of this study lie in the creation of social enterprises as impact enterprises aligning themselves with the mindset of millennials who are eager for proactive business leaders to make a positive impact in society, be environmentally and socially responsible and respond to employee needs. The focus on social enterprises in public policy is evident by a number of key developmental government policies referring to social entrepreneurship. The future perspective strongly relies also on educating the newer generations about the social enterprises. A number of initiatives in that field have been started: Junior Achievement Estonia helps high school students create social enterprises; Changemakers Academy for high school students enables multi-lingual youth to create marketing solutions for social enterprises in their communities; and Tallinn University has a Social Entrepreneurship Master’s Programme. The diversity of the currently operating social enterprises is presented in this report with the case studies.



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

**The social enterprise debate in Estonia unfolds between public sector and civil society representatives, including the ESEN which represents social enterprises.** The Civil Society Development Plan is currently of central concern as it is in the process of being revised; the previous plan's impact is also being analysed by consultants commissioned by the Ministry of the Interior. The new plan will last until 2030. It will address Estonia's social enterprise ecosystem as social enterprises are expected to play an important role in future civil society development. The plan will support: networks, financing mechanisms, the engagement of volunteers, the provision of public services and other relevant topics related to civil society organisations and social enterprises. However, Estonia has not developed a specific strategy to support social enterprise development.

According to stakeholders who were consulted for this study, the Estonian social enterprise debate and related support measures are based on the legal framework established at the beginning of the 1990s that clearly distinguishes three sectors: the public, private and third sector. **Some practitioners have observed that no Estonian ministry takes direct responsibility for social enterprises and, therefore, their activities are not fully supported.** This position is further illustrated by a ministry representative's comment: 'the ideal scenario is that the public sector and social enterprise stakeholders continuously cooperate and map all the barriers and policy measures and create a national strategy beyond 2020 and contribute to the development plans of various fields and eventually create an action plan accordingly'. This is the vision of an ideal situation that suggests the generic public sector should lead developments.

Measures that currently support entrepreneurship tend to favour conventional companies. However, the national government is exploring new ways of financing services, including those delivered by social enterprises. The Ministry of the Interior is considering a SIB pilot project and the Ministry of Social Affairs is also assessing the potential for new financial instruments to help social enterprises. Nevertheless, progress is slow for both.

In conclusion, there appears to be a lack of willingness from state institutions to pursue practical actions beyond traditional support infrastructures or financing models. **As social enterprises are generally perceived as organisations that provide services targeting vulnerable groups and people with disabilities, they are not seen as attractive business opportunities. Consequently, potential private investors do**

**not tend to consider social enterprises as appealing investment options. And yet the need for social sector-related services is expected to grow.**

According to the ministry representative who was consulted for this study, the country's ageing population increases the need for a different social care system and, therefore, the need for social enterprises. The role of volunteers and the various ways that welfare and social service provision is being provided and by whom is being discussed on a national level with a view to reorganise and better regulate the sector. **Additionally, social enterprises themselves want to improve the quality of their services.** However, government institutions have not engaged in public discourse over the future role of social enterprises when delivering or enhancing the delivery of public services. Local governments are and will continue to be the main purchasers of social services, but they often have limited interest in buying more services due to budget limitations or limited knowledge and skills to cooperate strategically with social enterprises. **Smaller municipalities do not always recognise the role that social enterprises could play in providing and monitoring local-level social services. Unlike many other EU cities, no Estonian municipal centre is currently developing a plan or strategy for social enterprise development.**

Other national-level debates concern the sustainability of various educational and support programmes for youth and social enterprise start-ups that have been established often with short-term grants or seed funding in cooperation with stakeholders. Social enterprise marketing and communication aimed at changing the customer mindset is a crucial yet currently undeveloped discussion. There is plenty of potential to increase the sale of social enterprise products and services to private customers. Vast unlocked opportunities exist for decision-makers to influence consumption habits regarding the procurement of products and services by public and private organisations.

## 5.2. Constraining factors and opportunities

In general, Estonian social enterprises are perceived as peripheral in providing beneficial impact. The current legal and policy framework prevents social enterprises from developing a distinct identity and fully communicating their unique contribution to the general public. This significantly limits their influence and impact.

**Estonian social enterprises today are influenced by historical processes such as the regaining of independence, which brought about a consistently liberal free market economy in the country as a reaction to the communist planned economy. As a result, social entrepreneurship is perceived as unusual in**

**contemporary Estonia.** It is neither understood nor considered by the majority of Estonian entrepreneurs and society (Survey of charitable attitudes 2013).

