

LEGAL ASPECTS AND SUPPORT INSTRUMENTS FOR SOCIAL ENTREPRENEURSHIP IN THE BALTIC STATES

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Abstract

Social entrepreneurship plays an increasing role in society. It is evidenced not only by the inclusion of a section on social entrepreneurship in the Europe 2020 strategy but also by the engagement of European countries in making legal documents on social entrepreneurship as well as designing support programmes in order to help entrepreneurs to start up a social entrepreneurship business. The research aim is to characterise the legal aspects of social entrepreneurship and support instruments for the promotion of social entrepreneurship in the Baltic States. In order to achieve the aim, the research analysed legal acts and strategic policy documents regulating social entrepreneurship in Latvia as well as analysed the legal framework for social entrepreneurship in Lithuania. To do the analysis, the research examined the kinds of support for starting up a social entrepreneurship business in the Baltic States. The research has found that no uniform definition of social entrepreneurship is available in Europe, which does not result in a unanimous opinion on what a social enterprise should be. In the Baltic States, the Social Enterprise Law has been passed in Latvia and Lithuania; besides, the laws mainly focus on the integration of target groups into society, addressing no other essential problems that could be solved by means of social entrepreneurship, e.g. environmental protection.

Key words: social entrepreneurship, social enterprise, legal aspects, Baltic States.

Introduction

The term social entrepreneurship has emerged in the world quite recently. According to various research investigations (Nicholls, 2006; Trivedi, 2010), the term for the first time was used in the book 'The Sociology of Social Movements' by J.Banks in 1972. The book stresses that social problems are tackled by applying a management approach (Banks, 1972). M. Yunus is considered to be the founder of social entrepreneurship; he is a social entrepreneur from Bangladesh, the founder of Grameen Bank and a Nobel Peace Prize winner. M. Yunus defined seven principles of social entrepreneurship that make the basis for the definition of social entrepreneurship (Hoogendoorn, Pennings, & Thurik, 2010). However, viewing the evolution of social entrepreneurship from the legal perspective, one can conclude that the very first country that made legal acts pertaining to social entrepreneurship was Italy with the New Italian Law on Social Enterprise adopted in 1991, which was complemented in 2006 (Fici, 2006). Italy was followed by the United Kingdom and Lithuania (Nyssens, 2006; Law on Social..., 2007).

In pursuit of economic development and solutions to employment problems and environmental challenges at national level, social entrepreneurship developed fast in recent years; consequently, relevant legal documents have been drafted and enhanced, various projects aimed at contributing to social entrepreneurship were implemented and various kinds of tax relief were introduced for social entrepreneurs. The research aim is to characterise the legal aspects of social entrepreneurship and support instruments for the promotion of social entrepreneurship in the Baltic States. In order to achieve the aim, the following specific research tasks are set: 1) to examine the legal

frameworks for social entrepreneurship in Latvia and Lithuania; 2) to analyse support instruments for social entrepreneurship in the Baltic States.

In the world, social entrepreneurship has been researched by D. Bornstein (2010) who mainly focused on social innovation, A. Nicholls (2006) who stressed the role of social entrepreneurship in social development as well G. Dees (2002) who researched the practical application of social entrepreneurship. In the Baltic States, social entrepreneurship has been researched by a number of scientists, including L. Licite (2013), E. Butkeviciene (2008), Jolita Greblikaite (2012) *et al.*

Materials and Methods

To achieve the aim and perform the tasks, the research employed several methods. The monographic and descriptive methods were used to make a theoretical discussion on legal aspects and interpret the research results based on scientific findings and theories on social entrepreneurship. Analysis and synthesis were employed to examine problem elements in legal aspects across the Baltic States and identify regularities. Induction was used to make scientific assumptions from individual elements or facts and identify causal associations. Deduction was used for logically systemising and explaining empirical data.

Results and Discussion

Legal framework for social entrepreneurship in Latvia. No uniform definition of social entrepreneurship has been given in the European Union. Instead, Paragraph 3.1 of the Opinion of the European Economic and Social Committee on 'Social Entrepreneurship and Social Enterprise'

suggests giving characteristics of a social enterprise based on certain indications of it in accordance with Subparagraph 3.1.1 'Diverse linguistic and cultural traditions have led to differing meanings of the concepts of social enterprise' (European Economic and..., 2012). By giving characteristics of a social enterprise instead of a uniform definition, the concept of social entrepreneurship is very broad, thereby creating a similar understanding of it in all the EU Member States while also allowing each Member State to adapt the legal form and other aspects of social entrepreneurship to the particular situation.

