



Social entrepreneurship in Latvia: a brief overview of the current situation

ECOSYSTEM MAPPING



Social Entrepreneurship Association of Latvia, 2018

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Table of contents:

1. Introduction/executive summary	3
2. Social entrepreneurship - an overview	6
3. Social enterprise in Latvia - case studies	10
4. Legal and policy framework	13
5. Main stakeholders and actors	17
6. Access to finance: financial support instruments, development finance, social impact investment	26
7. Non - financial support and development instruments	35



1. Introduction/executive summary

Social entrepreneurship, an effective tool for solving social problems, is a rapidly growing sector both in Europe and across the world. Even though it is still a relatively new concept in Latvia, each year there are more and more social enterprises tackling a multitude of social problems and challenges and offering a diverse range of solutions. Social enterprises, as an interdisciplinary type of entrepreneurship, often face obstacles and challenges that conventional businesses and civil society organizations have already overcome: lack of legal framework, complicated business models, enterprise identity issues, lack of awareness among the general public, lack of visibility, difficulty in accessing investment markets. These challenges cannot be solved quickly. They require not only social enterprises themselves to come up with wise and effective solutions, but also a strong and functioning social entrepreneurship ecosystem that can respond with partnership-based, integrated long-term solutions.

This publication briefly covers various aspects of the current social entrepreneurship ecosystem in Latvia, describing main stakeholders, policies, financial and non-financial support instruments, as well as giving an insight in the main challenges and opportunities social enterprises and other ecosystem participants face when working towards building stronger and more successful social enterprises and more resilient and diverse overall ecosystem.

Social entrepreneurship and social enterprises in Latvia deal with the production of goods or services in order to solve a social problem or to create benefit for the public, rather than maximizing profits for business owners. Since the April 2018, social entrepreneurship is regulated by the *Social Enterprise Law*, and a social enterprise is legally defined as a limited liability company (Ltd). Since the law has come in force quite recently, many social enterprises still operate as associations and foundations, and it is estimated that in Latvia there are up to 200 legal entities that could be considered *de facto* social enterprises, yet a precise number is unknown.

According to the historical development of social entrepreneurship in Latvia and the new *Social Enterprise Law*, a social enterprise can have a diverse range of social goals. Even though there is still a stereotype in the society that the main social goal of a social enterprise is work integration, in reality the social mission of a social enterprise can go much further and wider than that. Most social enterprises are relatively new, having been established only within the last 2 to 5 years, and usually do not employ more than 10 people. Most of the social enterprises are located in the capital city Riga, but thanks to different social programmes supporting regional development and new entrepreneurs, more and more people are starting their own social enterprise initiatives in other cities and rural areas of Latvia.

Most problems and challenges for the social enterprises regarding their growth and development have to do with lack of business skills and knowledge, as well as high dependence on grants and other 'support' measures. Many social enterprises still think and act like NGOs and charities instead of businesses which have to be able to create their income flow through sales. Also, the awareness among wider society about the work and potential of social enterprises is still low therefore it is difficult for social enterprises to compete in the open market.

Legal and policy framework has improved significantly over the past years – the concept of social enterprise has been integrated into various strategic policy documents, and the *Social Enterprise Law* came into force in 2018. The Law stipulates that a social enterprise is a limited liability company with a special social enterprise status. In order to obtain this status, a company must fulfil five criteria.



The law also provides a set of benefits for social enterprises if they comply with the rules and regulations stated in the law. Within the law, there is a particular emphasis on work integration of individuals at risk of social exclusion as one of the social goals and activities implemented by social enterprises. However, social enterprises may also have other social goals in areas not related to work integration, e.g., education, environmental protection, cultural diversity, social and health care, civil society. The Ministry of Welfare is responsible for implementing the Law and publishing the social enterprise registry on its website.

Even though the *Social Enterprise Law* has been well received and accepted by the social enterprise community in Latvia, there are different opinions and views on how effective it will be in the long run. In-depth research and evaluation of the new Law will be possible starting from 2019, but already now there are several issues and challenges to think about – such as more detailed and precise criteria for receiving the social enterprise status, tax benefits and reliefs, and how effective they are and could be, as well as the financial and impact reports social enterprises must submit according to the law. Also, a long-term social entrepreneurship development policy is needed in order to promote the sector further.

The main stakeholders and key actors in the social entrepreneurship ecosystem of Latvia are social enterprises, state and municipality organizations, Social Entrepreneurship Association of Latvia, different incubators and accelerators, formal and non-formal education and support institutions, social impact investors and intermediaries, as well as conventional enterprises. The main state institution responsible for the social entrepreneurship sector of Latvia is the Ministry of Welfare.

The cooperation among all major ecosystem players has improved over the past three years, but is not perfect yet. There is a big potential in working together towards establishing an even better environment for social enterprises, creating systematic, regular, cross-sector partnerships and new, innovative approaches for strengthening different social entrepreneurship aspects. Many state and municipality institutions are either not yet familiar with the social entrepreneurship concept, or do not yet consider social enterprises being important-enough players. The disbelief and scepticism towards the economic and social potential of social enterprises is still quite common, and much time and effort is and will be needed to convince all level government and municipality stakeholders and decision makers that social enterprises are worth their attention and resources.

Access to finance and the use of financial support instruments, development finance and social impact investment are important topics for social enterprises in Latvia, as well as the basis for constant and heated discussions. According to the *Social Enterprise Law*, social enterprises may automatically use specific support mechanisms – involvement of volunteers, certain tax reductions, and access to EU funds. Furthermore, the new Law enables municipalities to create and implement their own local support instruments – reduced real estate tax, permission for social enterprises to use municipality property for free, special financial support schemes and privileged public procurement procedures for social enterprises. Additionally, limited liability companies that have social enterprise status can use the same support measures that are available to conventional enterprises, for example, assistance programmes of the state public company 'Development financial Institution ALTUM' both for young and experienced businessmen, as well as for participation in business incubators.

A particularly important financial instrument for the period until 2022 is the European Social Fund's project 'Support for social entrepreneurship' implemented by the Ministry of Welfare in cooperation with the Development financial institution ALTUM. This is the first and only social-enterprise specific program in Latvia, offering financial grants for starting or developing social enterprises.



The size of a grant for a business project ranges from 5,000 to 200,000 EUR, and it can be received for both the establishment of a social enterprise and its expansion. An important prerequisite is the economic viability of the business idea, providing an essential social impact in the long-term.

Main problems and challenges regarding the access to finance are related with the fact that most social enterprises are ready only for investments in the form of a donation or grant. Only a few are ready for a loan or equity investments – mainly because of fear to lose independence but also because of financial risks involved in case the business is not successful and they are not able to ensure the return of investment. Social impact investment market for social enterprises is still in the very early development stages – both supply and demand side of social impact investment are not ready yet to make serious commitment, and there are too few efficient intermediaries to ensure the promotion of this sector. More awareness raising, joint events, communication activities and pilot projects are needed in order to see effective and fruitful social impact investment happening.

Additionally, social enterprises as a form of a 'real' business are not very well known and recognized yet. Potential investors see them more as charity organizations or hobby businesses, rather than real, successful, profitable businesses worth investing in. More success stories about financially successful social enterprises are needed in order to convince potential investors to create investment partnerships with social enterprises.

Non-financial support and development instruments are also of great importance for the social enterprise community – mainly because in many cases, especially for very young social enterprises, non-financial support can be more effective and helpful than financial assistance or investments. There are several organisations and institutions aimed at supporting particularly social enterprises, offering training and mentoring programs, providing consultations and different types of skill, knowledge and expertise support. Other non-financial support instruments mentioned here are more general, aimed at both social and conventional businesses, but social enterprises are encouraged to use the services in order to strengthen their business skills.

Yet, existing non-financial support instruments for social enterprises are not systematic and regular and are implemented either too seldom, or do not have the capacity to meet the demand for their services. Most of these non-financial support instruments are aimed at very early-stage social enterprises, which leaves more developed social enterprises without any skill and knowledge support at all. Since social enterprises are so diverse, with different problems, situations and challenges, there is a need for an individual and tailored approach. Individual consultations and mentoring would help not only give the needed skills, knowledge and expertise to each social enterprise, but also to increase their motivation and commitment to their business, especially in times when the work gets difficult and complicated.

The publication is accompanied by a visual map of social entrepreneurship ecosystem in Latvia, helping the reader to have a quick and clear glimpse on the main stakeholders and opportunities, which then are described more in detailed in this text. Also, the publication comes together with a brief action plan – concrete steps which need to be taken in the coming years to promote the Latvian social entrepreneurship ecosystem development further.