Several research projects and surveys (Advokaadibüroo 2014, Aps 2017, Ühinguõiguse revisjon 2018) point out discrepancies in the legal framework. The *Non-profit Associations Act*, which regulates NPA activities, states that profit cannot be their principal purpose and revenues may only be used to achieve statutory goals. Nevertheless, the majority of social enterprises are registered as NPAs and operate in the public interest, demonstrating their willingness to be grant funded rather than developing financially sustainable business models. The *Foundations Act* sets limits on activities that foundations are allowed to perform. It states that, while a foundation is allowed to engage in economic activities, financial disbursements can only be made for charitable or social purposes. In light of this, the foundation is a more suitable legal form than the NPA for social enterprises. However, foundations incur more administrative burdens because they need a supervisory board and are obliged to conduct costly annual audits of their accounts if balance sheets exceed 15,000 EUR. Meanwhile, the private limited company form's main obstacle relates to the fact that they are not allowed to accept donations and have limited means of engaging volunteers.

**Obstacles that slow the growth of social enterprises include their excessive dependence on donors and grant funding, the general public's lack of confidence in solidarity movements and the historical reasons behind cooperatives.** There is ongoing debate characterised by contradictory opinions between stakeholders, lawyers and public sector representatives regarding the creation of a specific legal form for social enterprises. According to some stakeholders who were consulted for this study, the lack of a specific legal form seems to prevent social enterprises from communicating their characteristics effectively and gaining access to grants and investments. Available legal forms are considered inconvenient for establishing a social enterprise (e.g., the absence of NPA share capital can be perceived as an obstacle for receiving loans and investments). A specific legal form with a social mission and key performance indicators that permits the partial distribution of dividends would favour conditions that enable the creation of investable and scalable social enterprises. Conversely, other stakeholders do not perceive a specific legal form's absence as an obstacle, since social enterprises may choose the most suitable form to establish themselves within the existing legal framework. They think current financial mechanisms should be changed to better fit social enterprises. Some legal experts who were consulted for this study consider that the commercial association is the most suitable legal form for social enterprises as its main activity by law is to support and promote its members' economic interests through joint economic activity. This form can also have a social purpose and asset lock drafted into its statutes.

Based on the *Discussion Paper on Social Impact Investment in the Nordic-Baltic Region* (NCM 2018), several barriers appear to block social enterprise development. Estonian stakeholders confirm that there is: 'Low demand from the public sector and potential investors for the creation of societal impact and low awareness by the public sector of their activities and goals' (practitioners' representative). Most social enterprises are currently unsuitable role models for promoting the sector (e.g., as best practices) and attracting investment. Few social enterprises attract investment, which is in part due to there being an underdeveloped social investment market and, as Estonian social enterprises are small, local and/or at an early stage, loans are considered high risk both by social enterprises and investors. Most social enterprises use business models that are not yet financially self-sustainable nor scalable. In addition to sales income, a significant share of their earnings are still generated from grants and donations or depend on volunteering. 'As leaders, many current social entrepreneurs are not able nor willing to develop their organisational vehicles into financially viable enterprises and leadership skills are lacking' (practitioners' representative).

Compared to 2014, when the previous version of this study was published, the current situation for social enterprises is more favourable. Several new opportunities are in place (e.g., incubation centres, competitions, hackathons and other platforms), demonstrating an increasing interest in such entrepreneurial activity. Public procurement law and national government agencies have offered social enterprise opportunities to explore innovative financing models since 2017.

**A number of key developmental government policies refer to social entrepreneurship.** In addition to the Civil Society Development Plan that will address and clarify the role of various ecosystem stakeholders, the revised corporation law carried out by a specific Ministry of Justice established commission will clarify the social enterprise form's legal aspects. The commission's analyses-concept (*Ühinguõiguse revisjon 2018*), which was revised in September 2018, suggests that no specific nor hybrid form can be established, but that tax regulations should envisage the fulfilment of a social goal as criteria that would allow legal entities (regardless of their legal form) to benefit from specific tax exemptions. This would allow private limited companies to be included in the list of organisations that could benefit from tax advantages; currently only NPAs and foundations have access. Necessary changes might concern taxing principles about which conversation still needs to be had.

