6 Challenges for Social Enterprises in Latvia

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Introduction

The term “social enterprise” (SE) is not very common in Latvia, be it in academic circles or at the political level. In practice, however, entrepreneurial activity focusing on social objectives is emerging in the country. One of the reasons for this “discrepancy” between the dissemination of the theoretical concept and the actual initiatives it covers is the fact that the Latvian term for “social entrepreneurship” is a direct translation of the same English term, and while the interpretation of the word “entrepreneurship” in Latvian causes no problems, it is more complicated with the term “social”—translated as *sociāls* in Latvian. This term is derived from a term meaning “society”, and it has several meanings: beside the idea of “social”, it can also refer to the concept of “public” (Latvian Association of Local and Regional Governments 2016).

The *Global Entrepreneurship Monitor* report, published in 2009, defined social entrepreneurship as “individuals or organisations engaged in entrepreneurial activities with a social goal” (Rastrigina and Dombrovskis 2009). This definition is in line with the way in which the concept of social enterprise is usually understood: according to various definitions, a social enterprise is an organisation whose mission combines revenue generation and profit-making activities with the need to respect and support its environment and network of stakeholders (Deloitte Global Human Capital Trends 2018).

1. The Conceptual Background of Social Enterprise in Latvia

Academic research in economics plays the leading role in the analysis and study of social enterprise in Latvia. In the last years, the interest of junior researchers in social enterprises has grown rapidly. Researchers have generally focused on topics, such as the understanding of social enterprise (Burkāne 2017; Bērziņa and Ķiesnere 2016; Stupena 2015), historical correlations between social enterprises and the social economy (Dobeļe 2013),

analysis of international experiences of social entrepreneurship (Freimanis 2012), possibilities to develop social enterprises in Latvia (Zamberga 2018; Trifane 2015), the social impact of social enterprises (Kumačeva 2018) or support instruments for social enterprises (Veigure and Zorina 2017). There are also research projects carried out jointly by Latvian and foreign researchers. All these studies have been significant in advancing the knowledge and understanding of social enterprise and social entrepreneurship in Latvia.

Analysis of the concept of social entrepreneurship on the basis of various information sources demonstrates that the introduction of this concept in Latvia has been gradual. The first social enterprises in Latvia developed as economic activities performed by NGOs within their regulatory framework, namely the Law on Public Organisations and Associations Thereof of December 15, 1992. This law was replaced on October 30, 2003, by the Law on Associations and Foundations, which divided all NGOs into two categories: associations and foundations. According to the new law, associations and foundations have the right to carry out revenue-generating activities. However, the economic activity may not become the primary goal of the organisation; it must be an auxiliary activity supporting the achievement of the organisation's key public-benefit goals.

NGOs that meet certain criteria may obtain the status of *public-benefit organisation* (Saeima 2004). According to the Law on Public-Benefit Organisations, a public-benefit activity is an activity that generates a significant benefit for society. The term “public benefit” refers to a wide range of activities, and in particular to the fact of increasing the social welfare of society, especially for low-income and socially disadvantaged groups.

The main components of a social enterprise—namely the social goal and not-for-profit character—could, to a certain extent, lead one to consider that there is no significant difference between a social enterprise and a public-benefit organisation. The difference lies in the economic activity. As already mentioned, the law only allows associations and foundations to perform an economic activity as an additional activity; by contrast, the economic activity is a central criterion for identifying a social enterprise, which ensures that socio-economic problems are tackled in a long-term perspective. Besides, public-benefit organisations can use their income only for activities of a non-commercial nature. But public-benefit organisations that develop significant secondary economic activities could be considered as social enterprises from the point of view of the EMES approach—even though they are not considered as such in Latvian law.

