BOOSTING SOCIAL ENTREPRENEURSHIP AND SOCIAL ENTERPRISE DEVELOPMENT IN LITHUANIA

In-depth policy review

European Commission

OECD

Boosting Social Entrepreneurship and Social Enterprise Development in Lithuania

IN-DEPTH POLICY REVIEW

This review provides an in-depth analysis of the Lithuanian policy ecosystem in place for social entrepreneurship and social enterprises. It identifies the country's key strengths and challenges and provides policy recommendations to support the development of a stronger policy ecosystem for social entrepreneurship and social enterprises. Key policy issues analysed include: raising awareness and clarifying the conceptual framework (Chapter 2); coordinating policy and legal frameworks (Chapter 3); enhancing the role of social enterprises in public procurement (Chapter 4); promoting social impact measurement and reporting (Chapter 5); and improving their access to finance (Chapter 6).

Key words: social entrepreneurship; social economy; social enterprises; social impact; social innovation; local development; policy ecosystem.

JEL codes: L31, L33

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Acronyms

AI	Artificial Intelligence
B2B	Business To Business
B2G	Business to Government
CPO	Central Purchasing Organisation
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
EC	European Commission
EU	European Union
EVPA	European Venture Philanthropy Association
FINTECH	Financial Technology
GDP	Gross Domestic Product
GECES	Groupe d'Experts de la Commission sur l'Entrepreneuriat Social
GLL	Greenwich Leisure Limited
GRI	Global Reporting Initiative
IMP	Impact Management Project
INVEGA	Investment and Business Guarantee
IRIS	Impact Reporting and Investing Standards
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
OECD	Organisation for Economic Co-operation and Development
PPO	Public Procurement Office
SBI	Social Business Initiative
SIB	Social Impact Bond
SIS	Social Investment Scotland (United Kingdom)
SME	Small and Medium Enterprise
SVI	Social Value International
USAID	United States Agency for International Development
WISE	Work Integration Social Enterprise

Foreword

Social entrepreneurship is widely acknowledged for its contribution to the creation of economic and social well-being as well as for its capacity to address social challenges in innovative ways. In Lithuania, social enterprises are indeed increasingly put under the spotlight for their potential to address the persistent poverty and limited labour market inclusion that characterise the country. By coupling social objectives with economic value creation, social enterprises can indeed contribute to economic growth while significantly improving people's well-being. Concretely, they contribute to boosting local development through job creation or by (re)integrating disadvantaged individuals into the labour market and they design innovative solutions to socio-economic and/or environmental challenges.

Yet, social enterprises often face various barriers, which prevent them from reaching scale and expanding. These constraints can include limited institutional recognition, conflicting legal frameworks, lack of access to markets and finance, and weak social impact measurement capacity.

Policy-makers can therefore play a critical role in helping social enterprises overcome these barriers by shaping enabling policy ecosystems that foster greater synergies and coherence between policy areas while reducing policy silos. Another fundamental aspect is that, throughout the policy-making process, different policy levels (national and subnational) and different stakeholders should cooperate to ensure the coherence of the policies and programmes designed and implemented.

Thanks to their long-standing cooperation to boost social enterprise ecosystems, the OECD and the European Commission are working hand-in-hand to support European Union (EU) members in the creation of favourable conditions allowing social enterprises to reach their full potential. Recently, the OECD and the European Commission launched the Better Entrepreneurship Policy Tool.[1] This self-assessment tool allows stakeholders to assess, individually or in a group, their inclusive and social entrepreneurship policies and programmes, following an ecosystem approach. It also provides learning material, including policy guidance notes and inspiring case studies, to support better policy design.

This in-depth policy review on Lithuania is the result of the OECD and the European Commission's joint efforts to promote social enterprise development across EU countries. The review includes a detailed analysis of key policy areas and policy recommendations, along with an action plan for their implementation, aimed at enhancing the policy ecosystem and unleashing the potential of social enterprises in Lithuania.

[1] For more information, please see: https://www.betterentrepreneurship.eu/

Executive summary

Lithuania is one of the fastest-growing economies in the OECD. However, the country still lags behind other OECD countries as it suffers from persistent poverty, low labour productivity and poor labour market inclusion. Social entrepreneurship and social enterprises are increasingly being put under the spotlight, by Lithuanian policy makers and civil society, as a promising and viable vehicle to tackle these challenges. The vibrant non-profit sector, coupled with the accession to the European Union in 2004, and the new opportunities and markets offered by the on-going process of decentralisation, provided fertile grounds for the rise and development of social entrepreneurship and social enterprises. Simultaneously, to support the development of the field, several policies and regulations dealing with social enterprises were adopted. However, a number of challenges, including the insufficient harmonisation of policy and legal frameworks, are still preventing the field from further developing. The following points provide an overview and summary of the key policy issues and recommendations detailed in the review and action plan.

- **Raising awareness and clarifying the conceptual framework**

The increasing number of policy initiatives illustrate the growing interest for social enterprises in Lithuania. However, social enterprises still struggle to find their place between civil society organisations and traditional enterprises. The lack of a clear conceptual framework and of coherence among the different existing, and in progress, legal frameworks leads to difficulties in reaching a common understanding, which in turn prevents the field from further developing. Key policy issues and recommendations identified in the report include: addressing cultural barriers and negative perceptions about social entrepreneurship by setting-up awareness-raising strategies; improving conceptual clarity by adopting a unique official definition of social enterprise harmonised with international standards; and nurturing a social entrepreneurial mind-set throughout the education system.

- **Coordinating policy and legal frameworks**

Well-designed legal and regulatory frameworks are important to build a conducive ecosystem for social entrepreneurship and social enterprise development. In that endeavour, clear conceptual clarity and coordinated policies, including from a legislative perspective, are critical. Although Lithuania legislated early on to recognise and support social enterprises, existing laws and regulations are not harmonised, in particular when it comes to the several definitions and terms that are used to describe social enterprises. Furthermore, the numerous amendments adopted and discussed in the last twenty years led to increased confusion as to the criteria that should define social enterprises. The report notably recommends to improve cooperation towards reaching a common vision of social enterprise by establishing an "Inter-ministerial Office for Social Entrepreneurship Development". It also recommends to create a national "Strategy for Social Entrepreneurship Development" adopting a single official definition of social enterprise aligned with international standards. Specific objectives related to the development of social entrepreneurship could also be embedded in the National Progress Strategy currently being prepared.

- **Enhancing the role of social enterprises in public procurement**

In recent years, several countries, including Lithuania, have recognised the importance of using public procurement strategically in order to attain social, environmental and economic objectives. This type of procurement entails that governments, and increasingly firms, strategically choose to purchase goods or services from a social enterprise. At the same time, it represents the main revenue source for social enterprises, which ensures their sustainability. The report therefore recommends to implement a procurement system fostering the delivery of public

services by social enterprises (as understood in the OECD and EC conceptualisations). This entails for example: promoting the use of reserved contracts for social enterprises; creating a go-to online platform for public procurement; and facilitating the creation of market intermediaries in order to make social enterprises more visible to potential customers.

- **Promoting social impact measurement and reporting**

Social impact measurement and reporting are slowly gathering the attention of relevant stakeholders in Lithuania's social enterprise ecosystem. Funders - public or private - are requesting social enterprises to demonstrate their economic and social value, while most social enterprises have not yet embraced the social impact measurement and reporting culture.. Demonstrating the social impact attained can help social enterprises to raise awareness about their achievements in a concrete way and ensure access to financial resources as well as to important public and private markets for their services and products. At the same time, social impact measurement and reporting approaches need to be co-created with all relevant stakeholders if they are to endure over time. Key policy recommendations include: creating an open-access online portal for social impact measurement and reporting approaches; and designing and delivering affordable capacity-building and skills-development programmes on these approaches.

- **Improving access to finance for social enterprise development**

Lithuania made progress in supporting the access of SMEs and non-profit organisations to finance over the last years. It has also accompanied the access to funding from public and private sources with programmes that support business development. At the same time, despite some efforts, social enterprises still struggle to carve out their place and access finance and business development support tailored to their needs. Key policy recommendations include: raising awareness about the hybrid nature of social enterprises and exploring the possibility to extend existing funding sources to them; encouraging the development of a dedicated fund that will address the needs of social enterprises throughout their lifecycle; establishing a market catalyst for developing the Lithuanian social investment market.

Action Plan

The action plan presented below provides a detailed overview of all the policy recommendations included in this report. It identifies short-term priorities in light blue, medium-term priorities in dark blue and long-term priorities in black. It also identifies key stakeholders in charge of implementing these recommendations. The rationale and the details of each policy recommendation summarised in the action plan are presented in the report.

Recommendations	When	Who
Clarifying the conceptual framework		
Set up awareness-raising strategies to address cultural barriers and negative perceptions of social entrepreneurship Promote communication campaigns to raise awareness about the value added of social entrepreneurship and social enterprises.. Provide intermediary support structures with financial resources to ensure investments in communication campaigns and networking events.		Ministry of Social Security and Labour, Ministry of Economy and Innovation, Ministry of Agriculture, Ministry of Finance, Ministry of Education
Adopt a unique official definition of social enterprise harmonised with international standards Adopt a formal definition of social enterprises distinguishing them from WISEs and CSOs. Inspiration can be provided by international conceptualisations, including those of the OECD and European Commission. Ensure alignment between the legal framework and this official definition.		
Advance social entrepreneurial education to diffuse the entrepreneurial mind-set and skills Support and expand social entrepreneurial education through the creation of a national strategy and/or by promoting private-public partnerships with NGOs specialised in this domain.		
Coordinating policy and legal frameworks		
Establish an "Inter-ministerial Office for Social Entrepreneurship Development" to improve cooperation and reach a common vision The Inter-ministerial Office should involve relevant ministries as well as legal experts and representatives of social enterprises. Its main objective should be to agree on a common vision of what social enterprises are. This entails harmonising existing policies, laws, and regulations for social enterprises. The Prime Minister should appoint an Inter-ministerial Delegate to ensure that the outcomes of the Inter-ministerial Office are sustainable and successful.		Prime Minister, Ministry of Social Security and Labour, Ministry of Economy and Innovation, Ministry of Agriculture, Ministry of Finance
Create a national "Strategy for Social Entrepreneurship Development" in line with the official definition of social enterprise The official definition should include WISEs, non-profit organisations and community enterprises that respect the criteria it specifies. The Strategy should formalise the governmental objectives on social entrepreneurship development in the long run and should allocate different responsibilities to relevant ministries. Finally, the Strategy should include an action plan and indicators to monitor its implementation..		
Embed explicit objectives to support social entrepreneurship in the National Progress Strategy If the National Progress Strategy is adopted, the "Strategy for Social Entrepreneurship Development" could instead be renamed "Action Plan for Social Entrepreneurship Development". The purpose of the Action Plan would then be to give a detailed roadmap to implement the broad objectives introduced in the National Progress Strategy.		