### 5.3. Trends and future challenges

EU support for Estonia is expected to decrease in the next budgetary round. Therefore, several financing programmes will also change. For example, Enterprise Estonia will focus more on rapidly growing enterprises with export potential. As social enterprises are not eligible for this approach, as previously described, Enterprise Estonia's support will remain inaccessible to them. Stakeholder experiences have shown that consultation standards are not always followed by all ministries and consultation practices vary from department to department. For example, contributions' deadlines are sometimes too short and certain ministries do not pro-actively propose consultations; hence, there is potential for improving partnerships and collaboration between the public sector and social enterprises.

The future of Estonian social enterprises is dependent on: a fragile public services market, decreasing EU funds, an increasing elderly population, a strong culture of state authorities choosing the lowest price in public procurement and the new trend for stronger municipalities to offer most public services themselves (including social and youth work) as a result of municipality mergers. Opportunities in the social arena are related to moving towards de-institutionalisation and investing more in home-based and community-based services for the elderly, informal carers, people with disabilities and other vulnerable societal groups.

**Great potential exists for social enterprises to align themselves with the mindset of millennials who are eager for proactive business leaders to make a positive impact in society, be environmentally and socially responsible and respond to employee needs.** Millennials want leaders to more assertively commit to making tangible changes to the world while preparing their organisations and employees for the new directions that Industry 4.0 is affecting (Deloitte 2018). There is increasing appreciation of the need to value impact measurement and support social enterprises to measure it better. The Good Deeds Foundation's Impact Fund is the first strategic fund to finance high-impact social initiatives that improve crucial Estonian societal problems. The incubation programme NULA was launched to support impactful societal initiatives, which might grow into social enterprises. Social enterprises number the second largest business category after tech enterprises in the Ajujaht 2018-2019 competition; during the 2015-2016 competition, it was the smallest.

**Social enterprise development has started to feature as a distinct field in public policy.** The new National Development Plan for Civil Society will include social enterprises as impactful and capable civil society stakeholders after 2020.

**The social enterprise concept has also made its way into the educational arena: Junior Achievement Estonia helps high school students create social enterprises; the *Economy Study Book* for high school students has an entire chapter on social**

**entrepreneurship; Changemakers Academy for high school students enables multi-lingual youth to create marketing solutions for social enterprises in their communities; and Tallinn University has a Social Entrepreneurship Master's Programme.** These few yet significant positive trends show the demand for advanced learning in this field.

Based on the situation described above, the following three scenarios for future development of social enterprise in Estonia can be advanced:

- > Scenario 1 'Unleashing the potential': activities to attract young social entrepreneurs and leaders currently operating outside the third sector will be successful and the social enterprise market will accelerate considerably. Legal and financial conditions are motivating for them (e.g., the possibility to partially pay dividends). The number and visibility of social enterprises will increase considerably. There will be higher demand for societal impact within the public sector (e.g., public procurement), private sector (e.g., responsible businesses making purchases in their supply chain), from private investors (e.g., starting blended investments) and individual consumers (buying goods and services from social enterprises). Social enterprise will gradually become an organisational sector with its own specialist legal, financial and policy experts.
- > Scenario 2 'Organic growth': the social enterprise market will sustain growth but will be slow and organic, driven only by the market and not sufficiently supported by the state nor the financial sector. It will respond to the needs of millennials to make enterprises meaningful with positive social and environmental impact. This demand will be the main incentive for the sector's expansion. A social enterprise label will be brought into use helping people better identify products and services. The Social Enterprise Network will grow its membership and be seen as a suitable marketing tool.
- > Scenario 3 'Status quo': social entrepreneurship will remain strictly within the conceptual boundaries of the third sector. It will grow very slowly and not be able to fulfil its potential in Estonian society. Project-based funding provided to social enterprise-related activities will stop and activities such as education programmes, incubators and competitions will not be sustainable. No special legal form or financial mechanisms will be enforced. The social enterprise promotion will remain in strategic documents but not be developed nor actively marketed in practice. The Social Enterprise Network will not gain more members. Organisations will remain small with few employees largely existing from grant funding and generating little revenue from the sale of handicraft products.

