

SOCIAL ENTERPRISE PROFILE IN THE LATVIA REGIONS

Dana Gintere¹, PhD Student;  Lasma Licite-Kurbe², Associate Professor

^{1, 2} Latvia University of Life Sciences and Technologies

Abstract. As social entrepreneurs address various socio-economic problems in society, there has also been an increased interest in how social enterprises can support specific regions. In Latvia, social enterprises have been operating for a long time, but only recently the Social Enterprise Law was adopted, which regulates the tasks of social entrepreneurship and the support possibilities. This study highlights the level of entrepreneurship activity in the country as a whole (the number of enterprises and the number of newly established enterprises) and within individual statistical regions in the period from 2018 till 2020, analysing the structure of enterprises and indicators representative of entrepreneurship in Latvia and its regions: the dynamics of the number of enterprises per 100 000 inhabitants. The following hypothesis was made: Social entrepreneurship in the regions of Latvia has a disproportionate impact on socio-economic problems. It was found that social enterprises operate twice as much in Riga region as in any other region of Latvia, which has the lowest poverty index. However, the highest poverty index is found in Latgale region, where proportionally the lowest number of social enterprises operates. Social entrepreneurship can be a successful tool for addressing socio-economic problems in the regions and for regional development. For this development to take place, it would be necessary to develop instruments to support social entrepreneurship with the aim of improving the well-being of all regions, not only the region where the social enterprise operates.

Key words: social entrepreneurship, social enterprise, poverty, regions.

JEL code: L31

Introduction

The concept of social entrepreneurship as a business model is quite new. The first traits of social entrepreneurship can be seen in the 18th century in philanthropic and religious movements, but the manifestations of modern social entrepreneurship began in the 20th century. In the 1990s, social entrepreneurship gained relevance in other fields scientific research, public policy, education and the commercial sector. The founder of social entrepreneurship is considered to be M. Yunus (Yunus M., 2003, 2007, 2010). He defined seven principles of social entrepreneurship which form the basis for the definition of social entrepreneurship (Hoogendoorn B. et al., 2010). The activity of social entrepreneurship is determined by the growing socio-economic problems that the government alone cannot solve, but in the non-governmental sector, competition for funding is increasing (Dobele L., 2013). C. Beugre (2016) points out that social entrepreneurship activities are taking place in developed places such as Africa, Asia, Middle East and Latin America. In these parts of the world, social entrepreneurship develops under the influence of various factors – historical colonisation, cultural and social values, ethnicity and religion, and government support or lack of support (Beugre C., 2016). Each region has its own reason for the development of social entrepreneurship, based on existing social problems.

In Europe, the model of social entrepreneurship has developed faster according to a statement of the Commission European Commission: 'Social Business Initiative – creating a favourable climate for social enterprises, key players in the social economy and innovation'. After that, the concept of social entrepreneurship appeared also in Latvia. It was included in the strategic planning documents – 'Sustainable Development Strategy of Latvia until 2030' and 'The National Development Plan of Latvia 2014-2020', where it is defined as one of the 98 ways to implement the activity 'decent work' (Dobele L., 2013). The development of social entrepreneurship has continued through various initiatives and in 2018 the Social Enterprise Law was adopted, which regulates social entrepreneurship in Latvia. 'The National

¹Latvia University of Life Sciences and Technologies, Latvia, dana.gintere@gmail.com
²Latvia University of Life Sciences and Technologies, Latvia, lasma.licite@llu.lv

Development Plan of Latvia 2021-2027' social entrepreneurship is defined separately as a tool for action in the direction of work and income, and support for the development of social entrepreneurship is planned.

The European Commission has defined social enterprises as business model that combines entrepreneurial activity with a social purpose. Its main objective is to achieve a social impact rather than maximising profit for owners or shareholders. Enterprises providing social services and/or goods and services to vulnerable people are a typical example of social enterprises.

The number of publications on social entrepreneurship is growing, they currently deal with national situations to promote social entrepreneurship and with existing social entrepreneurs. In Latvia, social entrepreneurship has been researched by a number of scholars, including L. Dobele (2013), S. Kumaceva (2018), L. Perkune and L. Licite (2019), D. Gintere (2020). Recent research in Latvia's context are about role of social entrepreneurship in environmental context and analysis of specific companies. The research objective is to analyse the scope of social entrepreneurial activity in Latvia and its regions. The following hypothesis was made: Social entrepreneurship in the regions of Latvia has a disproportionate impact on socio-economic problems. In order to achieve the goal, the following specific research tasks are set 1) analyse social enterprise support instruments in Latvia 2) analysis of the number of social enterprises in Latvia in general and in its regions in 2018–2020; 3) analysis of the poverty and social exclusion in regions.