Enhancing the role of social enterprises in public procurement		
Implement a procurement system fostering the delivery of public services by social enterprises The system should account for the total value created and not only for the lowest-price bid. It should also encourage the use of reserved contracts for social enterprises. It should promote splitting of tenders into smaller lots to facilitate the participation of social enterprises in public procurement		Ministry of Interior, Ministry of Social Security and Labour, Ministry of Economy and Innovation, Inter-ministerial Office
Create a go-to online portal for public procurement Create a go-to online portal with the sponsorship of the Inter-ministerial Office and the Social Enterprise Network to improve public procurement procedures. It should increase transparency, facilitate the creation of bidding consortia for social enterprises, and help pool together budgets for local partnerships encouraging the integration of public services within and across municipalities.		
Facilitate the creation of market intermediaries to make social enterprises more visible to potential customers Relevant ministries should facilitate the creation of market intermediaries. These entities are key to enhance the visibility of social enterprises to potential customers. For instance, Lithuanian social enterprises could form a national membership organisation that would promote the goods and services social enterprises produce, improve their bidding skills and help them tap into new markets through networking events and seminars.		
Promoting social impact measurement and reporting		
Foster a dialogue among all relevant stakeholders and undertake awareness raising campaigns The dialogue should involve all relevant stakeholders to co-create social impact measurement and reporting approaches. The Inter-ministerial Office could coordinate the dialogue and promote awareness raising campaigns to demonstrate the benefits of measuring and reporting social impact, and highlight potential challenges in doing so.		Ministry of Interior, Ministry of Agriculture, Ministry of Social Security and Labour, Inter-ministerial Office
Create an open-access online portal for social impact measurement and reporting approaches The online portal should provide a space for knowledge and experience sharing among social enterprises and relevant stakeholders. It should keep an updated list of the most frequent outcomes for major areas of social enterprise activities as well as their associated indicators.		
Design and deliver affordable capacity-building and skills-development programmes on social impact measurement and reporting The programmes should be tailored to meet the needs of specific groups: they could either focus on analytical skills for social impact analysts or practical skills for social impact measurement practitioners. In addition to introducing different processes, metrics, indicators and tools, the programmes could also teach how to perform a stakeholder analysis. Social enterprises that cannot afford these programmes could receive dedicated vouchers.		
Improving access to finance for social enterprise development		
Establish a market catalyst for developing the Lithuanian social investment market Establish a market catalyst within the framework of the "Strategy for Social Enterprise Development" (see above). This market catalyst could build on the expansion of an existing structure such as Enterprise Lithuania and should have a double-aim: 1) to thoroughly assess the needs of the social investment market and 2) to develop coherent policy actions for supporting social enterprises.		Ministry of Interior, Ministry of Economy and Innovation, Ministry of Finance, Enterprise Lithuania
Raise awareness about the hybrid nature of social enterprises and explore the possibility to extend existing funding sources to them Promote awareness-raising campaigns among private investors and the grant-making community to deepen their understanding of social enterprises and their specificities. This understanding should be used as common ground for adopting concrete policy actions that allow social enterprises to access available funding sources.		

Encourage the development of a dedicated fund that will address the needs of social enterprises throughout their lifecycle Set up a dedicated fund, like the Lithuanian Social Entrepreneurship Fund, to support social enterprises from start-up to scale-up, targeting both skills development and financing. The Fund should provide an all-encompassing long-term and sustainable response to the needs of social enterprises.		

Legend:

Short-term priority: Medium-term priority: Long-term priority:

Chapter 1. Socio-economic and political context

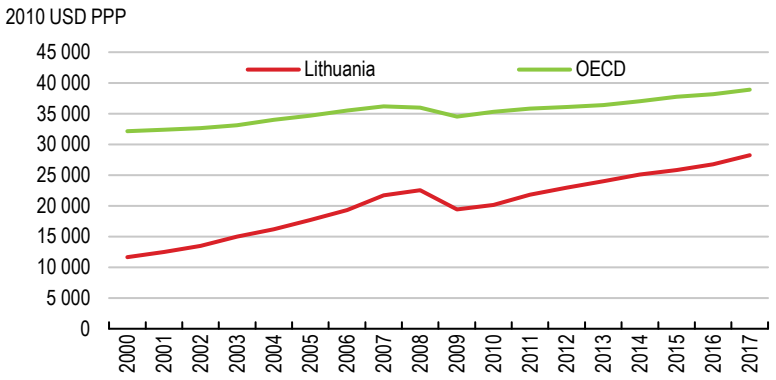
Lithuania is one of the fastest-growing economies across OECD countries. However, the country still lags behind other OECD countries, as it suffers from persistent poverty, low labour productivity and poor labour market inclusion. Lithuania's long tradition of a vibrant non-profit sector has provided fertile grounds for the rise of social entrepreneurship, and in particular Work Integration Social Enterprises (WISE) that play a key role in addressing these issues. Moreover, Lithuania has been progressively devolving competencies to local governments, thus granting municipalities increased autonomy in the delivery of specific social services and opening up potential markets for social economy organisations, including social enterprises. Finally, Lithuania's accession to the EU in 2004 constituted a key driver for the adoption of measures that support and advance social enterprise development. The Law on Social Enterprises, which was enacted the same year, provided a legal basis for Work Integration Social Enterprises. This chapter provides a brief overview of the Lithuanian socio-economic and political context, and stresses the importance of the non-profit sector as the bedrock for the emergence of social entrepreneurship.

Socio-economic context

A fast-growing economy

With an average growth rate of about 4% between 2016 and 2017, the Lithuanian economy has been growing faster than most OECD countries[2] (OECD, 2018). Lithuania's GDP per capita has increased steadily between 2000 and 2017, significantly reducing the gap with the OECD average (see Figure 1.1).

Figure 1.1. GDP per capita



Source: OECD Economic Outlook database (OECD, 2018)

In addition, the latest OECD data shows that Lithuania is characterised by a high employment rate (slightly above 68%) as well as a small number of employees working 50 hours or more (less than 1%) and high educational attainment (92% of the adult population has at least secondary education). This is higher than the OECD average and the average outcome of the OECD partner countries (OECD, 2017). Noteworthy is also the fact that the unemployment rate

[2] The average growth rate of OECD countries is slightly below 1%.

has drastically declined between 2010 and 2017 from 18% of the labour force (15-64 years old) to less than 8% (OECD, 2018).

Lithuania is also fiscally disciplined and complies with the European Union (EU) Stability and Growth Pact requirements by maintaining a low debt-to-GDP ratio (39.7%), running a budgetary surplus (0.5%), and keeping the inflation within the target range (2.1%) (Minisitry of Finance of Republic of Lithuania, 2018).

Finally, Lithuania has also witnessed striking improvements on certain well-being parameters. The OECD Better Life Initiative's country note underlines strong positive change over the past 10 years on two specific parameters, namely jobs and income as well as personal security (OECD, 2017). These figures have contributed to Lithuania's ranking as the 35th highest worldwide on the United Nations Human Development Index and qualifying it as a country with "very high human development"[3] (UNDP, 2018).

High poverty and areas to improve for well-being performance

Despite being a fast-growing economy, Lithuania still lags behind other OECD countries concerning poverty and welfare. Indeed, Lithuania's relative poverty rate is among the highest across OECD countries and is significantly above the OECD average[4] (OECD, 2018). On the OECD Better Life Index indicators, Lithuania does not fare well in comparison with other OECD countries on social indicators. For instance, the country ranks below the average of the 17 OECD countries with the lowest score regarding housing affordability, safety and health (OECD, 2018).

Relatively lower levels of productivity and inclusiveness

Equally important is that Lithuania displays low levels of labour productivity and has been facing serious challenges in integrating disadvantaged groups into the labour market. For instance, the unemployment rate specific to low-skilled workers is at 25% in Lithuania compared to the OECD average that is slightly above 10% (OECD, 2018). This can be partly explained by the skills mismatch resulting from a weak vocational education and training culture: the share of students in vocational education amounted to less than 30% of upper secondary students compared to OECD average of almost 50% (OECD, 2018). In addition, Lithuania lies among OECD countries with the lowest share of public expenditure attributed to labour market activation programmes (OECD, 2018).

Ageing population and high emigration

Finally, the country is currently experiencing a rapidly ageing population as well as high rates of emigration, two demographic challenges that may negatively affect its economy if appropriate measures are not taken to address them. The old-age dependency ratio is projected to rise from 25% in 2013 to 42% by 2060 (OECD, 2018). In addition, the European Migration Network reports that, since 1990, about 19% of the total Lithuanian population emigrated, predominantly to other European Union countries (EMN, 2017). Despite important socio-economic progress,

[3] In 2017, Lithuania was the 35th highest-ranked country in the world and 7th highest ranked among the new European Union members. The Human Development Index, in addition to economic growth, emphasizes people and their capabilities as the ultimate criteria for assessing the development of a country. It is a summary measure of average achievement in key dimensions of human development: a long and healthy life (assessed by e.g., life expectancy at birth), being knowledgeable (assessed by e.g., mean of years of schooling for adults aged 25 years or more) and having a decent standard of living (measured by e.g., gross national income per capita). The index does not reflect on other important issues such as poverty and inequalities.

[4] Lithuania's relative poverty rate is as high as 16% while the OECD average is slightly less than 12%.

the principal reason for emigration is economic. Indeed, in 2016, 30.1%[5] of Lithuanians were at risk of poverty or social exclusion (EUROSTAT, 2018). Low labour productivity and existing risks of social exclusion, as mentioned above, may further amplify the challenges posed by the country's changing demographics.

Political landscape

In 1990, the Republic of Lithuania regained its independence and started restructuring its economy. Since then, the country joined several European and international institutions including the European Union, NATO, the Schengen Agreement, the Eurozone and the OECD.

Lithuania has been progressively moving away from its highly centralised structure by devolving competencies to municipalities and empowering them to address unmet local needs. Lithuania comprises 60 municipalities of an average 48,000 people each, one of the highest averages in the European Union (Freedom House, 2018). In 2015, Lithuania introduced direct mayoral elections with the aim of bolstering local engagement in politics. Moreover, the Action Plan of the Minister of Social Security and Labour for 2014-2020 foresees the decentralisation of social care services for people with disabilities and children deprived of parental care (No. A1-83, February 14, 2014).

Noteworthy is also the fact that the percentage of national income tax revenue allocated to local governments has been slowly increasing (75.4% in 2016, 78.2% in 2017, and 82.8 in 2018) (Parliament of the Republic of Lithuania, 2018). This should give local institutions a larger pool of resources to tap into for local social service delivery.

Although local governments are seeing their autonomy and available resources increase, corruption continues to thwart the efficient delivery of public goods and social services. To date, and despite a slight decline from 2017, Lithuania ranks as the 38th least corrupt country in the world, with the score of 59 out of 10[6] (Transparency International, 2018). While trust in public institutions and satisfaction with their services has been increasing (Bertelsmann Stiftung, 2018), the overall trust in public institutions remains low. In 2017, for instance, only 35% of Lithuanians indicated that they "tend to trust" the national government (European Commission, 2017). Although this represents an increase of six percentages points in comparison to 2016, the percentage is still well below the 55% recorded in neighbouring Estonia as well as below the EU average of 40%.

The emergence of social enterprises

The historical roots of social enterprises: a thriving non-profit sector before the Soviet period

Social enterprises in Lithuania draw their origins from the country's long tradition of a vibrant non-profit sector. Lithuania's very first charity organisation, a shelter for the elderly, dates back to 1518. Throughout the Polish-Lithuanian Commonwealth[7], both noble families and ordinary citizens sponsored charity shelters for the elderly, creating a network of 194 shelters serving more than 5 000 people by the end of 18th century. Until the beginning of World War II, civic engagement remained very high as citizens were driven by the motivation to create an inclusive welfare state capable of effective social services provision. In 1937, almost 8 000 associations were registered in the country, especially in the fields of patriotism and national revival, culture

[5] The 4th highest rate in the EU. The percentage was higher among children (32.4%) and the elderly (37.4%).

[6] Formally the Crown of the Kingdom of Poland and the Grand Duchy of Lithuania.

[7] Formally the Crown of the Kingdom of Poland and the Grand Duchy of Lithuania.

and education, and social care. Cooperatives also played a key and proactive role in enhancing the country's economy as well as pushing for the development of an effective social service system.