2. Social entrepreneurship – an overview

Social enterprise characteristics

Social entrepreneurship involves the production of goods or services in order to solve a social problem or to create benefit for the public, rather than maximizing profits for business owners. The types, business models, goods, and services of social entrepreneurship may be very different – social enterprises can be large or small, international or local, yet they all share the desire to generate high social added value by using business methods.

In Latvia, according to the Social Enterprise Law, social enterprise is defined as a limited liability company (Ltd) that implements creative economic activities with a positive social impact, for example, provides social services, works towards an inclusive civil society, promotes education, supports science, works in the field of environmental protection and preservation, ensures the protection of animals or the promotion of cultural diversity. In order for a company to acquire the status of a social enterprise, it must comply with five criteria. According to the *Social Enterprise Law*, the profits of the enterprise cannot be distributed amongst owners, but have to be either reinvested in the company or used to reach a social goal. The status is granted and monitored by the Ministry of Welfare.

The *Social Enterprise Law* came in force in April 2018, therefore there are not many enterprises that have obtained the official social enterprise status. Historically social enterprises have operated in various legal forms, many of those who consider themselves as social enterprises are still operating as NGOs, associations, foundations or regular commercial enterprises.

It is estimated that in Latvia there are up to 200 legal entities that could be considered *de facto* social enterprises. Until 2018, there a legal definition nor an official registry of social enterprises existed, therefore a precise number is not known.

According to the historical development of social entrepreneurship in Latvia and the new Social Enterprise Law, a social enterprise can have a diverse range of social goals. Even though there is still a stereotype in the society that the main social goal of a social enterprise is work integration, in reality the social mission of a social enterprise can go much further and wider than that. There are normally two types of social goals implemented by social enterprises in Latvia:

- Social goal that aims to help one or more specific social exclusion risk or 'vulnerable' target group or improve their overall life quality by implementing work integration activities, providing services, manufacturing special goods for these target groups, providing material help etc.
- The social goal which goes beyond a specific target group and is aimed at solving wider problems in a community or a society which cannot be attributed to one or more specific vulnerable groups.

Most social enterprises are relatively new, having been established only within the last 2 to 5 years, and usually do not employ more than 10 people. Social enterprises operate in various sectors including, but not limited to:

- Providing social and health services



- Work integration
- Production of various goods
- Charity shops
- Online platforms
- Environmental and nature protection
- Promoting cultural diversity and heritage protection
- Running community and culture spaces
- Promoting better quality and access to education
- Providing consultations and information
- Providing communications services
- Promoting and strengthening of civic society

The most part of social enterprises in Latvia is engaged in the services sector (providing social and healthcare services), rather than in the production sector. Nevertheless, more and more social enterprises, especially work integration enterprises, are looking for opportunities to enter production market, especially for food, crafts, design items and souvenirs. This might be explained by the fact that social entrepreneurs seek various opportunities for what the involved people could productively do, even though the biggest challenge is not to create a good quality product but to find appropriate distribution and sales channels afterwards.

The development of design products could be explained also by the fact that the Latvian market is small, and entrepreneurs seek to develop high added-value design products that could be sold for a higher price. Social enterprises such as BlindArt, Wings of Hope (Cerību spārni), DP Production¹ and many others are good examples of design and craft production endeavours.

Target groups

Many social enterprises in Latvia work towards helping various social exclusion risk or 'vulnerable' target groups. The social goal of these companies can be defined as improving the life quality of the representatives of these target groups. Most common ways of doing this in the social entrepreneurship context are:

- Work integration activities: a social enterprise is set up to provide work opportunities for those society groups which have limited opportunities to work in the labour market.
- Providing social, health or other services: social enterprises provide different services with the aim to either improve a particular aspect of the life of a person, or their life quality in general.
- Manufacturing goods: a social enterprise manufactures special goods for a particular target group in order to provide a solution for or improve a particular aspect of their lives. E.g., social enterprise HOPP² manufactures specially adjusted tricycles for physically-handicapped people.
- Providing material and other help in those in need: social enterprises operate in the conventional business sectors but do it with the aim to help particular target groups using the obtained profits. E.g., charity shop TUVU³ sells second-hand goods in order to help local families in need.

1. www.blindart.lv, www.ceribusparni.lv/
2. www.hopp.lv
3. www.biedribatuvu.lv/home/



According to the new *Social Enterprise Law*, there are 11 target groups which can be defined as “social exclusion risk groups” in the social entrepreneurship context:

- 1) People with disabilities;
- 2) People with functional disabilities;
- 3) People or families with the poverty risk status;
- 4) Unemployed people and their dependents, unemployed people older than 54, long-term unemployed people;
- 5) Ethnic minority Romani;
- 6) Existing or former prisoners;
- 7) People with addictions (alcohol, drugs, gambling etc.);
- 8) People with the declared place of residence in a night shelter (homeless people);
- 9) Victims of human trafficking;
- 10) People with the alternative or refugee status;
- 11) Orphans and children legally without parents until the age of 24.

According to the *Social Enterprise Law*, if a social enterprise wants to be a work integration social enterprise, it must choose to work with one or several of these groups. If a social enterprise wants to provide social services or to help vulnerable groups in other ways, it doesn't have to stick to this list, it can also choose to work with a specific target group, e.g. children, youth, or elderly people, as long as it can prove that this group is facing problems or challenges that are important for all society.

Financial performance

Since there are no solid data yet on how many social enterprises actually exist, it is not possible to provide precise data about their financial performance either. This will be possible since 2019, when it will be possible to see, evaluate and compare yearly turnovers and profits of registered social enterprises, based on the social enterprise registry and yearly financial and tax reports.

Nevertheless, some conclusions can be drawn on the basis of the list of social enterprises that are members of Social Entrepreneurship Association of Latvia:

- Most of the social enterprises are new and small, thus they don't have a significant yearly turnover or profits yet. They are operating either with losses, or, if lucky, breaking even. Many social enterprises during the first years of their existence are not able to afford to pay management fees; therefore, the management team is working voluntarily, which affects the company's performance and growth and puts the company at a big risk of not being able to function well.
- There are some social enterprises which have found a way to stabilize their work, break even financially and even direct some of the profits towards either developing or expanding the business, or directly towards their social goal. The yearly turnover of these companies vary from tens to hundreds of thousands of EUR.
- There are a few social enterprises that have a yearly turnover over 500 000 EUR and more than 10 employees, making profit each year and expanding their business constantly. The biggest social enterprise in Latvia – Samaritan Association of Latvia – is working with over 5 million EUR turnover each year and more than 700 employees.

The biggest financial challenges for social enterprises are related to finding a sustainable business model that balances social and



business aspects, as well as finding market and sales channels for their goods and services. As well, accessing external funding for company growth and development can be very difficult, thus social enterprises often operate in a 'survival mode', that allows to cover their daily costs but not saving up enough in order to expand their operations.

Regional and geographical context

Most of the social enterprises are located in the capital city, Riga, but thanks to different social programmes supporting regional development and new entrepreneurs, more and more people are starting their own social enterprise initiatives in other cities and the rural areas of Latvia. There are also enterprises that start their activities in the capital and then spread to other regions, covering all Latvia. Social enterprises outside of Riga tend to be smaller and more locally focused, their main aim to respond to the social needs of the local community rather than offer conceptually new ways of solving social problems.

Problems, challenges, issues, and opportunities regarding the social enterprises, their growth and development:

- Lack of precise, data-based research and overview of the social entrepreneurship sector hinders the development of the sector and makes it difficult for individual social enterprises to place their work within a larger context. There is a need for precise data and measurements of the economic and social value created by social enterprises, which can later be used to draw more general conclusions about the needs and challenges of the sector, as well as the ways and opportunities to respond to them.
- Social enterprises often lack business skills and competencies, focusing too much on achieving the social goals and helping their target group, and too little on creating and selling their goods and services. All aspects related to running a business should be strengthened across the whole sector in order to make social entrepreneurship a successful and profitable business sector.
- Social entrepreneurship as a concept in general and, consequently, social enterprises in particular are not well known in society yet, people and institutions do not recognize yet the full value the social enterprises can offer and provide. Many social enterprises have started operation in form of associations and foundations, and since the promotion of social enterprises is the responsibility of the Ministry of Welfare, social enterprises are often regarded as a new form of charity, which has been given a new name – 'a social enterprise'. Thus, there is a major challenge for social enterprises to prove themselves as genuine enterprises that contribute to the broader economy, while creating a significant social value.
- Many social enterprises are still dependent on grants and financial assistance from donors rather than their own business activity, expecting that their operations will be funded from external sources. This view slows down the business development and hinders the creation of both sustainable business practices and income flow.
- Another challenge for social enterprises is to measure and demonstrate their social impact. Funders and other stakeholders increasingly require social enterprises to demonstrate precisely what added value they can provide by developing solutions to social needs. This may be a complex and costly process for social enterprises. At the moment only a few social entrepreneurs in Latvia do a thorough social impact assessment.