The Constitution of the Republic of Latvia stipulates that Latvia is a socially responsible state that protects the fundamental rights and respect of individuals as stated in Section 106 – 'everyone has the right to freely choose their employment and workplace according to their abilities and qualifications'. However, Section 115 states that 'the State shall protect the right of everyone to live in a benevolent environment by providing information about environmental conditions and by promoting the preservation and improvement of the environment'. On the basis of the Constitution, it can be concluded that the mentioned sections directly pertain to the substance of social entrepreneurship, and this legal act is the most important one in the hierarchy of legal documents in Latvia (Figure 1) (Constitution of the Republic of Latvia, 1922). It has to be noted that a socially responsible state involves not only the responsibilities set by the state in the legislation but also the self-engagement of individuals in social responsibility. One of the ways how to be socially responsible is to contribute to social entrepreneurship. It has to be mentioned that 'human rights, the rights to favourable working conditions, protection against unemployment and discrimination' represent the basis of Article 23 of the UN Universal Declaration of Human Rights stipulating that 'everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection' (UN Universal Declaration of Human Rights, 1948).

Since one of key goals of social entrepreneurship is the involvement of target groups in business and employment, it is essential to refer to the UN Convention on the Rights of Persons with Disabilities. Article 27 of the Convention stipulates that in the UN member states, discrimination on the basis of disability is prohibited and persons with disabilities have the rights to work and favourable conditions of work as well as the member states have to contribute to the integration of persons with disabilities into the labour market, which is also stated in the European Social Charter (Par Pārskatīto Eiropas..., 2013). It

has to be also noted that most of the social enterprises registered in Latvia (Social Enterprise Register, 2019) employ persons with disabilities, even though the Cabinet Regulation 'Regulations regarding Population Groups at Risk of Social Exclusion and the Procedure of Granting, Registering and Controlling the Status of Social Enterprise' prescribes that the following social groups are at risk of social exclusion:

- persons with disabilities;
- persons with mental impairments;
- persons having the status of poor family (person);
- unemployed persons having dependents, unemployed persons aged 54 and older and long-term unemployed persons;
- ethnic minority – the Roma;
- imprisoned persons or those released from imprisonment;
- persons addicted to alcohol, drugs, psychotropic or toxic substances, gambling or computer games;
- persons whose place of residence is a night shelter;
- human trade victims;
- persons whom the status of refugees, an alternative status or the status of stateless persons have been granted in the Republic of Latvia;
- orphans and children without parental care aged 15 and more as well as adults up to the age of 24 who belong to this social group (Regulations regarding Population..., 2018).

The Opinion of the European Economic and Social Committee on 'Social Entrepreneurship and Social Enterprise' stresses the role of a social enterprise and the benefits it gives to the society (European Economic and..., 2012). The opinion states that social entrepreneurship is the basis for establishing a European social model, and it is strongly associated with the strategy Europe 2020 whose three priorities are as follows: developing an economy based on knowledge and innovation; promoting a more resource efficient, greener and more competitive economy; fostering a high-employment economy delivering social and territorial cohesion (Europe 2020). However, it has to be stressed that the development of social entrepreneurship is strongly associated not only with tackling human resource and employment problems but also with the other two priorities. Social entrepreneurship requires innovative solutions and knowledge management, and the founder of the social enterprise TOMS, Blake Mycoskie, could be mentioned as an example. In 2006, he established a footwear enterprise with the aim of donating a pair of footwear to those in need for every pair of shoes sold (Dubois, 2011). One of the most important areas to be considerably affected by the development of social entrepreneurship is environmental protection and environmental safety. One of the most popular social enterprises in the world, Seventh Generation, Inc., is

engaged in producing environment-friendly cleaning and personal care products, thereby contributing to reducing the ecological footprint in the world (Seventh Generation, [s.a.]).

In Latvia, social entrepreneurship is regulated by the Social Enterprise Law (2018); its purpose is to ‘facilitate improvement in the quality of life of the society and to foster employment of population groups at risk of social exclusion, creating an economic activity environment favourable to social enterprises’. The Social Enterprise Law has been in force in Latvia since April 1, 2018, and the key shortcoming of it is the focus on target groups, even though social entrepreneurship encompasses environmental and other aspects (Social Enterprise Law, 2018). The Social Enterprise Law is based on the 2014 conception ‘On Opportunities for Introducing Social Entrepreneurship in Latvia’, the action plan of which prescribes making the Social Enterprise Law (Konceptija ‘Par sociālās...’, 2014) as well as the Commercial Law (Commercial Law, 2002). Besides, the Sustainable Development Strategy of Latvia until 2030 prescribes the establishment of social enterprises and support for social entrepreneurship (Section 97) as one of the priorities of the government, while Section 157 of the strategy refers to the need for new social services and support networks stimulating social enterprises and the integration of individuals into them (Sustainable Development Strategy..., 2010). Since the Social Enterprise Law was passed as late as in 2018, the law ‘On the Enterprise Register of the Republic of Latvia’ has no section on the procedure of registering social enterprises (On the Enterprise

Register..., 1990), and the procedure is prescribed by the Cabinet Regulation ‘Regulations regarding Population Groups at Risk of Social Exclusion and the Procedure of Granting, Registering and Controlling the Status of Social Enterprise’. However, as mentioned above, the Cabinet Regulation focuses on the target groups, which is in contradiction to the opinion of the European Economic and Social Committee and the strategy Europe 2020 (Regulations regarding Population..., 2018).