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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.<sup>40</sup>

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
<b>Entrepreneurial/ economic dimension</b>	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> .	<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>

(40) 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
<b>Social dimension (social aim)</b>	<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>	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> <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
<b>Inclusive governance-ownership dimension (social means)</b>	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p>	<ul style="list-style-type: none"> <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>	<p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> <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
<b>NPAs, foundations, private limited companies</b>	<a href="#">Eesti Statistika Kvartalikirj 1/2015 (Quarterly bulletin of statistics Estonia)</a> Statistical register, Commercial Register, Tax and Customs Board	Statistics Estonia National Statistics Office	2016 Yearly	√	√	√	4 - Official data. Data are available per legal form.

## Appendix 3. Exploratory case studies

### Exploratory case 1

#### From Friend to Friend (*Sõbralt sõbrale*)

##### → Mode of creation

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*Sõbralt sõbrale* was established in 1997. It sells second-hand goods in shops across Estonia and provides social programmes, kids' camps and integration programmes for Russian speakers living in East-Viru. It provides employment opportunities for vulnerable people in particular. As a result, its programmes benefit the entire community but especially help children and families in need.

It is a trade name which is owned by the private limited company EEKBL-Valduste OÜ (which was in turn established by the NPA Union of Free Evangelical and Baptist Churches of Estonia). It works in partnership with other social enterprises in other counties, church congregations and local government social services departments.

##### → Beneficiaries

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*Sõbralt sõbrale* helps children that mostly come from difficult and complex families or have social problems themselves. It has held summer and winter camps for some years to share positive values. Group leaders are volunteers who develop good relationships with children and promote positive changes to their values and behaviour.

The social enterprise supports a group of children in Narva who live in the local social house rather than with dysfunctional families where either one or both parents have an addiction (mostly alcohol and drugs). There is an after-school club where children can do their homework, play, cook, etc., which is supported by a full-time member of staff. This service is well received by the children; the hope is that the impact of their dysfunctional, biological family's behaviour will be reduced.

Over the past few years, *Sõbralt sõbrale* organised a project called '365 - Every Day is a Birthday' to host parties for children whose birthdays are not celebrated by their families. Children can invite friends to their party, which is arranged in a fun place with a cake, presents, etc. As a result, the organisation establishes relationships with families and creates a lasting memory for the children.

It also has some families that are helped on a regular basis with food, furniture, etc., to improve their standard of living and home environment. They are provided not only with material help but also counselling if needed, activities, hobbies for the children, etc.

Societal change comes slowly because most of the vulnerable people involved, such as single parents and those with alcohol addiction, have deep behavioural habits that are difficult to improve quickly.

The organisation also helps refugee families in practical ways (e.g., giving clothing, helping them move from social housing to a nice apartment of their own and offering work experience). Their emotional well-being and even health improves significantly. Integration with the local community helps reduce the isolation and loneliness that are associated with mental health difficulties.

The social enterprise does not have a specific recording system about the beneficiaries of their services. However, based on feedback and stories from individuals, hundreds of people benefit each year from its shops, kids' camps and family events. Regular relationships can achieve long-term change. The organisation looks for third party partners in local communities to help provide that relationship, whether the church, someone from the local community or a social worker.

#### → **Governance model**

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This case study illustrates the complex arrangement that occurs when two legal forms are used simultaneously. *Sõbralt sõbrale* operates as a private limited company for its profitable earnings and a non-profit association fulfils its social mission. Its sales activity is delivered by private limited company EEKBL - Valduste OÜ, which is owned by the NPA Union of Free Evangelical and Baptist Churches of Estonia, which represents 80 churches.

#### → **Business model**

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There are 18 *Sõbralt sõbrale* shops in 14 cities throughout Estonia which sell second-hand clothes, furniture, household goods, books and toys. The shops also provide job opportunities for vulnerable people to work. They are employed either full or part time. It currently has approximately 158 employees. In addition, the shops engage volunteers who are also considered vulnerable. *Sõbralt sõbrale* has partners in Sweden, Finland, Germany and USA from where they import about 400 shipments of second-hand goods a year. They also collect second-hand goods from Estonia, which covers only about 5% of the total need. The social enterprise's revenue is used to help children in need across Estonia.

Although *Sõbralt sõbrale* does not have a specific strategic plan for whom and how it helps, the social enterprise remains flexible. It measures change by capturing positive stories and gathering feedback, focusing on long-term change rather than one helpful contact. They try to be 'second mile walkers' as there are more providers who 'walk just the first mile'.

The organisation has considered innovative social finance instruments and plans to work on some of these ideas in the future but currently focuses on the shops and is still increasing its chain.