During the Soviet period, civil society organisations were forbidden, social services nationalised and agricultural cooperatives become part of the state. Associations only reappeared when Lithuania regained its independence with the emergence of non-profit organisations (NPOs). In 1989, the founding summit of Caritas, one of the largest volunteer organisations, was held. This paved the way for the progressive emergence of the social economy in the country and allowed the recognition of social work as a separate profession.

The 1990s also marked the establishment of a legal framework for NPOs, as several laws were adopted in an attempt to institutionalise volunteering and charity work. The legal framework for NPOs was key in laying the foundations for the emergence of social enterprises as legal provisions were introduced to enable NPOs to reconcile the three core dimensions of the social economy, namely the social, the economic and the inclusive governance.

A prosperous civil society

Civic engagement did not only translate into a flourishing non-profit sector. It also meant the development of a prosperous Lithuanian civil society. Civil Society Organisations (CSOs) played a crucial role in re-building the newly independent state throughout the 1990s as they actively participated in the growth of an autonomous third sector. The Civil Society Sustainability Index (USAID, 2017) illustrates this phenomenon: in 2017, it ranked the Lithuanian civil society 5th best among 24 Central and Eastern European and Eurasian countries covered in the report. Among the different sustainability dimensions assessed in the report, Lithuania received the highest score for advocacy, implying a strong influence of CSOs on policy-making processes.

Lithuania also benefits from a stable and conducive regulatory framework on CSOs (USAID, 2017). The Law on the Development of Non-Governmental Organisations (NGOs) adopted in 2013 formally recognised NGOs and clearly defined their function as "public legal entities independent from state and municipal institutions", while providing mechanisms for collaboration with the government.

While significant improvements were achieved in clarifying the legal framework for CSOs, the exact number of active CSOs in the country is not clear. Similarly, the CSO sector faces other challenges that thwart its expansion, such as for instance the struggle to achieve financial sustainability.

An expanding social enterprise ecosystem

Since its accession to the European Union in 2004, Lithuania has been taking several measures in favour of social entrepreneurship development. Soon after joining the EU, Lithuania adopted the Law on Social Enterprises (Law No. IX-2251), which defines a social enterprise as "any sort of enterprise that is set up to create employment for people that are severely disadvantaged in the labour market" and distinguishes between social enterprises and social enterprises of the disabled. By legally enshrining Work Integration Social Enterprises (WISEs), the law contributed to enhancing their ability to receive public funds. At the same time, Lithuania also witnessed the emergence of a bottom-up social enterprise movement, which culminated with the organisation of the first Social Enterprise Summit in 2014. The Summit paved the way for the passing of a Decree on the Ratification of the Conception of Social Business in 2015.

To date, Lithuania has been increasing policy and legal efforts to boost social entrepreneurship development. The Government seems committed to further supporting the creation of a favourable policy ecosystem for social enterprises. As illustrated in the next chapters, some of the Government's policy measures imply the expansion of the market for social enterprises, notably through public services delivery.

The growing social entrepreneurship landscape is characterised by various types of structures. Estimations suggest the number of Work Integration Social Enterprises registered in 2017 to be around 186, employing 9 356 disadvantaged people (Lithuanian Labour Exchange, 2017). At the same time, calculations obtained using data from Statistics Lithuania indicate that 1 712 associations, 70 foundations, and 1,694 public enterprises were regarded as social enterprises in 2018 (Statistics Lithuania, 2018).[8] Foundations are generally large organisations, one notable example being the Food Bank foundation with EUR 10 million turnover and 38 employees. Conversely, Lithuanian social enterprises tend to be smaller structures. They are generally concentrated in large cities such as Vilnius County (38 %), Kaunas County (22%), and Klaipeda County (12%) (Statistics Lithuania, 2018). As the social enterprise ecosystem expands, it now includes a diversity of actors, such as incubators and accelerators, which provide social enterprises with the necessary technical and financial support to grow.

[8] These figures were obtained using the heuristic method, since identifying the exact number of associations, foundations and public enterprises recognised as social enterprises is not feasible. In March 2018, Statistics Lithuania finds 7,445 associations, 302 foundations and 4,193 public enterprises registered in the country. About one fourth (23%) of each legal form meet the social enterprise criteria. This percentage was applied to each category in order to estimate the number of social enterprises for each legal form.

Chapter 2. Raising awareness and clarifying the conceptual framework

The increasing number of policy initiatives illustrate the growing interest for social enterprises in Lithuania. However, social enterprises still struggle to find their place between civil society organisations and traditional enterprises. The lack of a clear conceptual framework and of coherence among the different existing, and in progress, legal frameworks leads to difficulties in reaching a common understanding, which in turn prevents the field from further developing. This chapter identifies the strengths and challenges that the country faces in that regard. It then presents the key policy issues and policy recommendations. These involve setting-up awareness-raising strategies to address cultural barriers and negative perceptions; improving conceptual clarity by adopting a unique official definition of social enterprise harmonised with international standards; and nurturing social entrepreneurial mind-sets throughout the education system.

Strengths

Growing number of policy initiatives recognising the importance of social enterprises and civil society organisations

Various national policies illustrate that the fields of social entrepreneurship and civil society are on the cusp of a new stage of their development. The adoption of the Law on Social Enterprises in 2004 placed Lithuania within a small group of countries of the European Union that regulated the field early on (European Commission, 2018). The policy developments that followed, including amendments to the existing laws or the Conception on Social Business adopted in 2015, demonstrated the continued commitment to further developing the field (for more information on the legal framework, see Chapter 3).

The Progress Strategy "Lithuania 2030"[9] confirms this trend by outlining the vision of the country's future, in which citizens, the private sector, local communities and civil society organisations could play a bigger role in public service delivery (State Progress Council of Lithuania, 2012). The creation of a working group on "public services transfer" by the Ministry of the Economy and Innovation also illustrates an appetite in further exploring the legal options to transfer social services to NGOs, social enterprises and social businesses. The group, coordinated by Enterprise Lithuania and composed of representatives of different stakeholders groups, illustrates the breadth of interests and confidence in social entrepreneurship as a means to deal with burning social issues.

A fertile ground for cross-fertilisation between the civil society and the social entrepreneurship fields

In Lithuania, civil society organisations (CSOs) typically include associations, foundations and other non-governmental organisations. Although the number of CSOs decreased substantially and almost disappeared between 1945 and 1990 during the Soviet period, the country witnessed a rapid revival of its civil society following its renewed independence. This in turn laid the ground for the emergence of social entrepreneurship. Subsequently, the global economic crisis and its lasting consequences have put social entrepreneurship on the radar of many civil society organisations. Some of them indeed perceive the social enterprise business model as a road to financial sustainability and reduced dependence on the increasingly scarce government grants (USAID, 2017).

[9] For further information, please refer to: https://rio.jrc.ec.europa.eu/en/library/national-progress-strategy-lithuania-2030

Challenges

Negative perceptions of the terms "entrepreneurship" and "social"

Lithuania has been a democratic state for almost three decades now with a rapidly developing market economy. However, the Soviet legacy persists and affects negatively the perception of the terms "entrepreneurship" and "social",[10] therefore slowing down social enterprise development. This can partly be explained because during Soviet times, entrepreneurship was discouraged and depicted as an expression of individualism incompatible with the collectivist and socialist model. In addition, many Lithuanians still associate anything called "social" with the Soviet period. It appears somehow that social enterprises seem to be "too capitalist" for those who are nostalgic towards the socialist period and "too socialist" for those who want to mark the difference to that.

The emotional weight associated with the terms "social" and "entrepreneurship" is so heavy that some stakeholders suggest looking for a new and emotionally neutral term. The concept of "zebras" was notably mentioned, referring to organisations which are both "profitable and improve society" without sacrificing one or the other, and which adopt a cooperative, mutualist and participatory approach (Zepeda, 2017). Due to a lack of operational definition, it is however difficult to distinguish properly social enterprises and zebras. Although these concepts seem to partially overlap, they might not have the same criteria regarding the restriction of profit distribution to potential shareholders, for example.

Difficulties for social enterprises to find a niche in the existing landscape

Social enterprises, which emerged more recently than civil society organisations, report that they face difficulties to be recognised in this organisational environment (OECD study visit). For them, the main challenge indeed remains to position themselves within the existing landscape. For instance, some civil society organisations reject the introduction of market mechanisms and strategies, which is often associated with social entrepreneurship and social enterprises. Most civil society organisations indeed define themselves primarily as non-profits. This seems to indicate that there is some confusion regarding the different, but complementary, roles that both civil society organisations and social enterprises can play. Although there is potential for further cross-fertilisation between civil society organisations and social enterprises, for now, the lack of common understanding prevents the respective fields from further collaborating.

In addition, while the transition from the non-profit to the social enterprise model is always somehow challenging for organisations taking this decision, it is even more so in the Lithuanian context where the civil society is re-building its role and identity after half a century of almost total suppression.

Conceptual ambiguities and lack of policy alignment

The Lithuanian social entrepreneurship field is currently characterised by a lack of conceptual clarity, which is further reinforced by an insufficient policy alignment. Policy makers, practitioners and researchers use different terms to refer to social enterprises that do not encompass the same realities. This is particularly notable from a legal standpoint. Currently, there are two *de jure* definitions of social enterprises.

The first one stems from the Law on Social Enterprises adopted in 2004. According to this Law, the aim of social enterprises is to create employment for disadvantaged individuals in order to promote social integration and reduce social exclusion to reintegrate them in the society (Republic of Lithuania, 2007).

[10] During the OECD study visit, several stakeholders pointed out that many Lithuanians were still sceptical about entrepreneurship.

However, according to prevailing international practices, the conventional term used to describe this type of organisation is Work Integration Social Enterprises (WISEs). Social enterprises, as generally defined in the international arena, encompass WISEs but also go beyond the work-integration dimension (see Box 2.1 for a complete definition). Therefore, the restrictive definition of "social enterprise" in the 2004 Law, which departs from international conceptualisations, as well as the lack of awareness about the term WISE in Lithuania, results in misconceptions about the wider potential role of social enterprises.

The second definition stems from the Conception of Social Businesses adopted in 2015 (Lithuanian Ministry of Economy, 2015). The definition of "social business" provided in the Conception is closely aligned with the common understanding at European level, especially the European Union and OECD conceptualisations (see Box 2.1). The first and main criteria being the prioritisation of a positive social impact.

In addition, amendments to the 2004 Law and the 2015 Conception, modified the respective definitions by adding new criteria (for further information on this, see Chapter 3). Overall, the multiple and changing definitions create confusion. Moreover, the lack of policy coordination exacerbates the tensions and the ambiguity present in the field.

Remaining gaps in social entrepreneurship education and awareness raising

Although a number of non-profits and universities do provide educational activities focusing on social entrepreneurship, permanent education programmes are rare.

Kolping University of Applied Sciences is the only University offering a bachelor programme specifically on social business. Kaunas Technological University, which created an accelerator for social-business ideas, in partnership with the European Institute for Social Entrepreneurship and Innovation, offers a one-semester programme on social business open to students from different disciplines.

Aside from these two exceptions, Master or Doctoral degrees focusing on social entrepreneurship seem scarce or inexistent, although some universities do integrate the topic into public administration, social work or social welfare programmes. At lower education levels, interesting efforts are currently being developed but these are still occasional and not rooted in a long-term approach. For example, the British Council developed a "Social enterprise package for schools", including pedagogical and methodological material, which was used in ten schools in 2017. Junior Achievement Lithuania also launched in 2018, in partnership with the Ministry of Social Security and Labour, a social entrepreneurship programme for schools including lectures and a business project competition joined by 80 schools.

In contrast, social entrepreneurship education seems quite developed in vocational education with 350 vocational training programmes introducing to the basics of social entrepreneurship education (European Commission, 2018).