In Latvia, the Social Enterprise Register is administrated by the Ministry of Welfare, and, according to the data, 43 entrepreneurs were granted the status of social enterprise (Social Enterprise Register, 2019).

The Labour Law is also applicable to social enterprises just like any other enterprises, and Section 7 of it defines the principles of equal rights and non-discrimination (Labour Law, 2002). Stressing that in Latvia, unlike in Europe and the world, social entrepreneurship is mainly associated with the integration of target groups into the labour market, the Environmental Protection Law has to be also mentioned, as its purpose is to ‘ensure the preservation and recovery of the quality of the environment, as well as the sustainable utilisation of natural resources’. Furthermore, it has to be noted that the Environmental Protection Law mainly refers to sustainable development and biodiversity preservation, which is closely associated with the priorities of Europe 2020 and the basic principles of social entrepreneurship (Environmental Protection Law, 2006).

Figures 1 and 2 show the hierarchy of legal and strategic documents in Latvia.



Figure 1. Basis for the strategic documents of social enterprises in the Republic of Latvia.

Source: authors' construction.



Figure 2. Hierarchy of legal documents on social entrepreneurship in Latvia.

Source: authors' construction.

Table 1

Characteristics of social entrepreneurship in Latvia and Lithuania

Indicator	Latvia	Lithuania
Social Enterprise Law adoption (entry into force)	2018	2004
Number of social enterprises in 2019	43	176
Key legislative shortcomings	<ul style="list-style-type: none"> • Law is general, there is a lack of detailed characteristics; • Social Enterprise Register is not transparent; • Law focuses on target groups. 	<ul style="list-style-type: none"> • Social Enterprise Law aims to contribute to the integration of target groups into the labour market; no legal framework for other aspects of social entrepreneurship; • Social Enterprise Register is available only in Lithuania.
Key kinds of tax relief	<ul style="list-style-type: none"> • Enterprise income tax relief; • Local government has the right to grant immovable property tax relief. 	<ul style="list-style-type: none"> • Salaries and state social insurance contributions are partly covered; • Subsidies for new jobs, adaptation of workplaces to persons with disabilities and purchase or adaptation of equipment for such persons and transport costs; • 15% corporate income tax rebate.

Source: authors' construction based on the Social Enterprise Law, 2018; Law on Social..., 2007.

Legal framework and support programmes for starting up a social entrepreneurship business in the Baltic States. Social entrepreneurship is developed unevenly in Europe. In the Baltic States, the legal frameworks for social entrepreneurship are at different stages of development. Even though the strategies of the EU Member States have been affected by the strategy Europe 2020, which contains important points about social entrepreneurship and how to foster it, the Social Enterprise Law has not been adopted in Estonia. In Latvia, the law became effective in 2018, while in Lithuania, which was one

of the first countries to adopt the law, it has been in force since 2004 (Law on Social..., 2007). Since the Social Enterprise Law has been adopted only in Latvia and Lithuania, Table 1 gives the legal characteristics of social entrepreneurship in Latvia and Lithuania.

It has to be mentioned that in the Sustainable Development Strategy of Latvia until 2030 and the National Progress Strategy 'Lithuania 2030', innovations in entrepreneurship and the promotion of development of social enterprises is one of the priorities (Lithuania 2030, 2010). According to the Social Enterprise Register of Lithuania, the last

Table 2

Support programmes for promoting social entrepreneurship in the Baltic States

Country	Support programme	Kind of support	Form of support	Shortcomings
Latvia	International social entrepreneurship development programme 'New Door'	Training programme	Support for mentors, start-ups, consultations on social entrepreneurship, forums, experience exchange programmes	Support only for social start-ups working with the target groups
	Shop chain 'Otrā Elpa' scholarship programme	Financial support for social projects	Profits are allocated for implementing social ideas; in a 9-year period, EUR 115 thou. were invested to co-fund social projects	No information is available on the website on the procedure of applying for projects supported and the way they are carried out
	Foundation for an open society 'DOTS'	Popularisation of the idea of social entrepreneurship among the public	Social entrepreneurs have an opportunity to participate in the foundation's events, share their experience and get advice	No uniform criteria for engagement in the foundation and getting support are defined
	Programme 'Reach for Change'	Business incubator	Development of business ideas of social entrepreneurs, training, financial support and establishment of contacts	Range of project activities is limited – social entrepreneurs have to develop their ideas related to children life enhancement