### → **Main barriers**

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In terms of barriers, the social enterprise is legally considered a business and taxed like any other. Therefore, it cannot access social funds. However, through its foundation status, *Sõbralt sõbrale* has been able to apply for some additional funding over the years.

Fast growth has resulted in difficulty finding skilled employees. The organisation has not found enough qualified people and has not been able to provide enough training. As a social enterprise it cannot pay its management team in line with the high salaries of mainstream businesses. Its social impact evaluation process is not in place. The social enterprise helps people but is not measuring its social impact; all of its evaluations are so far subjective.

Some years ago *Sõbralt sõbrale* ran a soup kitchen and had a contract with the city but then ceased that initiative. Currently, it has no such contractual agreement with the city government.

### → **Key partners**

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Its partners include non-profit associations such as MTÜ Igale Lapsele Pere, Food Bank and some local governments whose social workers refer vulnerable people, including children, to the social programmes. Other partners include recreation providers such as adventure parks and environmental education centres that cooperate with kids' camps.

### → **Financial structure**

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In terms of finances, the social enterprise relies almost 100% on its retail sales. Its high street chain has grown quite fast during recent years, which has enabled it to develop social projects. These are carried out via the Foundation Social Work Centre *Sõbra Käsi*, which was also established and is owned by the NPA Union of Free Evangelical and Baptist Churches of Estonia. Together *Sõbralt Sõbrale* and *Sõbra Käsi* engage about 100 volunteers per year. Some volunteers have helped in kids' camps several years running. Volunteers who work in the shops come via different social programmes. The foundation employs five people, four of them part-time.

## Exploratory case 2

### Foundation Hea hoog

#### → Mode of creation

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The social enterprise was established in 2010 and has national coverage, employing about 63 people. It is legally formed as a foundation with partners that include AS Hoolekandeteenused, local government, the Social Insurance Board, Estonian Unemployment Insurance Fund, Social Enterprises Network and various employers all over Estonia.

#### → Beneficiaries

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Hea hoog finds employment opportunities and creates jobs for people with special needs. It markets handicraft products that are made by its beneficiaries and provides cleaning and maintenance services. Its overall goal is to help disadvantaged people achieve personal fulfilment via paid employment. Hea hoog's main target group is people with intellectual disabilities and those with mental health needs.

#### → Governance model

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Hea hoog is a subsidiary company of the public limited company AS Hoolekandeteenused and a foundation without members. Its governing body is a council that consists of AS Hoolekandeteenused employees and has a board.

#### → Business model

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The social enterprise provides services and employment for about 600 people per year and its number of clients increases by around 50 clients annually. Although it mostly focuses its attention on clients of AS Hoolekandeteenused, in recent years Hea hoog has also begun helping other clients with mental health needs. Most of its employees are activities organisers. The number of employees has increased over the last three years from 3 to 63. On average, the organisation works with two volunteers per year, which has remained constant over the past three years. Its personnel includes 10 people with reduced work capacity. The social enterprise operates in 12 Estonian counties with 12 work centres.

The social enterprise's main activities include providing employment services for people with mental health needs, and providing and mediating handicraft retail jobs and services. It provides long-term sheltered workshop services for the Social Insurance Board and Employment Support Service as well as short-term sheltered workshop services for the Estonian Unemployment Insurance Fund. Both have resulted from public tendering processes. In order to improve the employability skills of people with mental health needs, handicrafts made in work centres are sold at fairs and through e-shops,



which also helps increase awareness of the Hea hoog brand whilst communicating a positive social message.

### → **Main barriers**

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The main barrier that the social enterprise faces is finding sustainable financing. Its services are supported by tendering processes that may not be continuously provided. The organisation's employment support service is a very economic provision and its revenue does not cover all the costs related to providing that service. The sale of handicrafts and fulfilling orders has not yet managed to cover all costs (renting rooms, personnel costs, tools, etc.). The organisation also experiences difficulties related to raising awareness and changing people's attitudes about the ability of mentally disabled people to work; both aspects are a top priority.

### → **Key partners**

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The work centres cooperate with local community partners. They provide cleaning and maintenance services. Additionally, handicrafts are sold in each work centre that are made in-house and in other centres. They contribute to local communities by participating in fairs and events, which encourages a positive image of people with special needs in employment. The social enterprise is a local government partner that provides volunteers to clean parks, etc., and makes souvenirs as gifts that local companies can order.