Key policy issues

Addressing cultural barriers and negative perceptions of social entrepreneurship through awareness-raising strategies

Despite a growing interest for social entrepreneurship in both the policy and civil society arena, cultural barriers and negative perceptions prevent social entrepreneurship from further developing. Raising awareness about the objectives, approach and business model of social enterprises is therefore critical to change the negative connotations associated with the terms "social" and "entrepreneurship". Communicating further about the positive social impact of social entrepreneurship could partly debunk existing myths including the image of the "individualistic entrepreneur" or the association between the term "social" and the negative memories of the Soviet period.

In that endeavour, policy makers can take an active role to tackle misconceptions by setting-up visibility and awareness-raising strategies. These strategies can take different forms, from direct to more indirect support schemes.

Although legal recognition contributes, as witnessed in several countries, to increase the visibility of social enterprises, special attention should be paid to the coherence of the overall legal landscape. Awareness raising requires having a clear conceptual framework that takes into account the interplay between existing and newly created laws and regulations, in order to avoid overlaps and contradictions. For example, the French Law on the Social and Solidarity Economy adopted in 2014, aimed at creating a systemic and cohesive framework addressing the bottlenecks of existing dispersed regulations. The impact evaluation undertaken prior the publication of the bill was critical in that endeavour (French Senate, 2013). In the same vein "The feasibility study on social entrepreneurship development in Lithuania" could be used and updated to identify legal inconsistencies (Ministry of Social Security and Labour of the Republic of Lithuania, 2017).

In addition to the legal framework, different communication strategies could be envisioned to raise awareness about the specificities and added value of social enterprises. For example, identifying and showcasing the work done by some successful social enterprises, through ad-hoc media campaigns or by embedding it in higher education curricula, can serve as a source of inspiration for aspiring or existing social entrepreneurs. It can also contribute to raise awareness of public or private buyers and investors as well as more generally in the Lithuanian society.

Policy makers can also leverage the work done by support structures and intermediary organisations in raising the visibility of social enterprises. For example, the provincial council of Soria in Spain finances some of the programmes of El Hueco, a support structure devoted to social enterprise development in sparsely populated areas. Regular local events are organised to bring together social entrepreneurs, investors and public sector representatives. They also design creative communication campaign and have a strong media and social network presence (OECD/EC, 2017).

Improve conceptual clarity by adopting a unique official definition of social enterprise harmonised with international standards

Improving conceptual clarity is critical to raise awareness and foster a common understanding of social entrepreneurship and social enterprises. In that endeavour, policy makers should provide a clear official definition of social enterprises (including WISEs). Definitions commonly used at the international level could serve as a basis, while adapted to national context (see Box 2.1). For example, the Croatian National Strategy for the Development of Social Entrepreneurship defined social enterprises based on nine criteria, largely aligned with European Commission conceptualisation. Similarly, the French Law on the Social and Solidarity Economy (SSE) defined SSE organisations regardless of their legal form. They must have a democratic governance; pursue a purpose other than sharing profits for personal enrichment; and devote the majority of its profits to the objective of maintaining or developing the enterprise's social mission (OECD/EC, 2017). Overall, most European Union Member States include an explicit criteria in the definition establishing the primacy of social objectives over profit-maximisation and requiring the reinvestment of profits towards these objectives. There are however some exceptions, including Lithuania, the Czech Republic or Latvia which do not include such a criterion (European Commission, 2015).

Box 2.1. Defining civil society, social economy, social enterprises, social entrepreneurship and social innovation

Civil society organisations encompass "the multitude of associations around which society voluntarily organizes itself and which represent a wide range of interests and ties. These can include community-based organisations, indigenous peoples' organisations and non-government organisations" (OECD, 2006).

Social economy traditionally refers to specific types of organisations, namely associations, cooperatives, mutual organisations, foundations and more recently social enterprises. They are generally linked to the values of solidarity, the primacy of people over capital, and democratic and participative governance (OECD, 2018).

Social enterprises may emerge from the social economy or from outside of it. Thereby, the concept extends the social economy field beyond its traditional forms (OECD, 2018). Building on the first conceptualisation adopted by the OECD (OECD, 1999) and concomitant work done by the EMES Research Network, the European Commission identified a **social enterprise** as:

1. An operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders (social mission criterion);
2. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion (market orientation criterion);
3. It uses its profits primarily to achieve social objectives (social mission criterion);
4. It is managed in an open and responsible manner (governance criterion);
5. It involves employees, consumers and stakeholders affected by its commercial activities (governance criterion) (European Commission , 2011)

Social entrepreneurship is often defined as the *process* through which specific types of *actors* "social entrepreneurs" create and develop *organisations* that may be either social enterprises or other types of organisations (Defourny, 2008; Mair, 2006). Beyond the idea of *process*, "social entrepreneurship" designates a *field* including a broad set of initiatives with a social impact dimension in a spectrum ranging from for-profit to non-profits (Nicholls H. &., 2012; OECD, 2010). Social enterprises are only a *subset* of this field in which commercial models are used as the vehicle to achieve social objectives (Nicholls A. , 2006; Thompson, 2008).

Social innovation is a different concept than "social enterprise" and "social entrepreneurship". Social innovation is about designing and implementing new solutions that imply conceptual, process, product, or organisational change which ultimately will improve the welfare and wellbeing of individuals and communities (OECD LEED, 2000). Although social entrepreneurs often adopt socially innovative approaches, they do not have the monopoly of social innovation. These can also be developed in the public, non-profit or traditional business sectors (OECD / EU, 2019).

In addition, at national level, policy makers should ensure that existing legal frameworks and definitions are aligned and harmonised and do not contradict each other (see Chapter 3). For example, the French law on the Social and Solidarity Economy, previously mentioned, illustrates how a framework law can encompass in one single document the different schemes created to support social economy and social enterprise development. In turn, this ensures that the different policy areas identified as critical to the development of the social economy and social enterprises are not designed and implemented in silos.

Nurture social entrepreneurial mind-sets throughout the education system

In the long run, addressing cultural barriers and negative perceptions about social entrepreneurship can also be done by raising awareness among new generations. Although still limited in most European countries, (social) entrepreneurship education can be a promising means to raise awareness while tackling youth unemployment, which is an important challenge in most EU countries. Research has shown that investing in entrepreneurship education at school

results in higher levels of entrepreneurship activities later in life and is more cost-effective than later-stage efforts. In the case of social entrepreneurship education, not only can it prepare students to integrate the labour market, but it can also prepare them to solve social issues, often by leveraging and experimenting with socially innovative approaches. This is in line with the OECD and European Commission definitions of "entrepreneurship" that both go beyond the narrow understanding of starting a new business by also referring to students' ability to be creative, opportunity oriented, proactive and innovative (OECD, 2015; Bacigalupo, Kampylis, Punie, & Van den Brande, 2016).

Although Lithuania has developed a number of interesting programmes at both high and lower education levels, these still remain scarce and do not adopt a long-term approach. Similarly to other European countries, Lithuania does not have a well-developed strategy to embed (social) entrepreneurship in the education system, and many schools offer no entrepreneurship programmes at all.

However, existing partnerships between the Lithuanian government and NGOs dedicated to (social) entrepreneurship education could serve as a stepping-stone to design and implement more systematically social entrepreneurial education programmes in schools and universities. For example, Junior Achievement Lithuania can tap into the network and knowledge of organisations belonging to Junior Achievement Europe (see Box 2.2) to further develop social entrepreneurship programmes tailored to the needs of the country.

Box 2.2. Junior Achievement Europe

Junior Achievement (JA) Europe develops programmes and activities in close co-operation with its national member organisations, which adapt the content to the specific national curricula and conditions. They focus on developing competences such as teamwork, problem solving, leadership, initiative and creativity. They build students' skills in turning ideas into action, analysing information, managing projects or business ventures, budgeting, financial management, marketing and sales.

Two main programmes dedicated to social entrepreneurship education are:

- Social Enterprise 360 (SE360): year-long activities where students create mini social enterprises, and participate in various competitions organised by JA at the national, European and global levels.
- Social Innovation Relay (SIR): Using a dedicated "match-making" platform, JA Europe pairs up teacher-led student teams from several countries with corporate volunteers from NN Group, one of the largest insurance and asset management companies in the Netherlands, who help them translate their concepts addressing social needs into viable business concepts.

In 2014/15, JA organisations reached 3.5 million students in Europe, supported by 117 000 teachers and 164 000 business volunteers. A study on the SIR programme revealed that 78% participating students were more confident in their ability to start a social enterprise; 86% were more aware of the social issues in their own community; and 84% were more aware that social and business objectives could be complementary.

Source: (OECD/EC, 2017)

Recommendations

- **Set-up awareness-raising strategies to address cultural barriers and negative perceptions of social entrepreneurship**

  Promote different communication campaigns about the value added of social entrepreneurship and social enterprises and communicate about their complementary role along with civil society organisations. Provide financial support to intermediary support structures that invest in communication campaigns and networking events that contribute to raising awareness.

- **Adopt a unique official definition of social enterprise harmonised with international standards to improve conceptual clarity**

  Define officially social enterprises and distinguish them from Work Integration Social Enterprises and civil society organisations. International conceptualisations, including OECD and European Commission ones, could be used as a basis (see Box 2.1). Ensure that the legal framework is harmonised and in line with this unique definition.

- **Further develop social entrepreneurial education to raise awareness and build entrepreneurial mind-sets and skills**

  Support existing programmes and further develop social entrepreneurial education by incentivising it at national level, through a national strategy or by promoting private-public partnerships with NGOs specialised in this domain.

Chapter 3. Coordinating policy and legal frameworks to boost social entrepreneurship development

Well-designed legal and regulatory frameworks are important to build a conducive ecosystem for social entrepreneurship and social enterprise development. In that endeavour, clear conceptual clarity (as introduced in Chapter 2) but also coordinated policies are critical. Although Lithuania legislated early on to recognise and support social enterprises, existing laws and regulations are not harmonised, in particular, the several definitions and terms that are used to describe social enterprises in the country. Furthermore, the numerous amendments adopted and discussed over the last twenty years led to increased confusion as to the criteria that should define social enterprises. At the same time, the instability of the legal and regulatory frameworks, coupled with remaining negative perceptions of the field, stifles aspiring social entrepreneurs to set-up their business and existing social enterprises from further developing. After reviewing the strengths and challenges of the Lithuanian legal and regulatory frameworks, the chapter then recommends to takes steps towards more effective policy coordination and legal harmonisation.

Strengths

Early development of the policy and legal framework for social enterprises

In comparison with other countries that joined the European Union in 2004 or later, the development of the legal and regulatory framework for social enterprises in Lithuania started early (European Center for Not-for-Profit Law, 2015). In 2004, the Parliament adopted the Law on Social Enterprises, which was introduced by the Ministry of Social Security and Labour. The Law in fact institutionalised Work Integration Social Enterprises (WISEs) by focusing on "any type of enterprise that is set up to create employment for people who are severely disadvantaged in the labour market" (Government of Lithuania, 2004). A financial aid system for WISEs was then set up in order to sustain their competitiveness in the market.

In 2015, the Ministry of the Economy and Innovation aimed to broaden the scope beyond WISEs captured in the 2004 Law. The Conception of Social Business adopted in 2015 provided a new and more inclusive definition of social enterprises, not limited to the work-integration criterion and defined them as a business model that combines profit seeking with social goals and prioritises the use of market mechanisms.