The following methods were used: monographic, graphic, logically constructive, analysis and synthesis, deduction and induction, analysis of documents, grouping of information, structuring and time series analysis. The information was analysed according to the NUTS III classification applied by the Central Statistical Bureau (CSB), which divides Latvia into 6 statistical areas: Riga, Pieriga, Vidzeme, Zemgale, Kurzeme, Latgale. In the framework of the study, the data from the classification of the Ministry of Welfare (MoW) was analysed. Other aspects and characteristics about social entrepreneurship were taken from the data of NGO 'Social Entrepreneurship Association of Latvia' (SEAL). SEAL is a membership organisation promoting the development of social entrepreneurship in Latvia.

Research results and discussion

In Latvia, there are various forms of enterprises that exist. The statistical data characterize them as statistical units of the trade sector. Outside the trade sector there are such statistical units as various foundations, institutions and societies, government bodies and local government bodies (CSB, 2021). Social entrepreneurship is one of the statistical units of the trade sector.

Although the first social enterprises in the world appeared before the Second World War, enterprises that consciously called themselves social enterprises and were ready to work according to the principles of social entrepreneurship appeared in the public space of Latvia only about 10 years ago (Social Entrepreneurship ..., 2020). According to the report of European Commission on the promotion and development of social entrepreneurship as a form of business to solve social problems, Latvia was also involved in the mediation of social entrepreneurship. The first data on social entrepreneurship activities in Latvia are summarized in the Latvian report 'Global Entrepreneurship Monitor' (GEM) from 2009, according to which social entrepreneurship activities in the country are set at 1.9 %, while the average for 49 GEM countries is 1.94 % (Feifa I. et al., 2014). The indicators used to determine the GEM activity were – entrepreneurial activity in the initial stage and the reasons for starting. In addition to the Social Enterprise Law and the Cabinet of Ministers regulations, the social enterprises have other ways of obtaining specific support from the state, local governments and individuals to regulate the amount of this support, and there are also limitations.

The factors of benefits and limitations were evaluated numerically, where 1 – the greatest benefit of social entrepreneurship, but 6 – the least benefit, and for constraints the numerical evaluation is 1 – the greatest constraint and 6 – the least constraint. The significance was evaluated based on the author's experience and participation in the information session on social entrepreneurship. According to the author's, the most significant benefit, rated 1, in doing business is the financial support (grant) from the joint stock company 'Development Financial Institution Altum' program 'Support for Social Entrepreneurship' where social entrepreneurs have relief in support, and this support program is aimed at the development of social enterprises. The least significant benefit, rated 6, are various other government and community business support instruments, such as Investment and Development Agency of Latvia (LIAA) business incubator support, government loan programs, business grant tenders, etc., this is less significant because traditional commercial enterprises also have such an opportunity provided and therefore benefits all enterprises.

Table 1

Evaluation of social enterprise benefits and limitations

Benefits	Significance	Limitations	Significance
Incentives (reduction in corporate tax base) for certain categories of non-business expenses.	2	To make dividend payments or disbursements on reduction of share capital, and other cash disbursements or distribution of assets among shareholders, to the extent permitted by the Commercial Law (in Latvia - Commercial Law, 2002).	2
The municipality is authorized to grant property tax relief to the social enterprise.	3	Conduct systematic transactions in securities or real estate, other than renting or leasing premises.	5
A public person may gratuitous transfer movable property to the ownership of a social enterprise.	4		
A social enterprise has the right to involve volunteers in activities that are not related to the administration and accounting of the enterprise and the basic functions of the enterprise.	5	Engage in activities such as the manufacture and sale of explosives, weapons and ammunition, the manufacture of alcoholic beverages (except small distilleries), the manufacture and sale of tobacco products, gambling and betting, financial and insurance activities, or areas that pose a threat to public safety and health.	6
Financial support (grant) of the program 'Support for Social Entrepreneurship' of the joint stock company 'Development Financial Institution Altum'.	1		
Other state and local business support instruments, such as LIAA support for business incubators, state loan programs, business grant solicitations, etc.	6	The granting of loans, with the exception of loans to target groups, if provided for in the articles of association of a social enterprise.	4
Preferred contract options in public procurement.	5	The property and financial resources of a social enterprise may only be used for the purposes specified in the articles of association.	1
		The social enterprise builds up a reserve capital in which the entire profit of the reporting year is included.	3