Publications and discussions show that the concept of social enterprise is closely related in Latvia to the ideas of “social partnership” (Līcīte 2018a) and “social dialogue”. The concept of social partnership was used in municipalities as a step towards more intense public participation

and the use of direct-democracy tools in the work of the administration (Ozola 2010). Social partnerships frequently involve the implementation of projects that are not directly related to the functions of public administration but are important for community members; and, as underlined by the OECD (2016), the process that results in social partnership is in many cases related to the formation of social enterprises.

Various other concepts are also used in the Latvian context in relation to that of social enterprise:

- The term *social innovation* is often used to explain and characterise the contribution made by social enterprises to new solutions and the role of social entrepreneurs as drivers of change (Laizāns 2018).
- The term *social business* (in Latvian, *sociālais uzņēmums*) is used as a general classifying concept that could contextually also include different types of social enterprise.
- The concept of social enterprise is frequently associated with the concepts of *social entrepreneurship* and *social economy*; they are even used interchangeably by the general public and sometimes also by policymakers.
- At times, social entrepreneurship is confused with *corporate social responsibility*, which is commonly a supplementary corporate activity and not the main objective of the enterprise.
- Finally, there is a misleading opinion that social enterprises are only related to *work-integration* (Lis et al. 2017). This opinion is also deeply rooted in EU policies.¹

The common feature of these various terms is their association with a *social-benefit activity*. In practice, this refers to a focus on solving social problems by creating social services. This general focus can be explained by the fact that Latvia had to deal with the consequences of the economic crisis—poverty, unemployment, high risk of social exclusion. . . . NGOs, associations and foundations mainly target socially vulnerable groups.

Social entrepreneurship and social enterprises in Latvia were analysed by Dobeļe (2013), who discusses social entrepreneurship as an “inter-sectoral phenomenon”, as it fulfils simultaneously private, governmental and third sector’s functions and combines elements of all three sectors. A social enterprise is defined as “an organisational operating unit created for the purpose of solving topical social or environmental problems by engaging socially sensitive public groups or providing them with services and/or goods” (Dobeļe 2013).

Various definitions coexist in the country; they complement one another by highlighting the various aspects of social entrepreneurship. Based on different definitions and approaches, an official definition of social enterprise adapted to the Latvian context was developed and introduced in

the country in 2018 by the Social Enterprise Law; it will be presented in Section 2.3. Worth noticing is the fact that this definition does not only cover work-integration social enterprises but a broad range of activities:

Social enterprise creates a positive social impact (e.g., provision of social services, formation of an inclusive civil society, promotion of education, support for science, protection and preservation of the environment, animal protection, or protection of cultural diversity).

Saeima (2018)

2. Emergence and Development of the SE Legal and Policy Context

From the legal and policy perspective, the emergence and development of social enterprises in Latvia can be divided into three stages.

2.1. The First Stage (1990–2004): Latvia's Independence and Accession to the European Union

The first stage corresponds to the period during which the country regained its independence and joined the European Union. During this stage, there were no social enterprises in Latvia. The terms “third sector” and “non-governmental sector” were first introduced in the country in the early 1990s, when foreign foundations and aid programmes launched operations with the aim of supporting the formation of a democratic and civil society. In official documents of the Republic of Latvia, the term “non-governmental organisation” was first mentioned in 1992 (Latvian Civic Alliance 2015).

The Law on Public Organisations and Associations Thereof (Supreme Council 1992) and other regulations governing the activities of NGOs in Latvia were adopted in 1992 (as explained earlier, this law was replaced in 2003 by the Law on Associations and Foundations).

In 2004, the Law on Public-Benefit Organisations (Saeima 2004) entered into force. This law defines the “social-benefit activity” as an activity that generates considerable benefit to society or a part thereof, especially if it is directed towards charity; protection of public and individual rights; development of civil society; promotion of education, science, culture and health; prevention of illnesses; support to sport; environmental protection; provision of aid in cases of disasters and emergency; improvement of well-being in society in general; and of the situation of socially vulnerable groups in particular (Saeima 2004).