In 2017, the Ministry of Agriculture issued the "Guidelines for the implementation of social businesses" within the LEADER programme for rural development in Lithuania (No. 3D-720, November 2017). In addition to providing guidance to social businesses on how to apply to the programme, the guidelines also provided a detailed definition of the core dimensions of social enterprises, such as the inclusive governance criterion. Finally, the term "community enterprise" was also introduced and defined as a business initiated by a community organisation whose profits are used to support community needs and which follows the principles of socially responsible business.

Continued interest and efforts to improve the policy and legal framework

Since 2004, numerous policy initiatives showed a continued reflection on the legal definition and the role that social enterprises could play in the country. The past and on-going legislative reforms and amendments, as well as the production of guidelines and the set-up of a multi-stakeholder working group illustrate this.

For example, the Law on Social Enterprises has been amended four times since 2004. Following the implementation of the Law, newly created "social enterprises" were indeed criticised for

taking advantage of the financial aid system by following the letter (i.e. hiring disadvantaged individuals) but not the spirit of the law (i.e. creating social impact). To address this issue, amendments adopted in 2014 reduced the amount of financial aid that WISEs could receive from the state or EU funds. In 2016, new amendments also aimed at preventing the abuse of financial aids and introduced the condition that jobs supported by the State for disadvantaged persons could not be used to replace "normal" jobs[11] (European Commission, 2018).

Similarly, the Recommendations for the Specification of the Social Business Criteria adopted in 2016 were an important amendment to the 2015 Conception, as they distinguished more clearly social enterprises from traditional commercial enterprises and from non-profit organisations (European Commission, 2018).

In 2018, a multi-stakeholder working group[12] was set up to produce a white paper and a set of tools to help public institutions, at both national and municipal levels, to buy more from and/or to transfer some social services to NGOs and social businesses (as defined in the 2015 Conception).

Challenges

Insufficient policy cooperation and coordination

This continued policy interest was however hampered by the lack of sufficient cooperation and coordination among the key ministries involved (i.e. Ministry of Social Security and Labour, Ministry of the Economy and Innovation, Ministry of Agriculture, and Ministry of Finance). In fact, the different definitions of social enterprises adopted in the policy and legal documents previously mentioned partly reflect the conflicting political agendas and struggles for ownership between the different ministries.[13] The Ministry of Social Security and Labour and the Ministry of the Economy and Innovation reformed separately the 2004 Law and 2015 Conception in the absence of consensus for a common approach. One of the reasons invoked being that the support given to WISEs would somehow be diluted if there was only one law encompassing social businesses and WISEs. However, the political debate is still ongoing on this point. This in turn led to a crowded and somehow counterproductive policy and legal framework, lacking conceptual clarity and a clear division of responsibilities across ministries and more importantly lacking an overall vision for the field.

Lack of a clear, harmonised and stable definition of social enterprises

The co-existence of three different, yet related, terms to describe specific types of social enterprises: social enterprise (2004 Law), social business (2015 Conception) and community enterprise (2017 Guidelines) creates confusion and difficulties for stakeholders to navigate the field. While the Conception aligns more closely with the European Commission and OECD conceptualisations widely adopted at international levels, social enterprises (as defined in the 2004 Law) or community enterprises (as defined in the 2017 Guidelines), only cover very

[11] Article 15, paragraph 1 of the Law on Social Enterprises indicates that "a subsidy for the creation of a workplace in a social enterprise may be granted provided several conditions are fulfilled", among which the condition that "the average number of employees on the staff list of the social enterprise increases after the creation of the workplace as compared with the average number of employees on the staff list during the previous calendar year".

[12] The multi-stakeholder working group was composed of: the Ministry of Social Security and Labour; the Ministry of Agriculture; the Ministry of the Economy and Innovation; the Ministry of Internal Affairs; Vilnius University - Law Clinic; the Lithuanian Social Research Center; the Military Academy of Lithuania - Department of Public Administration; the NGO Avilys; the Association of Social Enterprises; and Enterprise Lithuania.

[13] As reported by several stakeholders met during the OECD study visit (May 2018).

specific sub-sets of social enterprises. In addition, the bill currently being discussed in Parliament, which is partly based on the 2015 Conception, introduces additional criteria that further deviate from international standards, including the European Commission and OECD conceptualisations (see Box 2.1). The Draft Law on Social Business submitted to Parliament in 2018 specifies for example that a social business must "be a very small or small enterprise". Such a specification might potentially exclude larger-sized social enterprises from the scope and impede smaller ones from scaling-up. On the other hand, the amendments being discussed to revise the Law on Social Enterprises exclude associations, which is problematic as some of them could perfectly qualify as social enterprises, as observed in many countries. For a complete overview of the past and on-going changes of the legal framework for social enterprises and social businesses, please see Annex A.

Policy issues

Improving inter-ministerial coordination to develop a common vision

As social enterprises often operate in different sectors, their activities relate to the portfolios of different ministries and government agencies. However, an integrated and well-coordinated policy approach is critical to develop a coherent legal framework for social enterprises. Concretely, this means that ministries and different governmental levels cooperate and coordinate throughout the policy process to prevent inconsistencies and confusion.

In that endeavour, providing an institutionalised and sustainable "space" for ministries and relevant stakeholders to discuss and agree on a common vision of social enterprises is critical. This could take the form of an "Inter-ministerial Office for Social Entrepreneurship Development" involving relevant ministries and which could also include legal experts and representatives of networks of social enterprises and civil society organisations.[14] One of the mandates of this Inter-ministerial Office would be to develop a common strategy to harmonise existing laws and regulations by eliminating overlaps and contradictions between the different official definitions and criteria of social enterprise. The Inter-ministerial Office could also articulate and coordinate the work of existing and newly created working groups focusing on aspects that are more technical.[15]

For policy coordination to be efficient, the Inter-ministerial Office should ensure that key ministries and stakeholders work towards reaching a common vision and definition of social enterprises. The international conceptualisations of social enterprises presented in Chapter 2, such as the European Commission and OECD ones, could serve as a basis. Ministries involved could also identify common objectives with regard to the development of social enterprises in the country, while allocating clearly responsibilities among ministries and agencies, so as to avoid inconsistencies and confusion.

Ensuring efficient policy cooperation and coordination also requires improving information flows (OECD / European Union, 2018). The Inter-ministerial Office could incentivise information sharing on a regular basis across ministries, government agencies, other institutional bodies and relevant stakeholders. This can be done both through formal and informal channels. For example, a webpage could be designed as a one-stop-shop to find information about social enterprises. Ad-hoc meetings or information sessions for civil servants and relevant stakeholders could also be organised in cooperation with relevant players, including Universities and research centres from the social enterprise ecosystem, etc.

[14] The Government should ensure that these networks are representative of the respective fields by setting adequate rules.

[15] For example, the working group established to reflect on the transfer of some social services to NGOs, and social businesses (see Chapter 4), could report back to the Taskforce.

A Delegate appointed by the Prime Minister would chair the Inter-ministerial Office to ensure its sustainability in the long term and avoid ministerial ownership struggles. For instance, in France, a decree adopted in 2015, created and defined the role of the Delegate for the Social and Solidarity Economy. The Delegate was notably in charge of promoting the social economy at national level, by proposing and coordinating measures to support the development of the field. In that endeavour, the Delegate had to organise a concertation among public authorities and organisations dealing with the social economy. Finally, the Delegate was in charge of coordinating, at the inter-ministerial level, the administrations responsible for the social economy (French Government, 2015). Part of these responsibilities have now been transferred to the High Commissioner for the Social and Solidarity Economy (French Ministry of the Ecological and Solidarity Transition , 2017). Similarly, the Inter-ministerial Office could draw inspiration from the governmental Unit instituted in Croatia to play such a coordinator role (see Box 3.1 for further information). In Lithuania,, some inter-ministerial initiatives can serve as a source of inspiration as well. For instance, in 2000 the country established an Inter-ministerial Commission of Equal Opportunity for Women and Men.

Working towards a strategic and coherent policy framework and harmonising existing definitions of social enterprises

Harmonising existing policies, laws and regulations for social enterprises is a key priority for Lithuania. In that endeavour, the Inter-ministerial Office could design a national "Strategy for Social Entrepreneurship Development" inspired from what has been done in other countries.

Although the objectives and challenges faced by governments across the world were different when designing and implementing strategies for social entrepreneurship development, some common success factors can be identified. In several countries, the adoption or recognition of a single official definition of social enterprise embedded in the national strategy was critical to bring about further conceptual clarity and provide a common roadmap for stakeholders in the field. For example, in 2016, the Scottish Government (United Kingdom) developed, in cooperation with the social enterprise community, a national Social Enterprise Strategy. The Strategy recognises officially the definition provided in the Voluntary Code of Practice for Social Enterprises,[16] which is mostly aligned with the European Commission conceptualisation, and describes a clear path to stimulating social enterprise activity over a ten-year timeframe. The Strategy is accompanied by a series of three-year Action Plans describing in more detail the commitments, initiatives and programmes (Scottish Government , 2016). Similarly, the Croatian Strategy was developed following a multi-stakeholder approach and is largely aligned with the European Commission conceptualisation (see Box 3.1).

Box 3.1. The National Strategy for the Development of Social Entrepreneurship (Croatia)

Adopted in 2015, the "Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020" represents a seminal document for the creation of a policy framework for social enterprises. The Strategy's main objective is to boost social enterprise creation and growth in Croatia by establishing a more supportive institutional and financial environment. The Strategy was initiated by a network of civil-society organisations (CSOs) and social enterprises through a "bottom-up" approach, in partnership with the government. It is largely aligned with European Union (EU) policies – particularly the Social Business Initiative (SBI). It defines social enterprises based on nine criteria and determines the key areas and activities envisaged for improving the institutional framework. Its main measures aim to: 1) develop and improve the legislative and institutional framework; 2) establish an adequate and supportive

[16] For more information, please see: http://www.se-code.net

financial framework; 3) promote social entrepreneurship through education; and 4) increase social enterprises' visibility.

The Strategy's overall implementation relies on horizontal and vertical coordination bringing together multiple stakeholders, including: relevant ministries and national government institutions as Strategy co-owners; local authorities; local and regional development agencies; CSOs; social enterprises; financial institutions; and academia. The first operational step to implement the strategy was to establish a government unit in charge of implementing the Strategy and for co-ordinating activities among its co-owners.

Source: (OECD/EC, 2017)

The design and endorsement of a strategy are essential steps, however ensuring its implementation is all the more important to build effectively an enabling environment for social enterprises. Including an action plan in the strategy as well as indicators against which progress can be monitored is therefore critical. The Social Enterprise Strategy adopted in Victoria, Australia, is a good case in point (see Box 3.2). Finally, the Inter-ministerial Office should oversee and monitor closely the implementation of the Strategy.

Box 3.2. Social Enterprise Strategy (Victoria, Australia)

In 2017, the Government of Victoria in Australia launched its first Social Enterprise Strategy. The Strategy explains how the government will partner with social enterprises and relevant stakeholders in order to provide strategic leadership and proactive support towards three key goals: (i) increase impact and innovation; (ii) build business capacity and skills and; (iii) improve market access.

The government places particular emphasis on the implementation, monitoring and evaluation, and reporting activities of the Strategy. As this is a whole-of-government Strategy, the initiatives that are part of it, such as the Social Procurement Framework, the Sustainability Programme, and the Regional Partnerships, integrate and complement other policies and initiatives. Each initiative of the Strategy has distinct outputs and concrete implementation plans with delivery timelines. Moreover, a monitoring and evaluation process has been developed outlining the key indicators for measuring progress against the objectives of the Strategy and allows for actions to be adjusted accordingly. The results of the evaluation may also inform future policy developments. Finally, there is an annual reporting requirement to the Social Enterprise Network with regards to progress of implementation of the initiatives and achievement of the outcomes of the Strategy.