3. Social enterprise in Latvia – case studies

Latvian Samaritan Association (LSA)

Legal form: Association (NGO)

www.samariesi.lv

www.facebook.com/samariesi/

Video: <https://youtu.be/13NdcRsjleI>

Latvian Samaritan Association (LSA) is one of the largest social enterprises in Latvia, employing more than 700 people and involving more than 300 volunteers. Even though the legal form of LSA is still an NGO, their actual operations and management structure is more similar to a social enterprise. LSA is a certified provider of social services, a medical and educational institution that provides medical and care services to representatives of various social exclusion groups (seniors, young people with intellectual disabilities, endangered children and women, etc.), and also creates and maintains targeted enterprises for social services, such as the crisis centre for children and women 'Māras Centrs', the social-care centres in Riga and Ventspils, group apartments and night shelters, the boarding house 'Pārslā'. In 2015, the SAL's service 'Mobile Care at Home' was recognized as one of the top ten European social innovation projects.

'Everyday work needs to take into account the constant struggle with a wide range of administrative obstacles, resistance, confusion, ignorance, because not all people around us live with the mission of consciousness. Therefore, it is important to keep an eye on the result we want to achieve, not to lose our original social goal during the daily routine and never stop dreaming!'- Andris Bērziņš, Director of the Latvian Samaritan Association.

BlindArt

Legal form: limited liability company

www.blindart.lv

"BlindArt" is a social enterprise based in Riga, Latvia (existing in a project from since 2007, legally established as a limited liability company in 2017) that has been helping people with low vision and blindness to integrate into society, creating meaningful things with added value. The aim of 'BlindArt' is the integration of the visually impaired and blind people into society and the labour market; the education of these people, raising their self-esteem and motivating them through creative processes as well as the promotion of social business environment in Latvia.

The field of action of 'BlindArt' is very diverse – the creation, implementation and development of various design products; the production of art projects, corporate tactile painting teambuilding activities, the organization of workshops for the visually impaired and the blind, as well as consultations and inspirational workshops on social entrepreneurship.

Involving more than 300 people with visual impairments, "BlindArt" offers a wide range of activities, creative workshops, exhibitions and original products – fairy tales, paintings, porcelain plates, interior design elements and fashion accessories. So far, "BlindArt" has



reached audience of more than 240 000 people, thus strengthening the equivalence of the project target group with the society as a whole.

„Do not sit on the idea of your social business in the hope that the day will come and it will succeed. Tell it to everyone you can – it’s the only way to meet likeminded people who will increase the chance of grinding the idea to the perfection and to implement it successfully. If one lives in constant fear of the idea getting stolen – it indicates that the idea is lacking. Thus, think wider, deeper, and harder!”- Andrs Hermanis, the creator of ‘BlindArt’.

Learn IT

Legal form: limited liability company

www.learnit.lv

www.facebook.com/learnitlv

We want the young generation of Latvia to grow into strong leaders and knowledgeable specialists in various fields. In the age of technology, it’s important for students to learn how to use modern technologies to create their own solutions in the arts, sports, science or business. ‘Learn IT’ offers programming training for students aged 9-15, in which they create their own games, mobile applications, websites and robots. Additionally, ‘Learn IT’ engages in the professional development of teachers, providing examples of how to make use of technology in the teaching process on a daily basis. ‘Learn IT’ classes take place in 7 municipalities, and together they have been attended by more than 800 pupils throughout Latvia.

“The purpose of a social entrepreneur is to create positive social change and build sustainable business model around it. In order to succeed, be confident about your knowledge and idea, but balance it with humility and continuous desire to learn. Just like the one kids have!” - Elīna Ingelande, the founder and Manager of ‘Learn IT’ Programming School.

Charity shop chain "HOPEN"

Legal form: foundation "Lūkas fonds"

www.hopen.lv

The charity shop chain ‘HOPEN’ has combined in its name two English words – ‘hope’ and ‘open’. We want to contribute to improving the quality of life of the community and to promote the employment of groups at risk of social exclusion, as well as to support organizations working for the benefit of the poor and disadvantaged. Our social goals are characterized by six key words – financial support, savings, environmental protection, employment, education promotion and values. Charity stores and the foundation are based on Christian and Biblical values, we are committed to strengthening Christian values and mutual support.

The charity shop chain ‘HOPEN’ consists of a shop in Ogre and two shops in Riga, with a wide range of Swedish and Latvian products. In shops, everyone can donate things in good condition: clothing, furniture, lamps, household goods, dishes, accessories, books, etc. Sales profits are put towards the implementation of social projects. Part of the donations is handed over to satisfy the needs of disadvantaged groups.

‘Do not do things just for the sake of doing, but when there is a vision and a call.’ Jānis Ģeģeris, Manager of ‘HOPEN’.



Svaigi / online market Svaigi.lv

Legal form: limited liability company

www.svaigi.lv

Video: <https://www.youtube.com/watch?v=0Vm6p7L8V08>

The online market of Svaigi.lv (Fresh) enables small farms, small producers and craftsmen from all regions of Latvia to offer the grown and produced products for trade. We work to encourage the development of farming in the rural areas of Latvia and to ensure the availability of quality food, by promoting healthy eating habits in Latvian families. Svaigi.lv is an internet platform – an online market with a wide assortment from more than 100 suppliers who have the opportunity to determine themselves the value of their products. Buyers make orders electronically to receive seasonal and fresh products directly from the field in a short supply chain of products. We provide delivery of orders to home in Riga and its surroundings.

'The form of social enterprise provides opportunities and also responsibilities. Opportunities can be used with the help of a motivated team or outside experts. Responsibility is in the hands of each manager, so I urge to build the company on the strong value foundation, so that it gives the energy to use all the opportunities.' – Elina Novada, the owner of Svaigi.lv.



4. Legal and policy framework

Social enterprises tend to be sometimes confused with Corporate Social Responsibility practices, which refer to complementary corporate activities rather than the company's essential purpose. Furthermore, the society has a mistaken perception that social enterprises are primarily only Work Integration Social Enterprises (WISEs).

Until the *Social Enterprise Law* came into force (April 2018), entities and individuals used various organisational and legal forms for social entrepreneurship activities: associations, foundations, and 'regular' limited liability companies, sometimes combining different legal forms in order to reach their goals. However, now under the new law, only limited liability companies are allowed to acquire the social enterprise status, which means that existing associations and foundations have to decide on how to continue operations. Associations and foundations can only operate as *de facto* social enterprises; their current status does not allow them to qualify legally as social enterprises.

Legal form of social enterprises in Latvia

In Latvia, the concept of social enterprise has been integrated in various strategic policy documents:

- Sustainable Development Strategy of Latvia until 2030;
- National Development Plan of Latvia 2014 – 2020, in which it is defined as one of 98 options to implement the activity “decent work”
- Concept paper 'About the implementation of social entrepreneurship in Latvia' (approved by the Cabinet of Ministers on 30 October, 2014). The aim of this document was to 'recognize and appreciate the potential of social enterprise, to launch a full and effective support system and to create a legal framework for the development of social entrepreneurship, to offer definitions and eligibility criteria, as well as the directions of support for social enterprises'.

The work on a separate Social Enterprise Law started in 2015 when an interdisciplinary working group under the Parliament was established. The Social Enterprise Law adopted on October 12, 2017, and came into force on April 1, 2018. **The Law stipulates that a social enterprise is a limited liability company with special social enterprise status. In order to obtain this status, the company must fulfil five criteria:**

- 1) The main purpose of the company is a positive social goal.
- 2) The owners have all agreed to obtain the status of social enterprise for their company. The decision is deemed adopted if at least two thirds of the votes represented in the meeting are cast in favour, unless the articles of incorporation require more votes for adopting such a decision.
- 3) The restriction on profit distribution to company owners – profits must be either reinvested in the company or invested in reaching the social aim,
- 4) The company employs paid staff (at least one employee with an employment contract).
- 5) A representative of the target group is in the executive body or supervisory body of the company; or a representative of the target group, or a representative of associations and foundations representing the target group, or a relevant expert is in the



company's consultative body, if it has one.