Table 2 Continued

Estonia	European Social Fund	Financial support	Within the Europe 2020 strategy, support is provided to social entrepreneurs in European countries to the extent of 50 – 95% of the project budget	Support only for projects in which the target groups are involved
	National Foundation of Civil Society	Financial support for NGOs	Financial support up to EUR 2000 for projects related to the integration of target groups into society and creation of new jobs	Support for particular projects with a certain goal rather than for social entrepreneurship
	Estonian Civil Society Development Conception	Social entrepreneurship support measures	Strategy designed by the Estonian Ministry of the Interior is based on civic society development measures and the integration of target groups into society	No particular measures or target audience are defined, just a strategy
	Good Deed Foundation	Financial support for social entrepreneurship ideas	Total support EUR 500 000 (3 years) for 4 – 6 projects aimed at tackling social problems; support for 10 – 15 initiatives in the amount of EUR 1 million aimed at education of the target groups	No criteria to be met by an organisation or enterprise to participate in a competition are defined
Lithuania	Kazimieras Simonavičius University	Education services in the area of social entrepreneurship	Courses in social entrepreneurship and innovation under the Bachelor programme Business and Management	No information on whether the courses in social entrepreneurship could be taken as a listener
	National Social Integration Institute	Support for the integration of target groups into society and the working environment	Support for social innovation projects, maintenance of contacts with target group representatives and establishment of contacts between the target group representatives and entrepreneurs	No information on the website about the projects implemented and an opportunity to take part in the programme
	Association of Social Enterprises for the Disabled	Assistance for the disabled to get integrated into the labour market	Project management and organisation of activities, assistance in finding jobs for persons with disabilities, education for entrepreneurs	Website is active, yet the last time the news was updated was in 2015; therefore, it is impossible to find out whether the initiative is active and if there is an opportunity to take part in the projects
	NGO ‘Socialinis verslas’	Source of information on the latest developments in social entrepreneurship	Organisation of an annual summit on social entrepreneurship, assistance in finding contacts and establishing cooperation between social entrepreneurs and business supporters	Website provides general information; no information about particular projects or success stories

Source: authors’ construction.

social enterprise was registered on June 1, 2018, and their total number was 176 (Lithuanian Labour Exchange, [s.a.]). Just like the Social Enterprise Law of Latvia, the Social Enterprise Law of Lithuania focuses on the integration of target groups into the labour market, disregarding the other aspects of social entrepreneurship, e.g. environmental protection (Law on Social..., 2007).

It is important to note that even though Estonia lacks legal acts on social entrepreneurship, the number of social enterprises increased fast owing to the Strategy of Estonia 2030, as well as the Estonian Social Enterprise Network, the strategy of which encompasses social entrepreneurship promotion measures until 2020, which was established (Estonian Social Enterprise, [s.a.]).

Both in Latvia and Lithuania, various support programmes for social entrepreneurship are available (Table 2).

After examining the support programmes for social entrepreneurship, one can conclude that the key shortcoming is the fact that the support is given to the initiatives that engage human resources – the target groups – in projects. Out of all the organisations examined, only Good Deed Foundation in Estonia noted on its website that the projects and initiatives submitted could relate to environmental problems. However, the Latvian enterprise ‘Otrā elpa’ is a good example of how not only to develop social entrepreneurship and contribute to charity but also to support other entrepreneurs, thereby making feedback. An analysis of Lithuanian experience in social entrepreneurship

revealed that Kazimieras Simonavičius University provides considerable support to social entrepreneurs through educating them, giving them an opportunity to take courses, develop innovations and popularise social entrepreneurship.

Conclusions

1. The key challenge to the legal framework for social entrepreneurship is that each Baltic State interprets the criteria set in the Opinion of the European Economic and Social Committee on 'Social Entrepreneurship and Social Enterprise' differently, which leads to the lack of a single concept, as there is no single definition and clear criteria.
2. In Latvia and Lithuania, the Social Enterprise Laws focus on the target groups, yet social

entrepreneurship is associated with also other factors – education and environmental protection, yet the laws do not refer to the factors, which creates an impression that social entrepreneurship pertains only to human resources.

3. In Latvia, the Social Enterprise Law entered into force as late as 2018, and its support for social entrepreneurs is considerably smaller than that available in Lithuania where social entrepreneurship has been developing since 2004.
4. In Estonia, the social entrepreneurship movement expands fast, yet there is no single law regulating social entrepreneurship. For this reason, entrepreneurs themselves interpret the concept of social entrepreneurship in Estonia, which means that those claiming to be social entrepreneurs might not be such entrepreneurs.

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