The development of NGOs contributed to the emergence of social enterprises because they pursue the explicit social aim of serving the community or a specific group of people that shares specific needs. However,

the economic activity of associations and foundations is restricted by the Law on Associations and Foundations, which allows these organisations to perform an economic activity only as an auxiliary activity. If the economic activity becomes the main activity of the organisation, the latter can be liquidated based on a court decision. However, the Law on Associations and Foundations has not given a definition of the “main activity”; discussions on the concept and on the criteria to identify it thus remain open, particularly in situations where the main activity of an organisation is based on principles of entrepreneurship. In practice, the boundary between main and auxiliary activities is tackled in relation to the goals set in the statutes of the organisation, unless it clearly appears that the organisation does not work towards its declared goals (Pūķis 2012). After the new Law on Social Enterprise became effective, many associations and foundations continued to identify themselves as social enterprises, as their activity often met the basic criteria defining a social enterprise, yet legally, due to their legal form, they were not entitled to this status.

2.2. The Second Stage (2005–2014): Rapid Growth of the NGO Sector and Financial and Economic Crisis

The second stage was characterised by two important processes: a rapid growth of the NGO sector and the financial and economic crisis (2008–2011).

After Latvia joined the European Union, in 2004, non-governmental organisations could access more funding from various foundations, including international ones; consequently, the number of registered NGOs (associations and foundations) increased to over 1,000 (Līcīte 2018a). Overall, one could conclude that the development of NGOs contributed to the emergence of social entrepreneurship in Latvia; however, it was not social entrepreneurship in the modern sense of the term, as non-governmental organisations did not necessarily have an economic activity.

The 2008 financial and economic crisis influenced many people in Latvia. Many lost their jobs and were forced to look for alternative ways to survive. Some individuals significantly changed their value system after the crisis, and understanding of the importance of cooperation in creating better conditions for the environment and society grew (Līcīte 2018a). This change in values and way of thinking was an important driver of social entrepreneurship in Latvia.

The emergence of social entrepreneurship and social enterprises opened up new development perspectives for the national economy as the National Development Plan 2014–2020 (Saeima 2012) and regulation No. 618 “On the concept of social-entrepreneurship opportunities

in Latvia in order to implement the new political initiative” came into force (Cabinet of Ministers 2014). The objective was

to recognise and evaluate the potential of social enterprises, to start forming a comprehensive and efficient system, to set up a legal framework for the development of social entrepreneurship, to offer a definition and eligibility criteria as well as support instruments for social enterprises.

Ūlande and Līcīte (2018)

In 2014, a research report was published about the “Pilot project for the identification of social enterprises and their economic-impact assessment”. The research outcomes provided the basis for recommendations to policymakers to encourage social entrepreneurship in Latvia, and a definition of social enterprise was developed:

A social enterprise is a participant in the social economy that is established and managed by an entrepreneur with well-developed social and financial competency (. . .) (producing goods and providing services), and which allocates its income/profit to the pursuit of social goals, with a view to addressing important social issues.

Latvian Chamber of Commerce
and Industry (2018)

Comparing this definition with the EMES “ideal-typical” social enterprise (Defourny and Nyssens 2010), it can be concluded that only economic and social criteria were covered (and in a quite superficial way), and that the question of the type of governance was not addressed. However, it should be noted that the definition developed in this pilot project only represented the first step on the way to defining and understanding social entrepreneurship in Latvia.

The Ministry of Welfare of the Republic of Latvia was appointed as the institution responsible for the implementation of the SE concept (Ministry of Welfare 2014).

2.3. The Third Stage (From 2015 Onwards): From the Creation of SEAL to the Adoption of the Social Enterprise Law

In the autumn of 2015, the Social Entrepreneurship Association of Latvia (SEAL) was created; it gathers organisations, enterprises and individuals willing to promote social entrepreneurship in the country.² Research conducted in the previous years as well as contributions made by NGOs with business experience and by existing social enterprises (The Samaritan

Association of Latvia [LSA], Riga Association “Rūpju bērns”, Association “SOS Children’s Village Latvia”) paved the way for the setup of SEAL. These social enterprises’ experience helped to substantiate the arguments brought forward during the discussions with politicians.