There is a particular emphasis on work integration of individuals at risk of social exclusion as one of the social goals and activities implemented by social enterprises. However, social enterprises may also have other social goals in areas not related to work integration, e.g., education, environmental protection, cultural diversity, social and health care, civil society. The social goal of a social enterprise has to be very clear and specific and included in its bylaws.

The state institution responsible for implementing the *Social Enterprise Law* is the Ministry of Welfare. Ministry is also responsible for running a public Social Enterprise Registry which serves also as a data-base of all enterprises that have received the status.

The *Social Enterprise Law* does not oblige the existing *de facto* social enterprises which work as associations and foundations to establish a new limited liability company and/or stop economic activity. It is up to every organisation to decide which way to choose and how to continue their work. However, since there are certain restrictions for associations and foundations regarding their overall business activity, they have two potential directions for moving further with their social entrepreneurship activities:

1. To establish a new limited liability company, becoming its owner. The current social entrepreneurship activities of an association or foundation should then be transferred to the new limited liability company. The new limited liability company can use all the opportunities prescribed by the Law.
2. To perform economic activities as separate projects, keeping them within the existing organization. If the economic activity does not reach a significant proportion, there is no need for establishing a limited liability company. However, in such case, the existing organization cannot legally call itself a 'social enterprise'; neither can it use the benefits of the Law and other social entrepreneurship support instruments.

The new *Social Enterprise Law* does not force anyone to acquire the status of a social enterprise. It is an opportunity, an additional instrument for those enterprises that are already working in the sector or wish to establish a new social enterprise. However, economic activity is one of the most essential criteria for identifying a social enterprise, which ensures that socio-economic problems are tackled in a long-term in a financially sustainable, independent way. Since many associations and foundations are not self-sufficient and still rely on grants and donations, and their main activities do not have commercial nature, they have to make a strategic choice about how to move further.

Fiscal framework for social enterprises (taxes, tax reliefs etc.)

According to the *Social Enterprise Law*, a limited liability company with a social enterprise status is 100% exempt from the **enterprise income tax** if it invests its profits in the enterprise and/or in the social goal; additionally, the tax is not applicable to the following expenditures of social enterprises:

- recreational and social inclusion activities for social enterprise employees representing the target group;
- integration of persons from the target group into the labour market and the enhancement of their life quality;
- purchase of assets that contribute to the achievement of goals set in the statute of a social enterprise;
- social integration of persons from the target group;
- donations for public benefit organisations for purposes that match the goals set in the statute of the social enterprise if the donation recipient has given information on the use of the donation to the donor until the end of the reporting year.

This income tax relief was initially intended as significant benefit for social enterprises, yet on January 1, 2018, the amendments to the



Law on Enterprise Income Tax came into force. The amendments stipulate that the conventional enterprises also do not have to pay the enterprise income tax if they do not distribute their profits or if they invest their profits in their business expansion. For this reason, the planned 'benefits' from the tax policy in relation to social enterprises lost their importance. However, the remaining income tax relief opportunities mentioned above pertain to only social enterprises – they are not binding upon conventional enterprises.

According to the *Value Added Tax Law*, the **value added tax** is not applied to services provided by social service providers in Latvia. This means that if a social enterprise provides social care, professional and social rehabilitation, social assistance and social work services, the VAT is not applicable. However, it applies to all associations and foundations, limited liability companies having the status of social enterprise, as well as all other conventional enterprises that deliver the listed social services. Additionally, the Law prescribes that in cases, where an annual turnover from economic activity is less than 40,000 EUR, an association, foundation or enterprise does not have to be registered as a value added tax (VAT) payer. This means that, regarding the VAT, the same tax relief applies to all diverse legal forms.

The law *On Immovable Property Tax* prescribes that **immovable property tax** relief could be granted where the municipal immovable property is rented out or given into possession for the provision of medical or social care services. However, any association or foundation, as well as any enterprise with the status of social enterprise, may apply for this relief. In addition, local governments may issue binding regulations that prescribe relief for some categories of immovable property taxpayers.

The only kind of tax relief available to employers that hire disabled individuals in Latvia is the **relief on employer and employee social insurance contributions** (employee mandatory social insurance contributions: the general rate is 11%, while for the disabled it is 10.12%; employer mandatory social insurance contributions: the general rate is 24.09%, while for the disabled – 22.52%), which slightly reduces labour costs. The relief applies to all the legal forms. However, the relief is not sufficient to motivate enterprises to integrate disabled workers. No other social security or employment tax relief instruments are available for social enterprises – they have to pay full social security and employment taxes as any other enterprise.

Social enterprise status can be used jointly with **micro-enterprise tax** status which is rather popular among small enterprises in Latvia. Micro-enterprise tax is a single tax payment, which includes mandatory State social insurance contributions, personal income tax, business risk fee for micro-enterprise employees; corporate income tax, if a micro-enterprise complies with the features of a corporate income tax payer; personal income tax of a micro-enterprise owner for the income part of economic activities of the micro-enterprise. The micro-enterprise tax rate is 15% of overall turnover and it has to be paid four times per year.

According the Law, a social enterprise is entitled to attract volunteers to perform tasks other than managerial duties and accounting, or main operations. Use of volunteers may be considered **indirect fiscal support** for social enterprises, as the government is not paid state social insurance contributions and labour taxes on these workers.

Problems, challenges, issues, and opportunities regarding the legal form and policy framework:

Even though the *Social Enterprise Law* has been well received and accepted by the social enterprise community in Latvia, there are different opinions and views on how effective it will be in the long run. In-depth research and evaluation of the new Law will be possible starting from 2019, but already now there are several issues and challenges to think about:

- Both the Social Enterprise Law and the social entrepreneurship concept are still rather new, and much time and effort are



needed to be invested in raising awareness about this form of entrepreneurship and the benefits the Law can offer to those who choose to use it.

- Those social enterprises that have operated and are still operating as NGOs – associations or foundations – have a decision regarding their future operations, since the new Law allows the social enterprise status to be acquired only by limited liability companies. This is a very big change for NGOs, not only because of legal matters, but more so because of the change of mindset – running an official business can feel much more difficult, challenging and riskier than running an NGO, even though in reality the change is not always as big as expected.
- Even though the criteria of the Law are rather clear and straightforward, the application and interpretation of the criteria so far have proved that there are some ‘grey areas’ that need to be clarified in order to avoid dishonest business practices of taking advantage of the new regulation for personal gain.
- There is some concern that the new Law puts too heavy of a bureaucratic burden on social enterprises, especially regarding the yearly financial and descriptive reports.
- There is a need for a long-term national social entrepreneurship development policy that would go beyond the implementation of the Social Enterprise Law and financial support system. The policy should include all aspects of social entrepreneurship ecosystem as well as funding for different ecosystem development measures and activities.



5. Main stakeholders and actors

State institutions	
<p>Ministry of Welfare www.lm.gov.lv</p>	<p>The ministry responsible for the social entrepreneurship in Latvia is the Ministry of Welfare. Its work towards strengthening and promoting social entrepreneurship as well as controlling authority over the sector is mainly based in three legal and policy documents:</p> <ul style="list-style-type: none"> • <i>Concept paper 'About the implementation of social entrepreneurship in Latvia'</i> (approved by the Cabinet of Ministers on 30 October, 2014). The aim of this document was to 'recognize and appreciate the potential of social enterprise, to launch a full and effective support system and to create a legal framework for the development of social entrepreneurship, to offer definitions and eligibility criteria, as well as the directions of support for social enterprises'. • <i>European Social Fund project "Support for social entrepreneurship"</i> (2015 – 2022, implemented in partnership with Development financial Institution ALTUM). • <i>Social Enterprise Law</i> (adopted on October 12, 2017, in force since April 1, 2018). <p>The Ministry of Welfare is the key policy driver with regard to social enterprises and works together with partner institutions and organizations in order to create an appropriate environment for social enterprise development. The Ministry of Welfare also maintains the public social enterprise register with information about all enterprises that have acquired the social enterprise status.</p>
<p>Development financial Institution ALTUM www.altum.lv</p>	<p>ALTUM, in cooperation with the Ministry of Welfare, is the main responsible state institution for implementing the social enterprise financial support program, using the funds of European Social Fund.</p> <p>Under the financial support program 'Support for Social Entrepreneurship', ALTUM's financial support of up to 200 000 euros per project is available for starting or expanding a social enterprise. The grant consists of 90% ALTUM's funding and 10% co-funding. In order to qualify for the support, a company have to obtain the status of a social enterprise and be registered in the social enterprise register. There are 12 million euros available in the program until 2022.</p>