Source: https://www.betterentrepreneurship.eu/en/node/53

A number of inter-ministerial initiatives implemented in Lithuania can also serve as a source of inspiration. For instance, the Inter-ministerial Commission of Equal Opportunities for Women and Men involves representatives of all ministries and is notably in charge of designing, implementing and monitoring a National Programme on Equal Opportunities for Men and Women (EIGE, 2000; United Nations, 2000). Another example worth mentioning is the series of seminars and strategic sessions organised by the Office of the Government as part of the project Improvement of Strategic Planning Documents Performance Monitoring and Evaluation Processes (RESST). This initiative provides a platform for discussing strategic planning across ministries and to improve the capacity of line ministries in using the existing system. Overall, the initiative aims to improve co-ordination and maximise the impact of the inter-ministerial action plans (OECD, 2015).

Based on the international and Lithuanian examples previously mentioned, the "Strategy for Social Entrepreneurship Development" could materialise the work done within the Inter-ministerial Office to achieve a common vision by providing a single definition of social enterprise, including Work Integration Social Enterprises, as well as non-profit organisations and community enterprises if they respect the criteria specified in the definition. The Strategy could also be an encompassing framework presenting all financial state aids available to social enterprises (for further information, please see Chapter 6).

The Strategy would also formalise the governmental objectives with regards to social entrepreneurship development, going beyond the current mandate, by aligning it for instance with the "Lithuania 2030" progress strategy. All relevant ministries would thus have to work together to identify and vet common objectives to boost social entrepreneurship development. This report outlines a series of policy recommendations that can constitute the building blocks of this discussion and ultimately of this new strategy.

Recommendations

- **Establish an "Inter-ministerial Office for Social Entrepreneurship Development" to improve cooperation and reach a common vision.**

  The Inter-ministerial Office would involve relevant ministries and could include legal experts and representatives of social enterprises. The main objective of the Inter-ministerial Office would be to discuss and agree on a common vision of what social enterprises are. Concretely, this would entail harmonising existing policies, laws, and regulations for social enterprises (as commonly defined in the internal arena).

  An Inter-ministerial Delegate should be appointed by the Prime Minister to ensure that the outcomes of the Inter-ministerial Office are sustainable and successful.

- **Create a national "Strategy for Social Entrepreneurship Development" adopting a single official definition of social enterprise.**

  The definition would include WISEs, as well as non-profit organisations and community enterprises that respect the criteria specified in this official definition.

  Based on the work of the Inter-ministerial Office, the Strategy would formalise the governmental objectives with regard to social entrepreneurship development in the long run (e.g. ten-year period) and would allocate different responsibilities to relevant ministries. The policy recommendations included in the Chapters 2 to 6 of this report, as well as the work of the Inter-ministerial Office, can constitute the backbone of such strategy.

  Finally, the Strategy should include an action plan and indicators to monitor its implementation.

- **Embed explicit objectives to support social entrepreneurship in the National Progress Strategy**

  On-going discussions at national level indicate a will to avoid the multiplication of thematic strategies by working towards a single National Progress Strategy touching upon different policy streams. If the National Progress Strategy is adopted, the main elements of the "Strategy for Social Entrepreneurship Development" could be part of this National Progress Strategy and the Strategy for Social Entrepreneurship could become an "Action Plan for Social Entrepreneurship Development". The purpose of the Action Plan would then be to give a detailed roadmap in order to implement the broad objectives introduced in the National Progress Strategy.

Chapter 4. Enhancing the role of social enterprises in public procurement

Public procurement accounts for an important share of national budgets and consequently is a powerful means through which governments can influence the behaviour and the actions of contracting authorities. In recent years, several countries, including Lithuania, have recognised the importance of using public procurement strategically in order to attain social, environmental and economic objectives. As social enterprises aim to attain social and/or environmental impact through the delivery of these goods and services, they are well placed for competing in public procurement when it is used strategically. At the same time, public procurement can represent one of the main revenue sources of social enterprises, which ensures their sustainability. This chapter sheds light on strengths and challenges of public procurement in Lithuania and analyses specifically the role of social enterprises in this context. The chapter also outlines several recommendations on how to increase the role of social enterprises in public procurement and notably in public service delivery. Finally, private companies also increasingly pay attention to social and environmental impact of their procurement and this creates new business opportunities for social enterprises.

Strengths

Significant steps taken to improve the public procurement system

Lithuania can increase the role of social enterprises in public service delivery within a well-designed, functioning and continuously improving public procurement system. Since 2009, it has taken significant steps in this direction, starting with the Lithuanian Public Procurement System Improvement and Development Strategy, where it introduced for the first time the concept of "sustainable procurement". More recently, the European Commission Single Market Scoreboard, Public Procurement section, rated the overall performance (whether purchases get good value for money) of public procurement in Lithuania as "average"[17] (European Commission, 2018). Although the rating clearly indicates that there is space for improvement, it also places Lithuania on par with countries with a much longer experience in public procurement such as Germany, France, and the Netherlands. The value of the rating becomes clearer if we consider that only six EU Member States (Belgium, Denmark, Estonia, Finland, Poland and Slovakia) have the highest ("satisfactory") rating whereas some of the biggest EU Member States (e.g. Italy and Spain) have the lowest ("unsatisfactory") rating. Lithuania has the most favourable rating in four out of twelve scoreboard indicators. Three among those indicators can facilitate social enterprises' participation in public procurement: (i) calling for bids before starting negotiation[18], (ii) decision speed[19] and (iii) missing calls[20].

[17] The scoreboard provides valuable but limited information on countries' public procurement performance. The indicators do not consider country-specific factors such as what is being bought and the structure of the economies concerned. They do not capture the issues of corruption, the administrative burden, and professionalism.

[18] This indicator measures progress on making the procurement process more transparent and on increasing the competition in order to ensure better value for money. This is one of the three most important indicators that have a triple weight in the calculation of the overall score.

[19] This indicator measures the time between the bid deadline and the date the contract is awarded. Shortening this time gap can reduce the costs and uncertainty for bidders and buyers.

[20] This indicator measures whether sufficient information is provided about the selection of contractors. Insufficient provision of information reduces transparency and fairness.

Increasingly recognised capacity of non-governmental organisations and social enterprises to deliver public services

Although social enterprises still account for a very small share of public procurement in Lithuania, regulators and contracting authorities are increasingly becoming aware of their potential and capacity to deliver public services. For instance, the Law on Public Procurement (Lithuanian Parliament-SEIMAS, 2017) enables Work Integration Social Enterprises (WISEs) to use simplified procurement procedures and reserves at least 2% of the total value of contracts awarded to these organisations. The Public Governance Improvement Program for the 2012-2020 period, adopted as a part of the National Progress Strategy "Lithuania 2030", foresees that a minimum of 15% of public services shall be provided by non-state institutions such as associations, foundations, and public, social, and private enterprises (OECD, 2015).

In 2017, the Ministry of Social Security and Labour undertook a national survey to take stock of the role of non-governmental organisations in the provision of public services. The survey found that 79% of surveyed municipalities and 77% of surveyed non-governmental organisations - 60% of which were involved in provision of public services - believed that the institutional capacity of non-governmental organisations to provide public services was either "mostly sufficient" or "more adequate than inadequate." Moreover, surveyed non-governmental organisations identified as social enterprises showed high rates of involvement in public services provision and increased capacities to provide these services sustainably. With this in mind, in 2018, as part of the Government's Action Plan for 2014-2020, the Ministry of the Economy and Innovation established a Working Group coordinated by Enterprise Lithuania whose aim is to elaborate a model for gradual transfer of public services to social businesses and NGOs. This initiative clearly recognises the potential of social businesses to provide public services in a cost-efficient and sustainable way.

Diversified training offer for procurers and bidders

Lithuania has developed a wide array of training opportunities both for procurers and for potential bidders. Although contracting authorities' employees mainly acquire their knowledge on public procurement from on-the-job training, the Public Procurement Office (PPO) organises numerous and diverse trainings and seminars together with other Ministries, local authorities or European and international bodies. These trainings are open not only to contracting authorities but also to bidders. They often focus on general procedures and aspects of the law, as well as on specific topics like definition of contract award criteria, social and green procurement or e-procurement. The Central Purchasing Organisation (CPO) also offers trainings for contracting authorities and bidders to foster the use of Lithuania's central public procurement system and its e-catalogue. Finally, the National Audit Office (NAO) has developed an internal training programme on public procurement aimed at auditors. This includes courses on simplified low-value purchases, EU-funded tenders, contract awarding, public procurement risk management, and procurement contracts.

Challenges

Perceived limitations in the functioning of the public procurement system

Despite Lithuania's progress in developing a solid public procurement system, important shortcomings hinder the increased participation of social enterprises in public service delivery. Many social enterprises find public procurement markets virtually impenetrable.[21] Among barriers identified, the disproportionally long and complex contracts along with an unrealistic short time to complete tenders result in contracting processes with high transaction costs. They

[21] During the OECD field visit, stakeholders met identified several barriers that hinder their organisations' participation in public procurement.

also mentioned the inflexibility of specifications and lack of transparency in decision-making criteria, as well as the excessive level of legal risk transferred to the contracting organisation.

Lack of clear definition of public services

The role of social enterprises in public procurement depends on a clear understanding of what actually constitutes public services. This applies particularly to general interest public services, which represent social enterprises' predominant market in Lithuania. Although the Law on Public Administration (Lithuanian Parliament - SEIMAS, 2014) (Article 2, Items 17 and 18) defines administrative and public services and allows for delivery of public services by "other persons" (i.e., not only entities controlled by the state or municipalities), it lacks precision. As a response, the Ministry of Interior produced a list of more than 14,000 public services. However, the state audit report criticised the list as poorly conceptualised as it did not clearly distinguish between administrative and public services (National Audit Office of Lithuania, 2017).

Awarding contracts to social enterprises remains problematic

Social enterprises have still not become an integral part of the public procurement system as contracts awarded to them remain sporadic. The European Commission Single Market Scoreboard, Public Procurement section, rates five out of twelve indicators for Lithuania with the lowest ("unsatisfactory") grade. Two indicators directly concern social enterprises: (i) the high percentage of contracts awarded only on the basis of lowest price, and (ii) the small proportion of contracts awarded to small and medium enterprises. The latter is particularly problematic as the majority of Lithuanian firms - including social enterprises - belong to this category. This signals their limited capacity to compete with firms of larger size.

Moreover, according to PPO[22], in 2017 contracts awarded through simplified public procurement to social enterprises represented 2% of the total of the total value of simplified public procurement in Lithuania. Although the numbers are quite low, they represent an increase of 32.7% in monetary value in comparison to 2015. In terms of intensity and satisfaction of procurers, PPO's findings are also mixed. Most of the contracting authorities (86%) reported that they were satisfied with social enterprises' quality work, goods and services. Yet, 77% of those who contracted from social enterprises did it only once or twice. Interestingly enough, the number of contracting authorities has not varied much over the last years (589 in 2011, 573 in 2012, 584 in 2013, and 651 in 2015, 644 in 2016), but the volume of total simplified contracting increased by 16.7%.

Municipalities preference for budgetary and public institutions in public service delivery

The current setup of the public procurement at the municipal level constitutes a significant barrier for social enterprises. The Law on Local Self-Government (Lithuanian Parliament - SEIMAS, 2017) stipulates that the municipalities handle the provision and the administration of public services under the supervision of the national authorities (European Commission, 2015). Municipalities establish their own budgets and select the public service providers. They can also set-up new public services providers if there is a lack of non-state providers or no guarantee of service quality and cost efficiency.