### → **Financial structure**

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In terms of financing, 90% of the social enterprise's income is received from the provision of employment support services and short-term and long-term sheltered workshop services. The rest is received by selling handicrafts and providing maintenance services. The social enterprise does not receive any grants or donations. It receives social tax compensation that the state pays via the Unemployment Insurance Fund for a person with reduced working ability. These employees receive seven additional vacation days, which are covered by the state.

## Exploratory case 3

### Non-Profit Association Minutes of Stillness (*Vaikuseminutid*)

#### → Mode of creation

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*Vaikuseminutid* is an educational social enterprise that aims to bring scientifically validated, mindfulness-based, stress reducing, focus enhancing and self-management boosting practices into the Estonian education system. The social enterprise was established in 2014, has national coverage and employs about six people.

#### → Beneficiaries

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The beneficiaries are children of all ages, from nursery to high schools (30,000), teachers (2,000) and parents (unknown number). The organisation's main activity includes training teachers and providing them with tools and the knowledge necessary to be good, mindful role models to students. Since 2015 it has trained over 10% of Estonia's teachers with the aim of reaching as many children as possible. Initially, the focus was on schools but the social enterprise has recently widened its activities and now also focuses on adults who are part of the support system. So far, *Vaikuseminutid* training has reached over a third of Estonian educational institutions (by targeting segment nurseries, elementary schools and high schools). It has reached nearly 400 educational institutions through at least one person: considering the amount of nurseries (535), elementary and high schools (633), this makes up 34% of all Estonian educational institutions.

In relation to the total number of teachers, the social enterprise has reached 8% of Estonian teachers, which means that *Vaikuseminutid*'s exercises have already reached more than 8% of children throughout the entire Estonian education system. It has given out *Vaikuseminutid* training certificates to more than 2,000 teachers. Considering the amount of school teachers (14,300) and nursery teachers (8,000), it has reached about 8% of all teachers. Out of an estimated 30,000 children, it has reached 8.3% through nurseries and schools (205,000).

The social enterprise is currently working on offers for adult training and various training packages.

#### → Governance model

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It was established as an NPA. *Vaikuseminutid* was established by eight people. It has 18 members, who are trainers, and a board of three members. The founding group consisted of teachers, lecturers, parents and experts from related domains. Members are included in strategic discussions but are not active on an operational management level. When *Vaikuseminutid*'s founders wrote the *Estonian Education Strategy*, they realised that the national educational landscape had critical shortcomings that the

strategy should address. They understood that self-management skills such as overcoming stress, dealing with emotions, etc., were not offered within the education system. Therefore, a training company was founded to create systemic capacity and bring something innovative to the Estonian education system. Impetus was gained via winning the Reach for Change Estonia competition 'Laste rõõm 2014'.

Vaikuseminutid belongs to the Estonian Bully-free Schooling Coalition, which is one of the Estonian government's educational priorities. In the coalition that works under the auspices of the Estonian Ministry of Education and Science, Vaikuseminutid is the ministry's strategic partner on children's self-regulation and social-emotional learning skills.

Its strategic goal aims to provide self-management skills, social-emotional skills, psychological well-being, mindfulness and stress management practices as a natural part of the education system reaching all Estonian children.

#### → **Business model**

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The social enterprise's business model includes the provision of training services. Its plans include the provision of app based training, a published book, a handbook for lay users and the organisation of conferences to increase awareness. Trainers who are social enterprise members provide services at half the market price as they are enthusiasts in their field.

#### → **Main barriers**

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The organisation's sustainability is a challenge. It finds it difficult to find the finances for development processes. Funding has been received for pilots from the National Foundation for Civil Society but activities need to be continuously run.

#### → **Key partners**

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Its partners include the Estonian Bully-free Schooling Coalition, Estonian Mental Health and Well-Being Coalition, Good Deed Foundation, Ministry of Education and Science, Tallinn University and Tartu University.

#### → **Financial structure**

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They finance their own supplementary training courses and support the social enterprise's work with this training. 47% of the enterprise's income is received from selling services. The rest comes from grants and donations. In 2017 Vaikuseminutid gained 11,068 EUR through a crowdfunding campaign to publish a handbook.