Source: Created by the author's using SEAL, 2020; Social Enterprise Law, 2018

The greatest restriction in social entrepreneurship, rated 1, according to the author's, is the use of the property and financial resources of the social enterprise only for the purposes specified in the statutes, because the moment the enterprise wants to expand its activities and target group, this is not possible,

and as a result the possibility of helping a larger social risk group is denied, the way to reduce this restriction is to include in the statutes the largest possible target group that the enterprise intends to help. The least restrictive, with a score of 6, is activity in areas such as the manufacture and sale of explosives, arms and ammunition, the manufacture of alcoholic beverages (excluding small distilleries), the manufacture and sale of tobacco products, gambling and betting, financial and insurance activities, or threats to public safety and health, since social enterprises aim to improve the existing social environment, not make it worse.

To compare a social enterprise with a commercial enterprise, both have support from the joint-stock company 'Development Finance Institution Altum' and state and municipal business support instruments – LIAA business incubator support, government loan programs, business grant tenders, etc., the difference is that the social enterprise receives additional business support already provided. But compared to the traditional business type, the social entrepreneur and social entrepreneurship have stricter restrictions, and the violation of any of the restrictions has the possibility of losing the status of a social enterprise.

In MoW 'Social enterprise register' are only social enterprises, which have the status of social entrepreneurship. But SEAL includes various associations and organizations that carry out the model of social entrepreneurship, but have not decided to obtain the status of social enterprises. These organizations will not obtain the status of a social enterprises because they would then lose the status of a non-profit organization. The status of a non-profit organization is advantageous in order to receive donations in addition to doing business. The register of social enterprises collects information on limited liability companies that have had their social enterprise status withdrawn or revoked. The register contains data on associations, foundations and limited liability companies – participants in the measure, which have been granted financial support under this measure.

The data of the 'Social enterprise register' indicate that in 2018 with the implementation of the Social Entrepreneurship Law the total number of social enterprises granted social entrepreneurship status are 26. In the next year 2019 the number of social enterprises increased by 60, in 2020 the increase of social enterprises is 69 and already at the beginning of 2021, 9 companies have been granted the status of a social enterprise. In 2021 compared to 2018, the number of social enterprises has increased by 6.3 times or 138 social enterprises. Social entrepreneurship in Latvia has different types of support models from the EU, the government and local municipality, however, social enterprises have many requirements so that the company does not lose the status. From 164 social enterprises, the active status has 149 social enterprises and 15 companies have the inactive status of a social enterprise. For 10 inactive companies, the status of a social enterprises has been cancelled, but for five the social enterprises status been taken away.

Table 2

Statistics on social enterprises and their changes in 2018-2021 (number of social enterprises)

Indices	2018	2019	2020	2021 (January)
Total	26	86	155	164
Active social enterprises	21	71	139	149
Inactive social enterprises	6	15	15	15
Changes in active social enterprises compared to each previous year	+26	+60	+69	+9

Source: authors' calculations based on data from Ministry of Welfare 'Social enterprise register', 2021

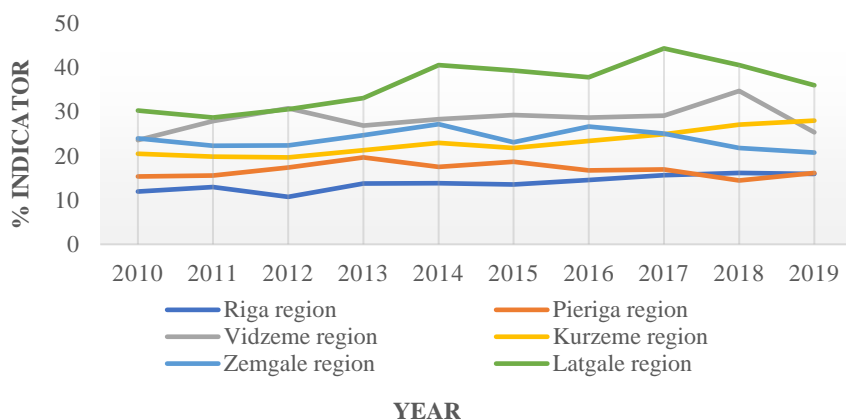
In the Baltic States, the legal frameworks for social entrepreneurship are at different stages of development. According to the latest data in 2019 there was about 100 social enterprises, and over 200 social businesses in Lithuania (Rusteikiene A., Pucetaite R., 2020), but in Estonia there are about 300 social enterprises. 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 (Social Enterprise Law..., 2007) (Perkune L., Licite L., 2019).