	<p>To be eligible for funding, the projects of social enterprises have to be viable, with a significant social impact in the long run, and benefitting the society. The business side of the project is evaluated by ALTUM, while the social impact - by the Ministry of Welfare.</p> <p>In order to submit the application for the funding, the following things must be considered among others:</p> <ul style="list-style-type: none"> • What social problem will be solved? • Is the idea viable in the long run? • Is the company ready for investment, is there a vision for the future and an appropriate team? • Is the project well-designed? <p>So far, 27 organizations and companies have received ALTUM's funding for starting or expanding their social businesses.</p>
<p>State employment agency www.nva.gov.lv</p>	<p>The State Employment Agency is the main institution for helping unemployed to find work opportunities as well as the institution responsible for running subsidy programs for employers who employ people from different vulnerable groups (e.g. disabled, long-term unemployed individuals, unemployed youth, etc.) and therefore a common partner for social enterprises operating in the work integration area. The State Employment Agency is supervised by the Ministry of Welfare.</p>
<p>Ministry of Economics www.em.gov.lv</p> <p>Ministry of Finance www.fm.gov.lv</p>	<p>The Ministry of Economics is responsible for overall entrepreneurship development in the Latvia. Even though it does not focus particularly on social enterprises, many of its business promotion activities and opportunities can also be used by social enterprises.</p> <p>The Ministry of Finance is the main responsible state institution for the overall tax policy. The main tax control agency – the State Revenue Agency – operates under the authority of the Ministry of Finance. Since social enterprises are subject to almost all the same taxes as regular businesses (with some exceptions), good cooperation with these institutions is essential.</p>
<p>The Investment and Development Agency of Latvia www.liaa.gov.lv</p>	<p>The objective of the Investment and Development Agency of Latvia (LIAA) is to promote business development by facilitating more foreign investment, as well as increasing the competitiveness of Latvian entrepreneurs in both domestic and foreign markets. The main priorities of the Investment and Development Agency of Latvia are to increase the competitiveness of entrepreneurs and promote foreign investment into Latvia. LIAA offers an integrated solution – it supports companies in Latvia trading internationally,</p>



	<p>as well as overseas businesses seeking partners or locations in Latvia.</p> <p>LIAA offer various programs and services for different business companies, including social enterprises, as well as numerous information, educational and networking opportunities, which can be used by social businesses and conventional businesses alike.</p>
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Municipalities	
Different level municipalities (cities, towns, counties) and their institutions	<p>The promotion and development of social enterprises depends on different level cooperation with local governments and their institutions, as well as on their interest in supporting, developing and working together with social enterprises, which can be done in various ways. The role of municipalities in the context of social entrepreneurship in Latvia is threefold:</p> <ul style="list-style-type: none">• Municipality as a supporter of social enterprises. According to the Social Enterprise Law, local governments may support social enterprises in various ways – granting immovable property tax relief, granting free use of municipal property, as well as granting movable property of a public person that may be transferred into the ownership of the social enterprise without charge. Local governments have the right to introduce special grant programmes or support social enterprises by means of infrastructure: premises, office equipment, Internet connections, transport, etc. The Law does not oblige local governments to do it, yet it allows them to do it, which is important for the local governments, so that they can develop their local support systems for social enterprises.• Municipality as a client of a social enterprise. Municipalities are obliged to provide a certain set of social and other services to their inhabitants, and they have the freedom to choose how these services will be provided, organized, and bought. Municipality can choose to buy these services from a social enterprise which then provides the services to the people living in the territory of the respective municipality. In many cases, a social enterprise can provide the needed services cheaper and faster, offering also a better quality. The whole process is usually done through the procurement process (privileged or regular) or through the function delegation contract.• Municipality as a co-owner of a social enterprise. The Social Enterprise Law allows a municipality to become a co-owner of a social



	<p>enterprise under certain circumstances and with certain restrictions:</p> <ul style="list-style-type: none">- Municipality (or public institutions together, if there are more than one municipality or public institution participating in the company) cannot have more than 50% shares in the company;- The social enterprise can work only in the field of work integration;- The municipality must exit the company by the year 2021. <p>There are no general guidelines or best practice on how municipalities should interact with social enterprises in Latvia. Each municipality can decide on its own the best way for approaching this issue, if approaching at all. There are municipalities in Latvia that are working very actively together with social enterprises on various issues (e.g. Riga city, Sigulda county, Cesis city), and there are municipalities that are still very hesitant about promoting social business in their territories.</p>
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Industry representative organizations and networks	
<p>Social Entrepreneurship Association of Latvia www.sua.lv</p>	<p>Social Entrepreneurship Association of Latvia (SEAL) is a membership organization aimed at promoting the development of social entrepreneurship in Latvia that brings together companies, organizations and people who believe that social entrepreneurship in Latvia has a huge potential and are ready to participate in co-creating and strengthening the sector. SEAL functions as a national-level organisation representing the interests of social enterprises at the national and local levels and cooperating with policy makers and decision makers in order to establish a well-functioning ecosystem for social enterprises.</p> <p>The association operates in three main directions:</p> <ol style="list-style-type: none">1. Advocacy of the sector's interests at local, regional and national levels. SEAL participated in the development of the Social Enterprise Law, our representative is currently in the Commission for the Status of Social Enterprises at the Ministry of Welfare. The SEAL also focuses its attention on social entrepreneurship opportunities at the state level, as well as participates in the development of a social entrepreneurship support program. We also work with other regional and national decision-makers and policy-makers to create a supportive



	<p>environment for social entrepreneurship in Latvia.</p> <p>2. Improvement of the capacity of members, development of the experience and knowledge sharing platform. In various ways, we help our members to achieve better their goals by providing joint activities, fast and effective information exchange, up-to-date information on finance and cooperation opportunities, and counselling support. We promote the goods and services of our members in various ways, for example by collecting information about the member's offer, organizing the Social Entrepreneurship Market in the Kalnciems Quarter, and introducing with useful partners.</p> <p>3. Information for the society about social entrepreneurship. SEAL takes part in various events to inform the wider community about the opportunities offered by social entrepreneurship. We have created a network of social entrepreneurship ambassadors in the regions of Latvia and participate in the events organized by our ambassadors. Every year we organize the industry's largest and most ambitious event – the Social Entrepreneurship Forum. We maintain the largest source of information in the Latvian language about social entrepreneurship – www.sua.lv.</p>
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Accelerators and incubators	
<p>International Business Development accelerator "NewDoor" newdoor.lv</p>	<p>The main goal of the International Business Development accelerator 'NewDoor' is to train, direct and inspire social business innovators as well as to promote the development of the social entrepreneurship environment as a whole.</p> <p>For existing and new social entrepreneurs, NewDoor's team of experienced professionals, along with support from local and overseas mentors, offer to develop social initiatives in a sustainable business. Usually the acceleration program is implemented once a year, providing a three month intensive training for selected set of upcoming social enterprises. At the end of each year's program, accelerator participants take part in interviews and public events, gaining recognition both during and after training, presenting their ideas to potential investors, partners, journalists and the wider community.</p>
<p>Social entrepreneurship incubator "ReachforChange" latvia.reachforchange.org/lv</p>	<p>'ReachforChange' is an international social entrepreneurship incubator that aims to improve children's lives by providing support to like-minded social entrepreneurs and authors of ideas. Together with partners, we help social</p>



	<p>entrepreneurs develop ideas, increase social impact and change systems.</p> <p>Social entrepreneurs are offered training and consultations on company development, social impact measurement, marketing and team expansion, as well as financial support from partner organizations. The new members are admitted once a year in the 'Goodwill Entrepreneur' competition and continue to participate in the incubator for up to 3 years.</p>
<p>Investment and Development Agency of Latvia Business Incubators http://www.liaa.gov.lv/lv/inkubatori</p>	<p>Social enterprises, just as conventional enterprises, have access to the services provided by the Investment and Development Agency of Latvia (LIAA), as LIAA supports new and innovative enterprises at their initial stages of development, promotes the commercialisation of inventions, and prepares new and existing enterprises for investment attraction as well as entry and expansion into export markets. There are 15 business incubators in Latvia, which provide support for natural and legal persons, thereby contributing to the environment, consultancy, training and activities related to general entrepreneurship matters, mentor support and grants needed for the start-up and development of entrepreneurship. Regional business incubators are particularly appropriate for social entrepreneurs, as they can assist in developing the business idea at the pre-incubation stage and support the enterprises at the incubation stage.</p> <p><i>Creative Industries Incubator.</i> The LIAA Creative Industries Incubator provides 100% funding for activities and seminars held at the incubator and access to shared creative rooms, as well as 50% co-funding for other services and grants. This incubator is important for social enterprises, as they often combine the innovative approach to art and business in their activities.</p> <p>Participation in these incubators is free of charge, nevertheless, a company that wants to become a member of an incubator must go through a detailed selection process.</p>



Citas organizācijas un iestādes

Educational and Support institutions

An essential role in contributing to the development of social enterprises is played by educational institutions. A number of universities are involved in implementing various education and research related activities:

- Latvian Christian Academy,
- Stockholm School of Economics in Riga,
- Latvia University of Life Sciences and Technologies,
- Riga Business School,
- and others.