In 2016, the Latvian Association of Local and Regional Governments (LALRG) published a study (Latvian Association of Local and Regional Governments 2016) according to which there were still ambiguities in terms of understanding social enterprise and social entrepreneurship; the study underlined that the concept of social entrepreneurship in Latvia was “deformed and narrow”.

Concerning the definition of social enterprise, the study adopted an approach inspired by Yunus and Weber (2007), other researchers (Lešinska *et al.* 2012; Dobeles 2013) and the Ministry of Welfare (2014). The definition stated that the main thing that identified a social enterprise was its purpose; the other criteria—production of goods or services, restrictions on the distribution of profits, and representation of the target groups involved in running the company—were secondary (Latvian Association of Local and Regional Governments 2016).

The study outlined a number of recommendations for policymakers, the most important of which were:

- to evaluate the possibility of granting the concerned initiatives the status of “social entrepreneur”, rather than that of “social enterprise”, regardless of whether the organisation was an NGO, a limited company, a municipal institution or a state agency. However, this proposal was not transposed into the Social Enterprise Law;
- pending the adoption of the law, to provide support to social enterprises based on their form and social mission, as this social mission decreases the company’s competitiveness and increases its need for support (Latvian Chamber of Commerce and Industry 2018).

During the discussion of the draft law, the title of the law was adjusted by replacing the term “social entrepreneurship” with “social enterprise”, as the concept of “entrepreneurship” was deemed too broad and was not legally defined; moreover, the law was focusing on the special status of the social enterprise, its rights and obligations rather than on social entrepreneurship (Latvian Association of Local and Regional Governments 2016).

The stakeholders had intense discussions on the right of municipalities to establish social enterprises. Municipalities defended their interest in setting up social enterprises based on the fact that they could, better than other stakeholders, identify social problems in the concerned area/region and promote entrepreneurship. Although Article 88 of the State Administration Structure Law (Saeima 2003) allows public authorities to engage in commercial activities in certain cases, social entrepreneurship being a

private-sector type of activity, municipalities were finally not granted the right to establish social enterprises.

Step by step, these developments led to the adoption of the Social Enterprise Law, which entered into force on April 1, 2018. The adoption of this law was accompanied by intense discussions in the civil and political arenas. According to SEAL data, in 2017, about 60 organisations in Latvia met the criteria defining a social enterprise, and it was estimated, in the explanatory note accompanying the draft law that, once this law was passed, at least 200 social enterprises might be created in the country in the medium term (Saeima 2018). This estimation was based on research on social entrepreneurship in Latvia (Līcīte 2018a), taking into account as well the planned forms of support for social enterprise that could facilitate the creation of such enterprises.

The Social Enterprise Law states that a social enterprise is

a limited-liability company, to which the status of social enterprise has been granted in accordance with the procedure provided for by the law, and that conducts a business that creates a positive social impact (e.g. provision of social services, formation of an inclusive civil society, promotion of education, support to science, protection and preservation of environment, protection of animals and cultural diversity).

Social Enterprise Law, 2017, Section 2, Article 1

The Social Enterprise Law is the main law governing social entrepreneurship in Latvia. The objective of the law is to improve the quality of life in Latvian society and to promote the employment of groups at risk of social exclusion by creating a favourable business environment for social entrepreneurs.

Important regulations of the Cabinet of Ministers are associated with this law:

- regulations of the Cabinet of Ministers on groups of people at risk of social exclusion and on the procedure for granting, registering and controlling the status of social enterprise;
- regulations regarding the Commission for Social Enterprises (the Commission for Social Enterprises is a collegiate advisory body that consists of an equal number of authorised officials and of representatives of associations and foundations; it assesses the conformity of the applicant with the status of social enterprise and controls the activities of registered social enterprises);
- regulations on business-support requirements for social enterprises and on the procedure for granting support.