Government and municipalities face the social problems of the population in the most direct way on a daily basis and are responsible for the performance and provision of various social tasks and functions in their territories. According to the law 'On Local Governments' the local government of each territory takes care of the social situation of the population. Law stipulates that one of the functions of a local government is to provide social assistance to the population. Social assistance and social services are part of the social security system, which provides assistance to members of society in difficulty. Local governments are the ones that can help develop social entrepreneurship. The goals of both local governments and social enterprises are related to solving social problems and creating social added value, but government and municipalities are unable to handle with all the socio-economic problems in the area. It is definitely in the interests of local governments to ensure the best possible living conditions for the inhabitants of their territories, and to do so as best and efficiently as possible, spending as little taxpayers' money as possible. It is in the interests of social enterprises, to create and market products and services that achieve certain social goals, and to do so through entrepreneurship.

Each region of Latvia has its own social problems. One of the most significant social problems is still being poor. According to Cabinet Regulation No. 809: 'Regulations regarding the Assessment of the Material Situation of a Household and the Receipt of Social Assistance' a person with an income level of 272 euro for three consecutive months is recognized as a poor person.

Latvia's objective under the Europe 2020 Strategy differed from the general EU objective of reducing poverty and social exclusion. Latvia's target was to reduce the number of people living in households at risk of poverty and in households with very low incomes. Reducing the population exposed to deep material deprivation, on the other hand, was not defined as a target. The target set out in the Latvian National Reform Program (NRP) was to reduce the number of people at risk of poverty and/or living in very low income households to 21 % of the total population by 2020. By 2013, there was steady progress towards this target, and in 2011 and 2012 it was almost achieved. However, as income inequality increased, the proportion of the population at risk of poverty increased between 2013 and 2017. This was due to a faster increase in income from paid work than an increase in social transfers (especially old-age pensions). However, from 2017 onwards, the role of social transfers in reducing the risk of poverty increased again, and in 2019 the proportion of people at risk of poverty or living in households with very low work intensity reached 433 thousand or 23 % of the population (CSB, 2021). According to the CSB, these data are the most recent available. Given the changes affected by the COVID-19 2020 pandemic, this number is increasing and more and more people are at risk of poverty and social exclusion.

The highest poverty risk index is found in Latgale region (Fig. 1), where an increase of 5.7 percentage points is observed when comparing the base year 2010 with 2019. This indicator has also increased by 7.5 percentage points in Kurzeme region, 1.8 percentage points in Vidzeme region and 0.8 percentage points in Pieriga region. The only region where the at-risk-of-poverty rate has decreased is Zemgale, with a decrease of 3.2 percentage points.



Source: CBS data, 2021

Fig. 1. Poverty risk index in the regions of Latvia 2010-2019 (%)

According to the 'Social enterprise register', 149 social enterprises are actively operating in Latvia as of January 2021. More than half of the total number of active social enterprises operate in Riga region. Eighteen per cent social enterprises operate in Pieriga region, and 11% social enterprises in Kurzeme region. Less than 10 % of the total number of active social enterprises operate in Zemgale region (7 %), Vidzeme region (6 %) and Latgale region (5 %).

Table 2

Statistics on social enterprises by region in 2020

Statistical region of Latvia	Number of active social enterprises	Proportion of active social enterprises in the region from the total social enterprises, %	Number of social enterprises per 100 000 population
Riga region	79	53	13
Pieriga region	27	18	7
Vidzeme region	9	6	5
Kurzeme region	17	11	7
Zemgale region	10	7	4
Latgale region	7	5	3

Source: authors' calculations based on data from Ministry of Welfare 'Social enterprise register' and CBS data, 2021

Out of the 149 active social enterprises, 38 are operating as social enterprises in work integrations, employing one of the target groups of social entrepreneurship defined in the Social Enterprise Law. And the other 111 social enterprises are active in other areas, such as non-formal education, funeral services, various unskilled products and services (Social Enterprise Register , 2021).