In autumn 2016 the social enterprise was chosen to become the Good Deed Foundation's (*Heateo Sihtasutus*) impact fund portfolio organisation and the foundation will support its activities with expertise and finances over the coming three years. In

terms of other finances, grant funding has been received via the Gambling Tax Fund. The Unemployment Insurance Fund supports the employment of one person. The social enterprise is on the list of NPAs and foundations that receive income tax benefit. It receives state funding from the Estonian Bully-free Schooling Coalition's budget. The Ministry of Education and Science is financing the social enterprise's plans to conduct an in-depth study of their intervention, which should enable the social enterprise to become internationally recognised as an evidence-based best practice and permit the programme to be offered in neighbouring countries.

## Exploratory case 4

### Dissolve and Coagulate (*Solve et Coagula OÜ*)

#### → Mode of creation

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Solve et Coagula OÜ is a private limited company established in 2013 and is based in Pärnu County where its services are provided. It employs about 31 people. The social enterprise is a private limited company.

Its CEO was previously engaged in the NPA *Hingerahu* (Serenity) established in 1996 to support people with mental disorders through organised training. Solve et Coagula was then established as a consequence of a project undertaken by the NPA where individuals from social risk groups with difficulty in accessing employment were trained in craft skills like woodwork. The CEO also previously worked in a Pärnu hospital psychiatric day centre for people with mental disorders, which provided work services for 11 people. The hospital's work places were abandoned when it was moved to another building. While working in the hospital with people with mental disorders, the CEO realised that people were mainly lacking activities in their daily lives. He decided that work therapy would give more meaning and structure to their lives. As he had already dealt with arts and handicraft, provided community work and dealt with the provision of activities to target groups as a hobby, he had some insight and a vision of how to change things. The CEO noticed that the target group needed to be provided with access to sheltered employment. This was a new approach within the Estonian context, as before this sheltered employment had been supported only by national public funding and the European Social Fund (ESF). The main skills taught include woodwork and similar handicrafts, and the main beneficiaries are individuals with mental or nervous disorders and/or health-related disabilities.

### → **Beneficiaries**

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Beneficiaries are adults considered to be vulnerable due to their disability, mental disorders and reduced working ability. Solve et Coagula OÜ currently supports 33 people.

Currently, the social enterprise's main activity is to provide sheltered workshop services to the Unemployment Insurance Fund and Social Insurance Board. It has about 20 clients. Additionally, the enterprise provides accommodation support services to 13 clients with addictive disorders. Four to five employees provide protected work service alongside three support workers.

### → **Governance model**

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The social enterprise is a private limited company run by a sole board member.

### → **Business model**

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It provides sheltered workshop opportunities for people with mental disorders by teaching them craft skills in woodwork.

### → **Main barriers**

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The enterprise's main challenges include the instability of its clients' skills and health. Solve et Coagula finds it challenging for its products to compete with those imported from China or sold as second-hand products.

### → **Key partners**

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Partners include the Unemployment Insurance Fund, Social Insurance Board, Pärnu city, Pärnu German Technology School, Pärnumaa Vocational Education Centre and Estonian Art Academy.

### → **Financial structure**

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The social enterprise's goal for the near future is to acquire permanent accommodation as they are currently working in rented rooms. An application has been submitted to a funding call by the Ministry of Social Affairs financed by the European Regional Development Fund in order to solve this issue and provide special care services together with accommodation and a day-care centre. In terms of benefits, the organisation receives social tax compensation that the state pays via the Unemployment Insurance Fund for a person with reduced working ability that includes transport compensation. The majority of the enterprise's income is generated via services provided to the Unemployment Insurance Fund and Social Insurance Board. This support service is provided together with Pärnu city. Tenders have been compiled together with NPA Aktiviseerimiskeskus Tulevik. A loan has been taken to buy certain equipment (a CNC milling machine).

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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 name of the organisations who accepted to have their names published are included in the table below.