These educational institutions provide courses, research opportunities and study programmes on social entrepreneurship, yet the extent and quality of these activities are very different and do not always transfer to social entrepreneurship sector in a meaningful and effective way.

There are also other, non-academic research and support organizations, institutions and companies, working towards strengthening social enterprises, providing consultations and training, and publishing new insights into the specifics of the sector:

- Social Innovation Centre – the organization implements different research and knowledge and experience exchange projects regarding social innovation and social entrepreneurship topics.
- CIVITTA Latvia – the leading independent management consulting group in Eastern Europe. One of the activities of 'Civitta Latvija' is to educate social enterprises and help them choose the most appropriate financial instruments and grants to develop social entrepreneurship, including preparing projects for submission to ALTUM's social business support program.
- ZINIS – organization and pool of experts promoting the accessibility of practical creativity competences to individuals and organizations, thus strengthening their competitiveness and supporting the development of a knowledge-based society in Latvia. Social enterprises are offered support consultations on creating a business model, and trainings to improve practical creativity in social business.



<p>Social impact investors and intermediaries</p>	<p>Social impact investment is not a very developed sector in Latvia – there are very few institutions and organizations paying attention to this kind of investment, and there is no systematic or organized approach to attracting, creating, and educating social impact investors who would be willing to invest in social enterprises. Whatever current investment in social enterprises is most likely based on private initiative or contacts.</p> <p>Nevertheless, there are a few organizations and institutions taking the first steps towards promoting the topic, including:</p> <ul style="list-style-type: none"> • Social Entrepreneurship Association of Latvia which has established a social impact investment working group, bringing together stakeholders who are interested to work further; • Ministry of Welfare and ALTUM that are running the ESF project “Support for Social Entrepreneurship” that could be considered the first social impact investment program in Latvia. ALTUM is also considering working on creating and developing other funding programs for social enterprises in future; • Investment and Development Agency of Latvia – the main institution in Latvia responsible for attracting investors and investment for different businesses; • LatBAN – Latvian Business Angel Network, a pool of private investors looking for new promising business projects and opportunities; • European Latvian Association (an association for Latvians living abroad)
<p>Conventional enterprises</p>	<p>Social enterprises sometimes cooperate with conventional enterprises. Such cooperation may take several forms – it may involve the delegation of certain functions of a conventional enterprise to a social enterprise; a social enterprise’s products can be sold to a conventional enterprise, thus reducing the risk of sales. Also, conventional enterprises may become social investors, even taking part in designing the operational strategy of the enterprise.</p>

Problems, challenges, issues, and opportunities regarding the stakeholder activity and involvement:

- The cooperation among all major ecosystem players has improved over the past three years, but is not perfect yet. There is a big potential in working together towards establishing an even better environment for social enterprises, creating systematic, regular, cross-sector partnerships and new, innovative approaches for strengthening different social entrepreneurship aspects.



- Many state and municipality institutions are either not yet familiar with the social entrepreneurship concept, or do not yet consider social enterprises being important-enough players. The disbelief and scepticism towards the economic and social potential of social enterprises is still quite common, and much time and effort is and will be needed to convince all level government and municipality stakeholders and decision makers that social enterprises are worth their attention and resources.
- It is expected that as the social entrepreneurship sector grows and develops, there will be more ecosystem players and stakeholders, therefore effective and meaningful activities and measures will be required to coordinate and align their work and efforts.
- There is a need for more private sector stakeholders and players which could offer their skills, knowledge, expertise, and services with the aim to strengthen the overall ecosystem as well as to help and support particular social enterprises. A more systematic and coordinated approach is needed in order to involve meaningfully the private sector representatives and benefit of their resources and willingness to work in the social entrepreneurship sector.



6. Access to finance: financial support instruments, development finance, social impact investment

According to the *Social Enterprise Law*, social enterprises may automatically use specific support mechanisms – involvement of volunteers, certain tax reductions, and access to EU funds. Furthermore, the new Law enables municipalities to create and implement their own local support instruments – reduced real estate tax, permission for social enterprises to use municipality property for free, special financial support schemes and privileged public procurement procedures for social enterprises. Additionally, limited liability companies that have social enterprise status can use the same support measures that are available to conventional enterprises, for example, assistance programmes of the state public company 'Development financial Institution ALTUM' both for young and experienced businessmen, as well as for participation in business incubators.

The main financial support and development instruments accessible for social enterprises are as follows:

<p>European Social Fund project 'Support for social entrepreneurship', implemented by Ministry of Welfare in cooperation with Development financial Institution ALTUM</p>	<p>The project offers financial grants for starting or developing social enterprises. The total project budget is around 15 million EUR, the period of project implementation: November 2015 – December 2022.</p> <p>In the period until 2022, it is intended to promote the development of social enterprises in Latvia by means of various support measures, including the establishment of new social enterprises that could potentially create the basis for a comprehensive, long-term support system for social enterprises. The project "Support for Social Entrepreneurship" intends to support up to 220 social enterprises and new entrepreneurs in social entrepreneurship.</p> <p>The size of a grant for a business project ranges from 5,000 to 200,000 EUR, and it can be received for both the establishment of a social enterprise and its expansion. An important prerequisite is the economic viability of the business idea, providing an essential social impact in the long-term.</p>
<p>Other business support and development instruments offered by Development financial Institution ALTUM</p>	<p>ALTUM supports enterprises at different stages of development, including social enterprises – there are programmes for beginners as well as credit measures and access to acceleration funds. There has been developed a special ALTUM calculator that adapts a support programme to the needs of an entrepreneur, including for use by social enterprises. ALTUM offers several direct-financing government support programmes aimed at social</p>



	<p>enterprises.</p> <p>Most of these financial instruments are loans with lower interest rates and favourable conditions for small and medium-size enterprises.</p> <p>Start-up programme for business beginners – for future and existing new entrepreneurs, as well as experienced ones who start up a new business. The amount of funding available ranges from 2,000 to 150,000 EUR for a period up to eight years. The entrepreneur’s co-financing is set at 10% for projects of more than 7,000 EUR.</p> <p>Microcredit programme – for the development or establishment of a small enterprise with less than 10 employees. The amount of funding available is up to 143,000 EUR for a period up to five years. The entrepreneur’s co-financing is set at 10% for projects of more than 72,000 EUR.</p> <p>SME microcredit programme – for micro-, small and medium enterprises to implement feasible business projects. The amount of funding available is up to 25,000 EUR for a period up to eight years. The entrepreneur’s co-financing is set at 10% for projects of more than 7,000 EUR.</p>
<p>Support of the Investment and Development Agency of Latvia (LIAA)</p>	<p>LIAA implements several state and EU support programmes for the development of entrepreneurship. LIAA supports start-up and innovative companies during the start-up phase, promotes cooperation between businesses and science, as well as commercialization of innovations, and prepares start-up and existing companies for attraction of investment.</p> <p><i>Innovation voucher support services.</i> If the idea of a social enterprise is innovative, an innovation voucher support services provided by the LIAA can be available to the social enterprise. Innovation voucher support is provided for micro-, small and medium enterprises to finance their activities related to the development of new products and technologies: technical and economic feasibility, industrial studies, experimental development (including the creation of prototypes), product industrial design development, testing and certification of a new product or technology, and registration of ownership rights for industrial property objects (invention patents, designs and semi-conductor topography).</p>
<p>EU LEADER programme in the regions</p>	<p>Enterprises and NGOs in the rural areas of Latvia, including social enterprises, have an opportunity to implement their project ideas by applying to the LEADER program funding from the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. Under the</p>