An in-depth look at social entrepreneurship in the regions concludes that in a region with the highest risk of poverty and social exclusion there are only three social enterprises per 100 000 inhabitants. And in Riga region, where the risk of poverty and social exclusion is lowest, there are 13 social enterprises per 100 000 inhabitants. There are more social enterprises operating in Riga region because there are also more customers for potential services and goods. In Pieriga region and in Kurzeme region, there are seven social enterprises per 100 000 inhabitants. In Vidzeme region, there are five social enterprises operating per 100 000 inhabitants and in Zemgale there are four social enterprises. It is important that the government plans how to support social entrepreneurship so that their activities spread to regions where there is a higher risk of poverty and social exclusion than in Riga region.

In Riga and Pieriga regions, the at-risk-of-poverty rate is on average twice as high as in other statistical regions of Latvia. At the same time, the number of social enterprises per 100 000 inhabitants is twice as high in Riga region. It is concluded that the environment where there is a risk of rural poverty is more fertile for social entrepreneurship. This fertility interacts with the fact that a particular region has a larger population that can afford to buy a particular product or service, that the competition for a particular product or service is lower than in a region with a smaller population, and that the good example already exists that the environment is fertile for social entrepreneurship.

The Social Enterprise Law allows local governments to create and implement their own local support instruments – to reduce real estate tax, to allow social enterprises to use municipal property free of charge, to create special financial support schemes for social enterprises or privileged public procurement procedures (Lis A. et al., 2017). This support mechanism focuses only on a specific region and not on a region at higher risk of poverty and social exclusion. The business model of social entrepreneurship and the target group or the targeted support do not have to be in the same region. A company can do social entrepreneurship in one region and raise funds to support a region with a higher risk index for poverty and social exclusion. Such a variant would promote the development of different regions of Latvia. However, there is a problem with the possibilities of local and regional authorities to support social enterprises. Municipalities are not interested in supporting a social enterprise that would solve other socio-economic problems of the municipality or region. However, which social enterprises choose Riga region and support all Latvian initiatives that solve some kind of socio-economic problems in their region, municipality. This is an opportunity for companies that do not rely on municipal funding instruments. One such social enterprise is 'Second Breth'. The company 'Second Breth' operates mainly in Riga region and Liepaja municipality. But the projects that are financially supported and co-financed by the social enterprise come from different municipalities and different sizes, for example Liepaja, Grobina, Cesis, Saldus, Aluksne, Marupe, as well as Riga (OtraElpa, Gintere D., 2020). By developing social enterprise support programs with the aim of solving the socio-economic problems of each municipality, social entrepreneurship can be developed as a tool for regional development.

Conclusions

- 1) Social entrepreneurship in Latvia has developed rapidly since 2018 and the number of social enterprises has increased six times during this period. The largest concentration of social enterprises is in Riga region, which is twice as high as in other regions of Latvia, and the smallest number of social enterprises is in Latgale region.
- 2) The development of social enterprises is also related to the support instruments of the state and the respective municipality. While support instruments focus on a particular community, social enterprises have no interest in solving the socio-economic problems of another region. As a result, in a region with the highest risk of poverty and social exclusion – Latgale region – there are only three social enterprises per 100 000 inhabitants.
- 3) Latvia has a high poverty risk index, which can be addressed through the social entrepreneurship model to promote the growth and development of regions. In order to understand what kind of support system social entrepreneurs need to promote regional development, it is necessary to further study the business opportunities of the regions, the main socio-economic problems of the regions and the example of other countries, how social entrepreneurship is one of the support tools for regional development.