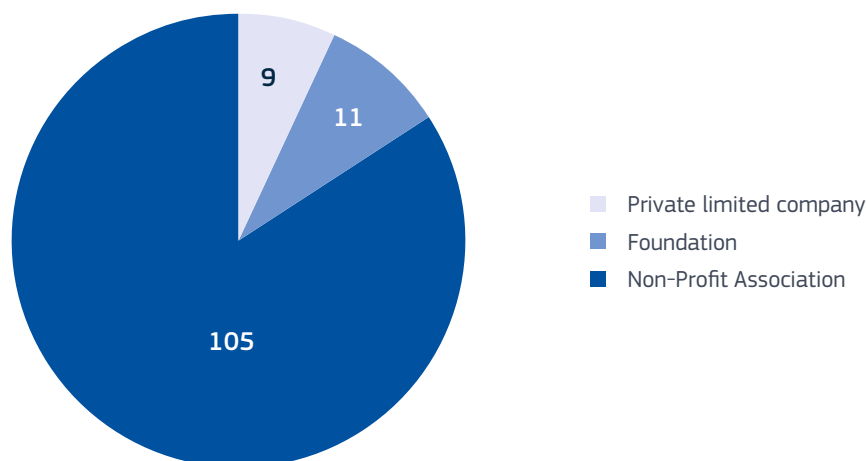
Organisation	Stakeholder category
Social Enterprises Network	SUP
Good Deed Foundation	SUP
Ministry of Economic Affairs and Communications Economic Development Department	POL
Ministry of Social Affairs	POL
TGS Baltic (member of the working group codifying Estonian business and non-profit law)	PRAC
SEB Bank	SUP
Changemakers Academy	PRAC
Association of Municipalities of Estonia	POL
Association of Estonian Cities and Rural Municipalities	POL
National Foundation of Civil Society	SUP
Estonian Business School	ACA
Solve et Coagula	PRAC
Minutes of Stillness	PRAC
Foundatuin Hea hoog	PRAC
From Friend to Friend	PRAC

## Appendix 6. Methodological note

The first attempt to capture Estonian social enterprise statistics was undertaken in the 2014 study 'Social Entrepreneurship Sector in Estonia' carried out by Statistics Estonia, the Network of Estonian Non-Profit Organisations (EMSL) and ESEN (Lepa and Naarits 2014). The study was financed by the European Commission under the 'Economic impact of Social Enterprises' programme. As social enterprises have no unique identifier, it is difficult to distinguish them from other companies. Statistics Estonia uses, in addition to other sources, electronic information from the annual reports of enterprises available in the Commercial Register data system, the Tax and Customs Board's declared tax information and management accounts compiled by Eesti Pank (Estonian central bank); information was combined from various administrative sources to explore the economic impact of social enterprises. In January 2014 the information gathered for the study from the Commercial Register was based on submitted annual reports from 2012. Potential social enterprises were determined based on the list of operational organisations from 2012 that was taken from the statistical registry of economic units used by Statistics Estonia for the formation of study samples. At that time, the list compiled by Statistics Estonia included 29,000 units (Lepa and Naarits 2014). The EU operational definition was applied and, after comparing organisations to criteria, the list of organisations to be studied included 770 units. While working with the available data, the activity of units was firstly investigated based on their management reports and the appendix 'Business income' attached to their annual reports. The organisations' statutes were also studied by focusing on the activity's objectives and the revenue-creating core activity of each unit. Based on available information, organisations that fit the criteria for social enterprises were selected. In total, 125 potential social enterprises were identified, including 31 ESEN members. In 2012 the majority of units studied operated either as an NPA or foundation; only 7% had chosen the legal form of a private limited company. There were no commercial associations in the sample at that time (see figure below).

The figure below shows that in 2012 the majority of social enterprises studied operated either as an NPA (105) or foundation (11); only 7% or 9 had chosen the legal form of a private limited company. There were no commercial associations in the sample at that time.

### Distribution of social enterprises by legal form, 2012



At the same time, groups of organisations existed where a private limited company had been established mostly for revenue creation and the company was owned by a NPA with a clear societal purpose. In some cases, these units were legally related as a parent and subsidiary undertaking. However, quite often these units had no official connection with one another. In such a situation, distinguishing social enterprises from other organisations was very difficult.

In 2012 the organisations studied had a total of 1,359 employees, which made an average of 10.9 jobs per social enterprise (Lepa and Naarits 2014).

In order to provide data for this report, statistics from this 2012 study were used. However, the list of ESEN members as of April 2018 had increased to 51 compared to the previous 31. This combined list was used to form the social enterprise analysis sample. Organisations in the list were analysed and compared against the EU operational definition of a social enterprise. The Business Register for Statistical Purposes was also used. The register includes all active, Estonian economic units. Those organisations which did not produce an income from their entrepreneurial activities were eliminated from the list. For all units included in the statistical business register, the common data are their identification codes and contact information. All statistical units are classified by branch of activity, legal form, form of ownership, geographical location and institutional sector. Throughout the year, the Business Register for Statistical Purposes is updated from legal registers, statistical surveys, administrative data sources and other sources.

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