The Social Enterprise Law determines the competence of the Ministry of Welfare in monitoring social enterprises. The Ministry of Welfare

develops policy-planning documents and SE support programmes. It also publishes on its website (Ministry of Welfare 2019):

- information on aid programmes and other support tools available to social enterprises;
- methodological recommendations for the drafting of the activity reports that social enterprises have to submit, according to the law;
- methodological recommendations for the drafting of the necessary documents to apply for the status of social enterprise;
- a summary of good practices in projects implemented by social enterprises, including SE support projects and their outcomes.

In order to evaluate the efficiency of support programmes, the Ministry of Welfare also prepares reports on the activities and development of social enterprises; these reports are submitted every second year to the Cabinet of Ministers (Ministry of Welfare 2019).

3. Drivers for SE Development in Latvia

Various factors have triggered the development of social entrepreneurship in Latvia; they are analysed in this third section.

3.1. Public Policies and Programmes

There are two main forms of support for social entrepreneurship, namely financial and non-financial support. Public support mainly takes the form of financial support. The largest financial support programme that is designed specifically for social entrepreneurship is the support programme run jointly by the Ministry of Welfare and ALTUM, a state-owned development finance institution. This programme, which was launched in 2016, allocates funds from the European Social Fund to social enterprises. The financial grants range from €5,000 to €200,000, depending on the initiatives' previous business experience and current turnover (for companies that have been operating for more than one year). This is the first and only kind of programme so far whose results and impacts can be considered as significant in the formation of social entrepreneurship in general.³

A grant programme to support social enterprises was also implemented in parallel with the introduction of the Social Enterprise Law. Until March 1, 2018, the following entities could apply for a grant:

- limited-liability companies;
- associations and foundations provided their revenue from an economic activity related to the achievement of a social goal represented at least 10% of all their economic activities;
- natural persons launching a business who had taken part in and won one of the idea competitions organised by the Ministry of Welfare.

Since the Social Enterprise Law came into force, only limited-liability companies with the status of social enterprise have been allowed to apply for a grant.

Since the programme started to operate, 129 applications have been submitted. By September 20, 2019, 59 grants had been awarded (for a total of €4 million). The average grant amount was €65,000. At the time of writing of this chapter (December 2019), six business projects had been implemented successfully and three of those social enterprises had received a second grant; other projects were still in preparation.

Social enterprises may also use possibilities offered by the Investment and Development Agency of Latvia (*Latvijas Investīciju un attīstības aģentūra*, or LIAA) and ALTUM, such as participation in one of the fifteen Latvian business incubators (e.g. the Creative Industries Incubator) or in entrepreneurship programmes available for both conventional and social enterprises (start-up programme for new entrepreneurs, micro-credit programme, SME microcredit programme, etc.). One of the largest challenges remains the practical introduction of national programmes at the municipal level; therefore, researchers (Pomykol and Zglinicka 2016) recommend that municipalities in all the states of the Baltic Sea region start with social campaigns and training (Pomykol and Zglinicka 2016).

3.2. EU Policy

EU policy initiatives were a driving force for Latvia to create an appropriate legal framework for social-entrepreneurship development. The Resolution of the European Parliament on Social Economy (European Parliament 2009); the Opinion of the European Economic and Social Committee “Towards a Single Market Act. For a highly competitive social market economy. Fifty proposals for improving our work, business and exchanges with one another” (European Commission 2012); the European Commission’s Social Business Initiative “Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation” (European Commission 2011); and the Opinion of the European Economic and Social Committee “Social Entrepreneurship and Social Business” all highlighted social entrepreneurship as an important instrument supporting social integration, employment (especially for socially sensitive groups of people), territorial cohesion and ethical economic growth.

3.3. Civil Society

Another important driver for the development of social entrepreneurship was civil society. In Latvia, social enterprises have often emerged as initiatives launched by NGOs; this was for example the case of the Samaritan Association of Latvia (LSA), which provides social care at home (Latvian Civic Alliance 2015).