Bibliography

1. Beugre, C. (2017) *Social Entrepreneurship: Managing the Creation of Social Value*. New York: Routledge, Kindle Edition. p. 315.
2. Central Statistical Bureau of Latvia (2021) Risk of Poverty and Social Exclusion in Latvia EU-SILC survey results 2020. Retrieved: <https://www.csb.gov.lv/en/statistics/statistics-by-theme/social-conditions/poverty/search-in-theme/433-people-risk-poverty-and-social-exclusion> Access: 10.02.2021.
3. Dobele, L. (2013). *Social Entrepreneurship Development Possibilities in Latvia*. Summary of the Doctoral thesis for the scientific degree of Dr.oec. Latvia University of Life Sciences and Technologies, Jelgava, Latvia.
4. *Commercial law*. (2002). Retrieved: <https://likumi.lv/ta/en/en/id/5490> Access: 19.02.2021.
5. European Economic and Social Committee. (2012). *Social Entrepreneurship and Social Enterprise* (exploratory opinion). Official Journal of the European Union. Retrieved: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1551685692245&uri=CELEX%3A52011AE1584> Access: 09.03.2021.
6. Feifa, I., Morica, I., Lesinska, A. (2014). *A Map of Social Enterprises and Their Eco-Systems in Europe: Country Report: Latvia*.
7. Fici, A. (2006). *The new Italian Law on Social Enterprise*. Retrieved: <http://www.oecd.org/cfe/leed/37508649.pdf>. Access: 19.02.2021.
8. Gintere, D. (2020) Magistra darbs: „*Socialo uzņemumu ietekmes izvērtējums Latvija (Master's Thesis: 'Impact Assessment of Social Enterprises in Latvia')*” Latvia University of Life Sciences and Technologies, Jelgava, Latvia.
9. Hoogendoorn, B., Pennings, H.P.G., &Thurik, R. (2010). *What Do We Know About Social Entrepreneurship: An Analysis of Empirical Research*. Retrieved: https://www.researchgate.net/publication/46433899_What_Do_We_Know_About_Social_Entrepreneurship_An_Analysis_of_Empirical_Research Access: 01.03.2021.
10. Kumaceva, S. (2018) Magistra darbs: „*Biedrības 'Tuvu' sociālas ietekmes novērtējums' (Master's thesis: 'Social Impact Assessment of the Association' Tuvu)*”. Latvia University of Life Sciences and Technologies, Jelgava, Latvia.
11. Lis, A., Wallberg, N., Nordstrom, T., Suvajevs, A., &Ulande, M. (2017). *Sociālie uzņēmumi un pasvaldības: Sadarbība, partnerība un sinerģija (Social Enterprises and Municipalities: Cooperation, Partnership and Synergy)*. Nordic Council of Ministers. (in Latvian).
12. *Ministry of Welfare 'Social enterprise register'* (2021).
13. *On Local Governments law*. (1994). Retrieved: <https://likumi.lv/ta/en/en/id/57255-on-local-governments> Access: 19.02.2021.
14. Perkune, L., &Licite, L. (2019). *Legal Aspects and Support Instruments for Social Entrepreneurship in The Baltic States*. Research For Rural Development, 2.
15. Rusteikienė, A., Pucėtaitė, R. (2020). *Social Enterprises in Estonia, Finland and Lithuania: Case Studies and Teaching Resources*. Vilnius. Nordplus. pp. 78. Retrieved: <https://gerinorai.lt/files/smart-development.pdf> Access: 26.02.2021.
16. Social Entrepreneurship Association of Latvia (2020) *Social Entrepreneurship: How to Create Positive Change?* Retrieved: https://sua.lv/wp-content/uploads/2019/04/LSUA_report_2-ENG.pdf Access: 25.02.2021.
17. *Social Enterprise Law*. (2018). Retrieved: <https://likumi.lv/ta/en/en/id/294484-social-enterprise-law> Access: 19.02.2021.
18. *Social Enterprise Register*. (2021). Retrieved: <https://www.lm.gov.lv/lv/socialo-uznemumu-registrs> Access: 19.02.2021.
19. *Sustainable Development Strategy of Latvia until 2030*. Retrieved: <http://polsis.mk.gov.lv/documents/3323> Access: 09.03.2021.
20. Yunus, M. (2003) *Banker to the Poor: Micro-Lending and the Battle against World Poverty*. New York: Public Affairs. 273 p. Retrieved: https://www.economist.com/media/globalexecutive/banker_to_the_poor_yunus_e.pdf Access: 24.02.2021.
21. Yunus, M. (2010) *Building Social Business: The New Kind of Capitalism that Serves Humanity's Most Pressing Needs*. New York, USA: Public Affairs. 207.p. Retrieved: <https://sun-connect-news.org/fileadmin/DATEIEN/Dateien/New/BUILDING-SOCIAL-BUSINESS-MUHAMMAD-YUNUS.pdf> Access: 19.02.2021.
22. Yunus, M. (2007) *Social business*. Retrieved: <http://www.muhammadyunus.org/index.php/social-business/social-business> Access: 19.02.2021.