	<p>LEADER support programme, support is provided for rural communities to implement their initiatives aimed at contributing to their local sustainability, enhancing the social situation in the rural areas, creating a favourable environment for living and developing entrepreneurship and rural territories. A focus is placed on the prerequisite that the initiative has to come from the local residents, thereby complying with the 'bottom-up' approach. This means that the local residents of a particular rural territory have to determine their problems, set their priorities for rural development and goals as well as suggest the ways to improve their territory and life quality. After performing an analysis of the local territory, including a survey of the local residents, a public-driven strategy should be designed. The strategy should be coordinated and implemented by a local action group, and the initial assessment of projects submitted should be performed based on the strategy by the local action group.</p> <p>The funding available per project varies from tens to hundreds of thousands of EUR, depending on the project's scale and envisaged results.</p>
State Employment Agency support activities for people from special target groups	<p>The State Employment Agency provides the financial aid for employing unemployed persons (persons with disabilities, long-term unemployed and persons aged 55 years and more). This kind of support is available both for conventional enterprises employing persons from special target groups and for social enterprises meeting the criteria.</p> <p>To promote the integration of the disabled into the labour market and motivate employers to hire the disabled, the State Employment Agency offers a support programme for employers – subsidised jobs. Under the programme, employers that employ the disabled are provided with the following kinds of financial assistance:</p> <ul style="list-style-type: none">• Monthly wage subsidy for unemployed person equal to 50% of the total wage costs, but not exceeding the minimum monthly wage set by the government (430 EUR in 2018). For unemployed with disabilities, monthly wage subsidy may not exceed 150% of the minimum monthly wage, and the wage can be fully covered by the subsidy.• Coverage of expenses for work supervisors (50% of statutory minimum wage) and the subsidy for supervision is granted to employer. Supervisor can coach not more than 2 employees at the same time.• Single-time subsidy for the purchase of equipment and devices, as well as for the production and purchase of technical aids to adapt a



	<ul style="list-style-type: none"> • <i>workplace to the disabled employees. The subsidy is granted according to a workplace adaptation cost estimate submitted by the employer, based on a report by an ergo therapist, but not more than 711 EUR per workplace.</i> • <i>Services provided by sign language interpreters, assistants, ergo therapists and other specialists if the services are provided to employ the disabled.</i> • <i>Reimbursement of expenditures on health checks for the disabled unemployed people if stipulated by the legislation on mandatory health checks.</i> <p><i>Subsidised jobs are available both to social and conventional enterprises.</i></p>
<p>Local government financial support instruments</p>	<p>The Social Enterprise Law allows local governments to design and introduce local support instruments for social enterprises: a lower immovable property tax rate, free use of municipal property, special financial support schemes, and privileged public procurement procedures.</p> <ul style="list-style-type: none"> • Since social enterprises directly contribute to the life quality of the society, local authorities may purchase services provided by the social enterprises performing the functions that are usually delegated to national institutions. Local authorities may hold open competitions or directly delegate responsibility to a social enterprise. • Local authorities may grant funding intended for a particular target group and its integration into the labour market in the form of subsidies. • Local authorities that wish to support the social enterprise sector also have a number of additional instruments: they may rent out offices for free, grant immovable property tax relief, hold educational and training activities, advise individuals who are interested in founding social enterprises and introduce special grant programmes. <p>Municipalities can also implement special grant programs for starting or developing businesses in their territory, or social businesses in particular. Some municipalities hold annual business idea competitions, and usually the grant funding per project varies from 1000 to 10 000 EUR.</p>
<p>Public procurement framework</p>	<p>Significant changes occurred in the field of public procurement owing to the integration of provisions of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement into the national legal framework. One of the greatest achievements of the Directive is the transition from the application of lowest price criteria to the</p>



best bids in terms of price to quality ratio. The new Directive also offers several important changes with regard to the social entrepreneurs whose key goal is the social and professional integration of individuals from deprived and socially unprotected groups.

In Latvia, the work on the transposition of the Directive was commenced by the Ministry of Finance at the beginning of 2014. In the result, amendments were made to the *Public Procurement Law* and the *Law on Procurement by Providers of Public Utilities* in order to raise the efficiency of expenditures in the public sector, facilitate the participation of small and medium enterprises in public procurement tenders, and give an opportunity for public tender organisers to efficiently use public procurement to support common interests. However, in reality, no considerable results have been so far observed since the amendments were made in the laws pertaining to social enterprises.

A significant role in supporting social enterprises in public procurement tenders is played by local governments. Since social enterprises directly improve the life quality of the public by performing the function that is traditionally assigned to government institutions, local governments may purchase services provided by the social enterprises. They may hold open tenders or, in case of no competition, simply delegate the responsibility to a social enterprise. Even though the procurement of social services functions well, and has persistently developed in the last two decades, the procurement of other products, such as goods, is not highly developed. There are considerable opportunities for growth, yet at present progress in this area is hindered by the lack of good practices.

The *Public Procurement Law* prescribes privileged contracts reserved for suppliers that employ persons with disabilities who make up more than 30% of the total average number of employees. This kind of public procurement procedure is the same as the usual one, yet it includes a mandatory qualification requirement – the employment of persons with disability.

If a procurement contract is made for the supply of the services specified in the Law (health, social care and cultural services), the contracting entity is entitled to reserve the opportunity to participate in the procurement procedure only for those applicants who (i) have been granted the status of social enterprise, (ii) provide the mentioned services and who have not



	<p>of social enterprise, (ii) provide the mentioned services and who have not been granted the right to conclude a procurement contract for the supply of the services specified in Section 10 of the Law during the last three years from the day when a decision should be made on granting the procurement contract right.</p> <p>The term of the procurement contract does not exceed three years. It means that not only WISEs, but also the social enterprises engaged in the fields of health, social and cultural services can take advantages of privileged contracts. This prerequisite might be viewed as progress towards a support mechanism of social enterprises, giving them advantages in public procurement.</p>
<p>Business development and start-up competitions.</p>	<p>Project proposal competitions aimed at business development are important for social enterprises. For example, some local governments hold such competitions with different regularity.</p> <p><i>Take-off</i> (Atspēriens) is a grant competition held by the City Development Department of the Riga City Council twice a year. The purpose of the competition is to contribute to the development of small and medium enterprises in Riga as well as to the popularity of new businesses and products. The financial support granted under the programme helps entrepreneurs to establish infrastructure for starting up a successful business.</p> <p><i>Cup of Ideas</i> (Ideju kauss) is a business idea competition that gives an opportunity to undergo training under the guidance of experienced entrepreneurs, get valuable contacts for the further development of one's business and, in the end, compete for money prizes in order to acquire the first capital for the implementation of the idea. The competition is held by the Investment and Development Agency of Latvia.</p> <p><i>Inspiration</i> ((ie)dvesma) is a business idea competition implemented jointly by SEB bank and 5 municipalities in Riga region, and is aimed at funding the best business ideas, including social business ideas, from these particular municipalities.</p>
<p>Private funding</p>	<p>There are still very few opportunities for social enterprises to acquire private funding and investments – social enterprises are either too small, or too specific, or too unknown for private investors, and there are almost no private investors who would target specifically businesses with a social mission. Bank funding is not a very popular source for investment – social</p>



	<p>enterprises are afraid of risks related to not being able to pay back the loan and lose their business, and banks are equally hesitant lending the money to unconventional business.</p> <p>Nevertheless, the situation is slowly changing, and there are already a few opportunities.</p> <p>Charity shop Second Breath (Otrā elpa) quarterly scholarship competition – opportunity to receive up to 3000 EUR funding for implementing a social project idea. One of the priorities is the development of social entrepreneurship therefore the idea can also be a business idea with an aim to solve a social problem.</p> <p>Latvian Business Angel Network (LatBAN) monthly investment sessions – opportunity for any businesses, including social enterprises, to pitch their business and idea to pool of private investors. All candidates have to go through a selection process, and 6-7 best get a chance to present their idea to LatBAN members.</p>
Prizes and awards.	<p>Entering different prizes and awards competitions is a good way not only to showcase the social business idea and receive feedback and publicity, but also to compete for a money prize that can then be a substantial boost to develop the business further. In Latvia, there are no special prizes or awards for social enterprises. In the wider European region, there are 2 prizes and awards created especially for social enterprises and social innovation ideas.</p> <p><i>The European Social Innovation competition</i> is a challenge prize competition run by the European Commission across all EU countries. The Competition calls all Europeans to come up with solutions to the problems affecting our society. The best ideas compete for three main prizes of 50 000 EUR.</p> <p><i>The Social Innovation Tournament</i> is organized by European Investment Bank Institute to recognise and support the best European social entrepreneurs. It is organised in a different country every year to reward and sponsor European entrepreneurs whose primary purpose is to generate a social, ethical or environmental impact. All projects compete for the General Category and Special Category 1st and 2nd Prizes of EUR 50 000 and EUR 20 000 respectively.</p>

Social impact investment

Social enterprises need financing both to cover operational costs and for capital and loans for investments. These needs are important



at the time of creation but even more in periods of growth and development. In interviews, social enterprises have indicated that they have started their businesses with their own capital, with funds borrowed from friends or family, or with grants from international non-profit organisations. Bank loans do not appear as a widely used source of finance for social enterprises.