Through their offer of educational and informative resources, NGOs play a significant role in raising awareness about social enterprises, but the main actor in the field of advocacy for social enterprise is the Social Entrepreneurship Association of Latvia (SEAL), which brings together like-minded organisations, companies and people who believe that social entrepreneurship in Latvia has a huge potential and who are ready to participate in the development and strengthening of the sector. SEAL plays a leading role in the development of social entrepreneurship in the country.⁴

SEAL's main areas of activities are the following:

- *protecting social enterprises' interests* at the local, regional and national levels. The Association informs municipalities about the opportunities for social entrepreneurship and participates in the development of the social-entrepreneurship support programme;
- *increasing the capacity of the Association's members*. The Association has set up a platform for experience and knowledge exchange which is the largest information source on social entrepreneurship in Latvia, and it helps its members achieve their goals by organising joint events, promoting fast and effective exchange of information, facilitating access to the latest information regarding financial and cooperation possibilities and providing consultative support;
- *raising public awareness* on social entrepreneurship. The Association participates in events aiming to raise public awareness about the possibilities offered by social entrepreneurship.⁵

The publications and activities of the association "Civic Alliance—Latvia" (CAL) and of the Social Research Centre PROVIDUS, a leading think-tank in Latvia, established in 2002, also play a significant role in the country. The scope of these organisations is wider than social entrepreneurship, but they play an important role in promoting this sector.

CAL is the largest umbrella organisation defending the interests of the non-governmental sector; it aims to strengthen civil society in Latvia, support the common interests of NGOs and create a favourable environment for their activities. CAL brings together 132 members, representing a total of approximately 70,000 individuals in Latvia (which represents 70% of all the persons involved in NGOs in the country) and 27,500 individuals abroad (11% of the Latvian diaspora).⁶

All CAL headquarters are located in Riga, but the organisation's activities cover the whole territory of Latvia. These activities involve *inter alia* projects implemented within the framework of various international programmes, such as Erasmus+, and projects co-financed by the EU or Nordic countries. Examples of projects include the project

implemented by the Social innovation centre “Developing social entrepreneurship in the Baltic Sea region” (co-financed by the Nordic Council of Ministers) or the LEADER cooperation project “A successful social entrepreneur in rural areas”, carried out in cooperation with different organisations.

3.4. Other Factors

In some ways, the *economic crisis* also constituted a driving force for the development of social enterprise in Latvia. With a view to overcoming the economic crisis, it was important to find solutions to mitigate social problems, particularly within the framework of active labour-market policies. Until then, social issues had often been addressed by NGOs relying on project funding, but with the crisis, it became more important to search for sustainable solutions to social problems. As a result, social entrepreneurship became more topical. This issue has been repeatedly addressed by the Country-Specific Recommendations for Latvia since 2012.⁷

The *shift in social policy* that Latvia implemented in the 2000s also represented a favourable factor for the development of social enterprise. Indeed, measures aiming to mitigate poverty and risks of social alienation evolved from a focus on aid to the provision of services (Kāle 2006), and the discourse shifted from giving and receiving to action, involvement and activity perspectives. The implementation of these measures increasingly relied on social enterprises. An evolution could also be observed in terms of funding sources; indeed, although these activities remained public, they became funded through a variety of sources, including private funding.

Various events, sometimes organised with international support, also contribute to raising awareness about the SE sector: this is for example the case of the forum “Time to get involved!”, organised by the Soros Foundation—Latvia, in cooperation with the British Council in Latvia, and of various conferences funded through EU sources. It is important to stress that social-entrepreneurship practitioners from Europe and the Baltic States also promote *discussions and debates* about social entrepreneurship through various conferences and seminars (Līcīte 2018a). On the basis of such exchanges, they have identified issues that appear important for the promotion of social entrepreneurship in Latvia:

- defining and implementing a national policy for the development of social entrepreneurship in Latvia;
- as regards the relationship between social entrepreneurship and the state, defining a regulatory framework for social entrepreneurship;

- distinguishing social entrepreneurship from NGOs and traditional businesses, although there are socially responsible enterprises in Latvia that employ representatives of socially vulnerable groups;
- defining a regional policy for and identifying the possibilities to promote the development of social entrepreneurship in each of the country's regions (Līcīte 2018a).