Concretely, in 2018, the total budget of Lithuanian municipalities was approximately EUR 3 billion and almost 50% of this amount went for the provision of public services either through *budgetary* or *public institutions*. *Budgetary institutions* are organisations whose roots go back to the Soviet era and provide public services in education, culture, sport, social service and other areas. Currently, there are about 4,000 *budgetary institutions* employing 270,000 people. In

[22] For further information, please see: http://vpt.lrv.lt/informacija-apie-2017-m-ivykdytus-pirkimus

addition, the state and/or municipalities can establish *public institutions* to provide public services. There are approximately 3,000 *public institutions* with 110,000 employees. During the OECD study visit in May of 2018, several correspondents - including public sector representatives - identified a privileged treatment of *budgetary and public institutions* for delivering public services as a significant obstacle for social enterprises' growth and participation in the market. However, they acknowledged that *budgetary and public institutions* employ many people and are culturally entrenched in the Lithuanian society, especially at the local level.

Perceptions of prevalent corruption risk

Prevalent perceptions regarding the lack of transparency and corruption in public procurement often discourage social enterprises from participating in calls for tender. Despite PPO's financial and performance audits by the National Audit Office (NAO), its accountability has been challenged. Transparency International estimates suggested that in 2016 PPO had the capacity to evaluate thoroughly approximately only 3.4% of high-value procurement procedures. These findings pointed towards the same direction as the results of a survey it conducted the same year. More precisely, 89% of the respondents claimed that corruption deals are likely (37.3%) or very likely (51.7%) to take place when setting the qualification requirements. In addition, 40.3% of respondents said that they decided not to participate in the tenders because the winner was unofficially known in advance (Transparency International Hungary, 2016).

Policy issues

Fostering social enterprises' role in the delivery of public services through public procurement

Governments have been engaging in partnerships with non-state actors that can help increase the range of available social services, improve their quality through competition, add value in the form of additional benefits and/or lower costs, and foster greater public participation and ownership of public services (World Bank, 2000). However, the track record of the public contracting is mixed. Some well-publicised failures involving public contracting to traditional for-profit organisations (e.g. hospitals in the Spanish province of Valencia) (El Diario, 2018) have bred citizens' mistrust towards them. In contrast, successful examples of public contracting to social enterprises (see an example in Box 4.1) and other civil society organisations have resulted in widespread recognition of their contribution in delivering public services more efficiently by meeting the needs of people who use them.

Box 4.1. Transforming leisure and sport public services into a social business

On 1 April 2017, the Cornwall Regional Council (United Kingdom) awarded the contract to manage and operate its network of 15 leisure centres and sport facilities to GLL, the largest charitable social enterprise in the United Kingdom.

GLL initiated its activities in 1993 in Greenwich where it operated 7 leisure centres. It has expanded rapidly and transformed itself into a federated regional network committed to get people more active more often. Cornwall was the latest region that GLL added to its growing network of centres all over the United Kingdom. Today, in partnership with more than 30 councils, GLL manages more than 250 public sport and leisure centres and 57 libraries that provide services to its 650,000 members and 40 million visitors a year. Many of GLL's senior managers have significant working experience with local and regional governments allowing GLL to fully understand needs and pressures of the contracting authorities such as those of the Cornwall Council to keep its leisure and sports centres open for citizens without providing subsidies.

The 25-year Cornwall contract should generate over GBP 10 million annually. GLL will reinvest any financial surpluses in improvements of facilities and in popularisation of sport participation. GLL has committed to invest GBP 23 million across Cornwall centres and to increase membership by thousands.

Through its GLL Sport Foundation, GLL will identify talented young athletes in the Cornwall region and provide them with financial and training support. The staff of 750 full- and part-time employees that worked in the centres before the contract, joined GLL's staff of 12,500 employees-owners across the United Kingdom.

Source: www.gll.org

Social enterprises have several important advantages as public services providers: (i) proximity to the beneficiaries and their problems; (ii) flexibility and responsiveness to the needs of beneficiaries; (iii) expertise that cannot be found in public sector; (iv) ability to identify and bring new issues to the policy agenda; (v) ability to bring additional resources and match them (e.g., complementing public and philanthropic funds); and (vi) strong innovation potential (SEFORÏS, 2017). These advantages make social enterprises an ideal partner for governments, not only as contractors for public services, but also as participants in setting priorities and monitoring of public services delivery (World Bank, 2005).

In addition, an effective public procurement system can ensure a level playing field for all bidders, independently from their legal form and status, by accounting for the total value created along with wider effects on individuals, communities, and the environment (UK Cabinet Office and SROI Network, 2009). The price-to-total-value ratio approach aims to incentivise the consideration of measurable and hard-to-quantify social outcomes alike.

Harnessing the favourable EU Public Procurement Policy for social enterprises

Public procurement can foster greater involvement of social enterprises in public service delivery in many ways. For instance, the EU Directive 2014/24/EU transposed in Lithuania in July 2017, which notably aims to open-up the public procurement market and promote innovation in public service delivery, has been particularly favourable to social enterprises due to their pro-social mission and business model. For instance, in line with the EU Directive, the Lithuanian legislation now offers the possibility to break contracts into lots to facilitate participation of small and medium enterprises (including social enterprises), and to reserve any contracts for sheltered workshops or social enterprises employing disadvantaged people.

Facilitating social enterprises' participation in tenders by breaking contracts into smaller lots

While aggregate public procurement can provide value for money to public authorities, easy attainment of social and environmental targets, and more effective planning and monitoring, the large size of contracts can marginalise social enterprises. However, aggregation of public procurement does not prevent contracting authorities from dividing contracts into smaller lots with more attainable requirements, which can be much more attractive for social enterprises. Smaller-size contracts in sectors where social enterprises play a significant role is an interesting and tested policy option. For instance, in the UK, although the Social Value Act applies to public services contracts above the EU procurement thresholds, guidance from the central government advises to apply it more widely and for smaller contracts. This is the policy in Plymouth Council[23], which applies social value considerations to every contract above EUR 5,735 (GBP 5,000).

[23] For further information, please see: https://www.plymouth.gov.uk/aboutcouncil/doingbusinesscouncil

Box 4.2. Special focus: Developing a private market for social enterprises and fostering partnerships with businesses

Access to private markets - either by establishing partnerships with businesses or by providing goods and services directly to consumers - allow social enterprises to ensure their sustainability and diversify their revenue streams by reducing their dependency on public funds and grants. Businesses and consumers play a key role in creating the demand for social enterprises' services and goods. By including social enterprises in their supply chains, businesses align their CSR objectives with their core business and demonstrate that they seriously consider their wider role in the society and the economy, which can result in positive reputational effects towards their customers and employees (Social Enterprise UK, 2017).

Although this is an increasing trend, more efforts are needed in order to mainstream such partnerships. For example, in Lithuania the national market for social enterprises has been predominantly associated with public procurement and contracting-out of public services (B2G market). As a result, the private market remains a largely unexploited revenue source. Social enterprises are reluctant to participate in private procurement conducted by businesses (B2B market), when this occurs. And when they do, social enterprises originating from the non-profit sector note that they do not know how to speak the "business language" or that businesses put pressure on them to be more "business-like" and deliver on targets, which may not be immediately attainable notably when related to social impact (British Council, 2014). This applies particularly to social enterprises originating from the non-profit sector.

Dedicated campaigns, such as the Buy Social Corporate Challenge, can help address these challenges as they aim to raise awareness among businesses and consumers about the social impact that other businesses and social enterprises can attain when they join forces. For instance, in 2016, the UK launched the Buy Social Corporate Challenge with seven founding partners, including for example Johnson&Johnson. It currently includes eleven large corporations employing over 70,000 people around the world with a combined turnover of more than GBP 157 billion. The aim of the challenge is to reach cumulative spending of GBP 1 billion on social enterprises by the end of 2020. The idea behind Buy Social Corporate Challenge is to bring together a diverse group of firms and unite them toward a common goal: to actively support spending more resources on social enterprises while building a network of peers across organisations for sharing insights and good practices (OECD/EC, 2019).

Leveraging the technology for stimulating access to markets for social enterprises

Online matching platforms that bring together social enterprises, firms and government buyers, can stimulate supply and demand with social and/ or environmental considerations. For example, Social Impact Market[24] in the Netherlands, launched in 2016 by the Social Impact Factory, is an online B2B and B2G marketplace where public authorities and firms can post their procurement needs and search for social enterprises that meet their criteria. At the same time, social enterprises that are members of the platform can identify and access both public and private market opportunities (see Box 4.3).

Box 4.3. Social Impact Market, the Netherlands

Since 1 July 2011, the Dutch Government has actively incorporated social return obligations in its tendering process. Today, many municipalities impose a minimum social return, amounting to 5% of the contract price/wage sum of any public procurement tender exceeding EUR 209 000. While the instrument's main intent is to create employment, some municipalities allow suppliers who cannot create jobs to purchase products or services from local initiatives or social enterprises – many of which create employment for people who are otherwise excluded from the labour market.

[24] For further information, please see: https://www.buy-social.nl/

The Social Impact Market offers a transparent supply and demand system. In January 2016, the Social Impact Factory launched the Social Impact Market, an online B2G and B2B marketplace for municipalities and companies (including social enterprises) seeking to purchase social products or services. Over 90 social entrepreneurs currently offer their services on the Market. They first undergo a quick scan highlighting their societal objective; how they reinvest profits; how their ownership reflects the enterprise's mission, by using democratic principles or focusing on social justice; and the number of people they have hired who were excluded from the employment market.

Purchasing managers in traditional companies and municipalities use the Market to post their procurement needs or search for possible suppliers. The Social Impact Factory serves as a link between the municipalities where it operates and other stakeholders. It provides guidance and knowledge on procurement and social return regulations, and enables a growing number of social enterprises to participate in the tendering process.

Source: (OECD/EC, 2017)

Recommendations

- **Implement a procurement system fostering the delivery of public services by social enterprises**

  The system should account for the total value created and not only for the lowest-price bid. It should also encourage the use of reserved contracts for social enterprises when applicable and facilitate their participation in public procurement. In order to achieve this, it should promote splitting of tenders into smaller lots, allowing social enterprises to bid as a part of a consortium or sub-contractors.

- **Create a go-to online portal for public procurement**

  The creation of an encompassing go-to online portal sponsored by the Social Enterprise Network and the Inter-ministerial Office (Chapter 3) could contribute to improving the public procurement procedures. The portal could incorporate the existing online platforms in one place where users can access easily both general and targeted information on public procurement procedures, such as all tenders for public service contracts. The portal could also facilitate the creation of bidding consortia for social enterprises and offer inter-operability with other public and government sector portals. Finally, the portal could allow for pooling together budgets for local partnerships leading to redesign and integration of public services within and across municipalities.

- **Facilitate the creation of market intermediaries for raising the visibility of social enterprises towards potential customers**

  Independent market intermediaries or intermediaries created and/or owned by social enterprises can raise the visibility of social enterprises to potential customers. For instance, following the example of Social Enterprise NL, Lithuanian social enterprises could form a national membership organisation, which could run campaigns to encourage government bodies, businesses and individuals to buy goods and services from them. It could also create an online catalogue that would list products and services from social enterprises and set up communities of practice for suppliers and for buyers where they could learn from each other. It could also organise capacity-building workshops for helping social enterprises to improve their bidding skills for public and private contracts. Finally, the national organisation/body could organise events where social enterprises could pitch to potential buyers their products and services, as well as seminars for businesses highlighting good social procurement practices and ways to align social procurement with their corporate social responsibility (CSR) objectives.