This could be explained, first, by the fact that social enterprises are not profitable from the perspective of conventional banking, being considered risky and less profitable than conventional enterprises. Second, there is a lack of willingness to take bank loans due to the perception that external borrowing would decrease their level of independence. This reluctance to take bank loans could be explained by the national mentality. One of the problems faced by entrepreneurs throughout Latvia is a fear to take a loan because there is a risk of failure. For this reason, social entrepreneurs often prefer using their own funds or a grant programme to start-up a social enterprise.

Additionally, the availability of public funding is often obstructed by strict and bureaucratic rules. For example, it can be difficult for a social enterprise to access structural funding if the public institutions fund only short-term projects. Also, the large number of various programmes both at the national and European levels and their complexity makes it difficult for small structures such as social enterprises to access the programmes.

Theoretically, financial intermediaries include traditional banks, banks with a social orientation, and specialized providers. A practice of granting loans at a low interest rate or interest-free has not yet emerged in Latvia. There is a very cautious interest about social enterprises from private investors. Reasons for their reservations include lack of successful business cases among social enterprises, a small market, and the fact that they cannot see where they can profit. There are also stereotypes and prejudices about the work, management, and profitability of social enterprises.

Problems, challenges, issues, opportunities regarding the access to finance

- Social enterprise financial support program, implemented by Ministry of Welfare and ALTUM, will be available until 2022. At the moment it is the main financial support/investment source for social enterprises. Most likely social enterprise industry will not develop so quickly in the coming years to be able to compete at the open investment market with conventional enterprises. Therefore other financial instruments after 2022 will be needed in order to continue the growth and development of social enterprises. They may not be in the form of grants like now, but they have to be adjusted and suitable to social enterprise sector reality and needs. Stakeholders have to start working together already now to develop these financial instruments so they can be ready to use when the current social enterprise financial support program come to the end.
- Most social enterprises are ready only for investments in the form of a donation or grant. Only a few are ready for a loan or equity investments– mainly because of fear to loose independence but also because of financial risks involved in case their business is not successful and they are not able to pay back the money. If they are not using any kind of loans, social enterprises are left with very limited options for attracting external funding for growth and development.
- Social impact investment market for social enterprises is still in very early stages – both supply and demand side of social impact investment are not ready yet to make serious commitment, and there are too few of effective intermediaries to promote this sector further. More awareness raising, joint events, communication activities and pilot projects are needed in order to see effective and fruitful social impact investment happening.
- The main obstacles social enterprises face regarding obtaining/attracting investments are lack of understanding in general



about what social enterprises are; low capacity and no resources to invest in working with potential investors; and no knowledge about how to approach investors and where to look for them. Most social enterprises have expressed the need for a strong intermediary or a support organization/system that could assist them with attracting investors. However, the intermediaries and support organizations are only starting to emerge and a lot still has to be done for actual investments in the industry to be made.

- Social enterprises as a form of a 'real' business are not very well known and recognized yet. Potential investors see them more as charity organizations or hobby businesses instead of real, successful, profitable businesses worth investing in. More success stories about financially successful social enterprises are needed in order to convince potential investors to create investment partnerships with social enterprises.



7. Non – financial support and development instruments

There are several organisations and institutions aimed at supporting particularly social enterprises – running training and mentoring programs, offering consultations and other types of skills, knowledge and expertise support. Other non-financial support instruments mentioned here are more general, aimed at both social and conventional businesses, but social enterprises are encouraged to use their services in order to strengthen their business skills.

<p>Social Entrepreneurship Association of Latvia</p>	<p>The Social Entrepreneurship Association offers an opportunity for social enterprises to get a one-time consultation on various issues: support opportunities for social enterprises, the legal framework and legal forms, establishment of a social enterprise, measurement and assessment of social impacts, social enterprise business models and establishment of partnerships.</p> <p>The Association maintains a national-scale social entrepreneurship ambassador network – pool of active people in the regions of Latvia who are motivated and trained to provide basic information and consultations about social entrepreneurship and how to start a social enterprise.</p> <p>The Association also organizes different events with the aim to improve the knowledge and competencies of social enterprises as well as exchange experiences and practical <i>know-how</i>.</p>
<p>Social Innovation Centre (SIC)</p>	<p>The aim of the Social Innovation Centre is to strengthen and disseminate knowledge, promote international and national exchange of experience, and establish networks for social innovation and social enterprises. Together with seven support organisations from the Baltic Sea region, it implements the project Development of Social Entrepreneurship in the Baltic Sea Region, which has, among other things, established an online platform, Social Entrepreneurship Support Network in the Baltic Sea Region.</p>
<p>Accelerators and incubators</p>	<p>Since social enterprises very often need knowledge, consultation and mentoring support from experienced experts, the accessibility of incubators and accelerators is essential, especially in the early stages of business development.</p> <p>As mentioned before, there currently two incubator and accelerator programs aimed specifically for social enterprises – “<i>New Door</i>” is a social enterprise accelerator that helps to practically develop ideas of social enterprises, and</p>



	<p>“Reach for Change” is a social enterprise incubator that helps social entrepreneurs to develop innovations that create a better world for children. Both work as annual programs which provide intensive trainings together with individual mentoring and consultations. “Reach for Change” also grants a money prize (up to 15 000 EUR) for the best social enterprise each year.</p> <p>As mentioned before, there are also Investment and <i>Development Agency of Latvia (LIAA)</i> business incubators across Latvia which provide support for early stage enterprises (up to 3 years old) thereby contributing to the environment, consultancy, training and activities related to general entrepreneurship matters, mentor support and grants needed for the start-up and development of entrepreneurship. Regional business incubators are particularly appropriate for social entrepreneurs, as the incubators can assist in developing the business idea at the pre-incubation stage and support the enterprises at the incubation stage. LIAA also runs the Creative Industries Incubator in Riga which provides 100% funding for activities and seminars held at the incubator and access to shared creative rooms, 50% co-funding for other services and a grant. This incubator is important for social enterprises, as they often combine the innovative approach to art and business in their activity.</p> <p>There are also other thematic business incubator and accelerator programs across Latvia which are aimed at various specific industry enterprises (e.g. start-up incubators, green-tech incubators) which are all accessible also for social enterprises.</p>
<p>Market recognition (e.g. SEs certificates)</p>	<p>There are no specific market recognition measures or activities at the moment which would be aimed at promoting social enterprises. Even though the social enterprise status granted under the Social Enterprise Law could be considered as a type of a certificate, it is not accompanied with any visual recognition sign and/or marketing activities, and therefore, at the moment, serves only legal purposes.</p>

Problems, challenges, issues, and opportunities regarding the non-financial support:

- The existing non-financial support instruments for social enterprises are not systematic and regular, and are implemented/ happening either too seldom, or do not have the capacity to meet the demand for their services (e.g. “New Door” accelerator is happening only once a year, and out of 122 applications last year they were able to include only 15 in their program). Most of these non-financial support instruments are aimed at very early stage social enterprises which leaves more developed social enterprises without any skills and knowledge support at all.



- Since social enterprises are so diverse, with different problems, situations and challenges, there is a need for an individual and tailored approach. Individual consultations and mentoring would help not only to give the needed skills, knowledge and expertise to each social enterprise, but also to increase their motivation and commitment to their business especially in times when the work gets difficult and complicated.
- Even though the social enterprises themselves are expressing the need for a joint social enterprise recognition label, it is not clear if and how such label should be created, who should be the owner of it, how it should be funded and if it would bring the desired impact. Given the small amount of social enterprises at the moment, and the fact that only the label itself will not be very useful, it has to be introduced together with different marketing and promotion activities. It is clear that social enterprises themselves are not ready to cover the costs of creating and maintaining such a label system.



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