Finally, it is worth mentioning that social enterprises in Latvia may also attract *private investors* ready to invest in the development of social entrepreneurship.

4. Obstacles to the Development of Social Enterprise in Latvia

As highlighted in Section 3, several factors foster the development of social entrepreneurship in Latvia; but other factors constitute obstacles to such development. In her doctoral thesis, Dobeļe (2013) highlights several barriers that could hinder the development of social entrepreneurship in Latvia. Along with the vague regulatory environment, the outflow of human resources and non-returning emigrants, social stratification and insufficient financial support for social enterprises are mentioned as threats (Dobeļe 2013). The development of social enterprise can also be hindered by other economic factors, such as the lack of investment in demand and of social-impact investment. The main obstacles encountered by social enterprises in their search for funding are the lack of understanding of the SE phenomenon; the low capacity of social entrepreneurs in dealing with potential investors; and the lack of knowledge about how to approach investors (Aps *et al.* 2018). Key potential investors are only starting to emerge, and much remains to be done to facilitate actual investments (Veigure and Zorina 2017).

Competition in the market also influences the development of social entrepreneurship. Very often, social enterprises are not competitive, due to the relatively high price of their products or insufficient amount of production for export (Līcīte 2018a).

5. Mapping Social Enterprise in Latvia

The information on social enterprise and social entrepreneurship is quite broad. The available studies, including master theses (Zamberga 2018; Bērziņa and Ķiesnere 2016; Trifane 2015; Stupeņa 2015; Freimanis 2012; Kumačeva 2018; Veigure and Zorina 2017), scientific articles (Dobeļe *et al.* 2010; Kalve 2012; Dobeļe 2012, 2013; Dobeļe and Dobeļe 2014; Dobeļe and Pietere 2015; Bikse *et al.* 2014; Bikse and Linde 2013, 2016; Dehtjare and Riashchenko 2015), reports, interviews, project summaries,

presentations, leaflets, booklets and video materials provide a comprehensive view on the subject.

Social enterprises can be classified on the basis of different criteria: economic performance, social impact, field of activity, target groups, scale of activity, etc. However, the fact that the number of typical social enterprises in Latvia is rather small should be taken into account; this makes it quite difficult to categorise initiatives (Līcīte 2018b). Social enterprise is still developing, and they are in search of their niche of operation, but most of the existing social enterprises are engaged in the production of goods or the provision of services for the local market.

5.1. Classification by Areas of Operation

A study (Lešinska *et al.* 2012) that surveyed social enterprises having chosen the legal form of non-governmental organisation and operating as associations or foundations identified the following main areas of operation/categories of social enterprise:

- social enterprises that coordinate civil-society organisations;
- social enterprises whose activities are targeted at personal development and improved quality of life;
- social enterprises that tackle social and economic issues;
- social enterprises that address environmental issues;
- social enterprises that organise charity campaigns;
- social enterprises that provide social services or social-rehabilitation services;
- social enterprises that are engaged in the preservation of cultural heritage for future generations.

These areas of operation match, to some extent, those that are laid down in the Law on Public-Benefit Organisations:

- charitable activities;
- protection of civil rights and human rights;
- development of civil society;
- education, science and culture;
- promotion of health and disease prophylaxis;
- support to sports;
- environmental protection;
- provision of assistance in cases of disasters and extraordinary situations; and
- improvement of social welfare, especially for low-income and socially disadvantaged groups (Saeima 2004).

5.2. Classification by Regions

Despite the adoption, in 2018, of the Social Enterprise Law, social enterprises as a relatively autonomous sector are still in their development stage and, as already underlined, this accounts for certain difficulties in classifying them. However, official statistics provided by the Ministry of Welfare are available; they provide some insight into social entrepreneurship. An analysis of social enterprises in terms of regional distribution reveals that they are present in all the regions of Latvia, but that their distribution is quite unequal (see Figure 6.1).

5.3. Classification by Fields of Activity

The EU pilot project for the identification of social enterprises and the assessment of their economic impact in Latvia (Linde 2014) had established that social enterprises had been set up in practically all sectors of the national economy, with the exception of construction. Figure 6.2 shows an analysis of the fields of activity of social enterprises; it reveals that, in 2019, most of the enterprises were engaged in work integration (33%) and in education (23%).

The comparative importance of the work-integration field in the Latvian SE sector can be accounted for, to some extent, by the support that these initiatives receive from the government. Indeed, to promote the integration of the disabled into the labour market, the State Employment Agency offers employers financial support through subsidised jobs. Employers who hire disabled workers are entitled to monthly wage subsidies as well as to subsidies covering social-insurance contributions and the costs linked to the adaptation of workplaces to these workers. It should be stressed, though, that subsidised jobs are available to both social and conventional enterprises employing persons from special target groups.

Figure 6.1 Percentage breakdown of social enterprises by region in Latvia (September 26, 2019)

Figure 6.2 Percentage breakdown of social enterprises by field of activity in Latvia (September 26, 2019)

5.4. Classification in Terms of Legal Form

In accordance with the Social Enterprise Law, social enterprises all fall under the concept of “economic project”. The following forms prevail in Latvia:

- social enterprise: business with primarily social objectives. Profit is reinvested in the business or in the community, rather than used to maximise profit for shareholders and owners;
- social firm: business committed to creating employment and training opportunities for the people who are the furthest from the labour market.

Most of the social enterprises in Latvia operate either as a limited-liability company or as an association/foundation. As evidenced by a study carried out in 2014 (European Commission 2014), many new social enterprises tend to choose the legal form of limited-liability company, as it provides a more conducive framework for engaging in entrepreneurial activities, including export.

Conclusion

The concepts of social enterprise and social entrepreneurship are new in Latvia. The Social Enterprise Law, which came into force in 2018, provides a clear definition of social enterprise: a social enterprise is a limited-liability company conducting an economic activity that creates a positive social impact.

A significant role in raising awareness about social enterprises has been played in Latvia by NGOs and educational institutions, which have

organised several workshops and conferences, implemented cooperation projects, supported publications, etc. Such actions contributed to the public recognition of the concept of social entrepreneurship. On the other hand, the development of social enterprise can be hindered by competition in the market and by lack of investment in demand and of social-impact investment.

Although available data about social enterprises in Latvia allow us to classify them on the basis of different criteria (such as their field of activity or location), the number of social enterprises in the country is still rather small, and this makes it quite difficult to categorise them or identify SE models.

Social enterprises may use national and municipal support tools for entrepreneurship. The Social Enterprise Law allows municipalities to set up various support tools for social enterprises, which is important as it allows municipalities to legally establish their own local social-entrepreneurship support schemes.

The authors forecast that the number of social enterprises in Latvia will slowly increase in the future; however, the increase rate will strongly depend on support instruments available to social enterprises. What will happen in terms of available funding after 2022, when the support programme run jointly by the Ministry of Welfare and ALTUM ends, remains unclear so far.

The recognition of social enterprises in society is slowly increasing, but much still needs to be done to raise awareness about the importance of social enterprises and their social impact.

Notes

1. EU Regulation No. 1304/2013 of the European Parliament and of the Council of December 17, 2013 on the European Social Fund and Repealing Council Regulation EC No. 1081/2006.
2. See www.socialauznemejdarbiba.lv/.
3. See www.socialauznemejdarbiba.lv/.
4. See www.socialauznemejdarbiba.lv/.
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