Chapter 5. Promoting social impact measurement and reporting

Social impact measurement and reporting are slowly gathering the attention of relevant stakeholders in Lithuania's social enterprise ecosystem. Funders and clients - public or private - are requesting social enterprises to demonstrate their economic and social value, while most social enterprises have not yet embraced the social impact measurement and reporting culture. Despite all the hurdles that a social enterprise can face when trying to measure and report its impact due to the lack of financial and human resources, it is a worthwhile effort. Demonstrating the social impact attained can help social enterprises to raise awareness about their achievements in a concrete way and ensure access to financial resources and to important public and private markets for their services and products. At the same time, social impact measurement and reporting approaches need to be co-created with all relevant stakeholders if they are to endure through time. This chapter presents Lithuania's key strengths and challenges in entrenching a social impact measurement and reporting culture in its social enterprise ecosystem. It examines the key policy issues that emerge from this analysis and presents international examples of good practices for inspiration. Finally, it provides actionable policy recommendations tailored to the country's context.

Strengths

Growing interest for social impact measurement and reporting

Together with the emergence of social enterprises in the country, there is an increasing interest for measuring and reporting social impact. For instance, Enterprise Lithuania has established a working group of experts and prepared a model for assessing social businesses'[25] social impact measurement approaches along with an inventory of relevant tools. These tools can be used both by social businesses[26] and by other institutions, such as public and private funders and clients. While these initiatives have been of limited scope so far, they indicate a growing consensus regarding the importance of social impact measurement, including as a way to raise the visibility of social businesses'[27] contribution to the economy and the society.

At national level, an interesting example of impact measurement and reporting efforts is the initiative of the Ministry of Agriculture in the framework of the LEADER programme for the development of rural areas (2014-2020). More precisely, the Ministry developed guidelines for social enterprises - including community enterprises - regarding the social impact measurement, the procedures for institutionalising their social aim, the modalities for reinvesting their profit, and for clarifying their participatory governance.

Challenges

Lack of shared understanding and a common framework for social impact measurement and reporting

Despite the political impetus triggered by the "Conception" for developing a shared understanding and a common framework for social impact measurement and reporting, efforts remain at an embryonic stage. The multitude of perspectives of what social impact is and how it should be measured and reported can be a source of confusion and sometimes even of tension.

[25] As defined in the 2015 Conception.

[26] Ibid.

[27] Ibid.

During the OECD visit in May 2018, several social entrepreneurs mentioned that there is a sheer lack of common understanding among them and other stakeholders, such as funders, which can result in resistance to measure and report their impact. Consequently, instead of treating this as an opportunity to highlight their social and economic value, social enterprises perceive it as a disproportionate burden to their efforts notably when they are at an early stage. At the same time, funders are more reluctant to invest in social enterprises as they are still trying to decipher their hybrid nature, which falls between SMEs and non-profit organisations, that they are used to fund. This hinders social enterprises' access to financial support from credit institutions, state-credit support schemes, and investors.

Limited capacities and skills to measure and report social impact

Given the fact that measuring and reporting social impact is an emerging trend in Lithuania, relevant capacities and skills for undertaking such a daunting task are scarce. Social entrepreneurs stressed during the OECD visit that they face difficulties in finding staff with appropriate skills. Furthermore, the limited and costly offer of training for measuring and reporting impact by support structures limits social enterprises' overall access to hands-on skills development opportunities. That being said, Enterprise Lithuania could complement the inventory of social impact measurement tools with capacity-building programmes.

Policy issues

Building a social impact measurement and reporting culture

Over the last decade, several sustained efforts have been undertaken internationally to instil a social impact measurement and reporting culture. In 2012, the European Commission, in the Single Market Act II, placed particular emphasis on measuring social enterprises' socio-economic impact and developing relevant tools (European Commission, 2012). In this spirit, in 2014, the GECES ("Group d'Experts de la Commission sur l'Entrepreneuriat Social") sub-group on Social Impact Measurement released a methodology for measuring the impact of social enterprises' activities and signalled the strong political support in harmonising social impact efforts across the EU (GECES/EC, 2014). As an outcome, several EU Member States have started to promote policy measures that aim to raise awareness and breed a social impact measurement mind-set. For instance, the French government recently launched the "French Impact", a whole-of-government initiative, which aims to boost social entrepreneurship and innovation across regions by mobilising multiple ministries and funders, and making available to social enterprises social impact measurement tools.

Access to funding resources has been another driving force for creating a social impact measurement and reporting culture. Public and private funders have started to push social enterprises to measure and report their impact (OECD/EC, 2015). Social enterprises often need to demonstrate a track record of social impact attainment and reporting in addition to other requirements as part of their bidding offer for public contracts with social considerations. Similarly, impact investors are assessing both the financial and the social return of a social enterprise before investing in it. Intermediary organisations can help raise awareness about the benefits and the challenges of social impact measurement and reporting among funders and social enterprises through targeted campaigns and impact labels (see 5.1 for an example).

Box 5.1. PHINEO: A financial intermediary raising awareness about social impact measurement

PHINEO was established in 2010 to meet the German non-profit and social enterprise sector's need for more transparency in finances and impact assessment. It has reached out to more than 200 opinion leaders across Germany, describing social enterprises' mission and organisational structure, and explaining how they should be taken into account when designing impact measurement requirements. PHINEO also strives to raise awareness within social enterprises, by explaining that measuring impact has a useful function in substantiating and improving non-profit activity. In this process, it conducts issue-related impact assessment studies in which social enterprises are invited to participate free of charge and without risk. After undergoing a selection assessment process, social enterprises that meet certain criteria (regarding their organisational and financial structure, vision, potential impact and capacity to yield results) are publicly profiled and awarded PHINEO's "Wirkt!" impact label. PHINEO publishes guides, such as the Social Impact Navigator, which gather and analyse social enterprises' impact measurement experiences, as well as offer hands-on advice, checklists and step-by-step activities.

Source: (OECD/EC, 2017)

At the same time, as with every trend, caution is required to avoid unintended consequences. Attribution of social impact to social enterprises' activities can be challenging, especially for social issues that require long-term interventions. This can lead funders to steer their attention away from "hard-to-measure" aspects. This could lead social enterprises either to drift from their mission in order to satisfy funders' requirements with the risk of leaving behind the ones most in need or losing access to resources. Lastly, social enterprises - notably at an early stage of development - often face a "proportionality challenge". This means that the measuring and reporting efforts require more time and human and financial resources than the expected impact (OECD/EC, 2015).

Fostering stakeholder engagement and co-constructing the social impact measurement and reporting field

Given the importance of addressing the needs and aligning the interests of all relevant stakeholders - social enterprises, funders, public sector representatives - co-constructing a social impact measurement and reporting approach is crucial. When such approach emerges from a co-creation process, it is more likely to accommodate stakeholders' diverse interests and values, and therefore, to be adopted and endure over time. The GECES has worked towards this direction by promoting a 'stakeholder analysis' approach (EVPA, 2013; GECES/EC, 2014; EVPA, 2017). This analysis suggests developing a social impact and reporting approach based on an ongoing dialogue with the different stakeholders engaging with the social enterprise, rather than on a unilateral decision by the social enterprise (Costa, 2016; OECD/EC, 2015).

Apart from responding to external demands, co-creating a social impact measurement and reporting approach can yield outcomes that are more favourable to the beneficiaries. Through a co-creation process, social enterprises together with the relevant stakeholders can clarify the mission and the theory of change of an intervention (OECD/EC, 2019). They can also develop together a shared language that precisely pins down each stakeholder's priority areas of activity, roles, and types of change they aspire to achieve (in the short, medium and long run). Finally, a co-creation approach can stimulate knowledge and experience sharing among stakeholders and act as a resource pooling mechanism, which can allow social enterprises to access social impact measurement and reporting resources that they may not have in-house.

Developing a shared understanding across social impact measurement and reporting approaches

Organisations supporting social enterprises throughout their stages of development often develop their own social impact measurement approaches. In order to deal with this diversity while developing a shared understanding regarding social impact measurement and reporting, some organisations identified transparency as a common denominator. This means that they use different metrics but they disclose the technical details of their social impact measurement and reporting approaches. This is one of the core principles of organisations and initiatives such as the Impact Reporting and Investing Standards (IRIS, 2018), the Global Reporting Initiative (GRI, 2018), Social Value International (SVI, 2018), Impact Management Project (IMP, 2018) and the G8 Social Investment Task Force (G8, 2014).

Another possible avenue for dealing with the diversity and improving the comparability of results, would be to harmonise and standardise social impact measurement and reporting *processes* (GECES/EC, 2014; OECD/EC, 2015). In 2014, the GECES developed a common standard regarding the process for measuring and reporting social impact. This standard builds on practices used in financial reporting, which share common processes and disclosures without using specific calculations (Ruff & Olsen, 2016), and is in line with the European Venture Philanthropy Association's practical guide to measuring and managing impact (EVPA, 2013). As a result, it allows balancing the needs of different stakeholders for sound information and the need for proportionality and usefulness. This standard also strives for practicality, simplicity, and elimination of excessive costs, and it can be used by all social enterprises irrespective of their size, field of activity and geographic location. The standardised process involves five stages: (i) identifying objectives; (ii) identifying stakeholders; (iii) setting relevant measurements; (iv) measure, validate and value; and (V) report, learn and improve (GECES/EC, 2014).

Technology can also help in harmonising different social impact measurement and reporting approaches. For example, the Dutch government recently launched an interesting initiative: the "Impactpad". This is an online tool aiming to bring a degree of harmonisation for social impact measurement and reporting while making it affordable and accessible. This online tool includes five levels of social impact measurement and covers three thematic areas: labour market participation, circular economy, and sustainable value chains (OECD/EC, 2019)

Finally, striking a balance between harmonisation and innovation and experimentation in social impact measurement and reporting is essential. Or, said in another way, "the market is best served when each organisation can measure its social impact in the way that is most meaningful and insightful to its aim and operations, as long as it follows common principles for good measurement" (Ruff & Olsen, 2016).

Recommendations

- **Foster a dialogue among all relevant stakeholders and undertake awareness-raising campaigns**

  This dialogue should involve all relevant stakeholders in order to co-create social impact measurement and reporting approaches, for example through workshops or open debates. The Inter-ministerial Office could coordinate this dialogue and promote campaigns to raise awareness about such initiative and other available resources among relevant stakeholders. These campaigns can also demonstrate more generally the benefits from measuring and reporting social impact and highlight the capacities, the specificities, and the constraints of social enterprises.

- **Create an open-access online portal for social impact measurement and reporting approaches**

The online portal should provide a space for knowledge and experience sharing among social enterprises and relevant stakeholders interested in social impact measurement and reporting. It should include descriptions of the processes used by social enterprises in order to attain, measure, and report their social impact. The portal should also maintain a list of the most frequent outcomes and their matching sub-outcomes targeted in each major area of social enterprise activities. Finally, the list should contain indicators used to attach value to outcomes and impacts.

- **Design and deliver affordable capacity-building and skills-development programmes on social impact measurement and reporting**

  The programmes should be tailored to meet the needs of specific groups. For instance, one programme could focus on the development of social impact analysts and the skills needed to compare social impacts across different social enterprises without relying on a rigid set of specific metrics. The other programme could focus more on the practitioners from social enterprises in charge of social impact measurement and reporting. In addition to introducing different processes, metrics, indicators and tools, the programmes could also teach how to perform a stakeholder analysis. Dedicated "vouchers" could be provided to social enterprises that cannot afford these programmes.

Chapter 6. Improving access to finance for social enterprise development

Lithuania has made progress in supporting the access of SMEs and the social economy and non-profit organisations to finance over the last years. It has also accompanied the access to funding sources- public or private- with programmes that support business development and consolidation. At the same time, despite some efforts, social enterprises still struggle to curve out their place and access finance and business development support tailored to their needs. This chapter identifies the strengths and challenges of the Lithuanian financing landscape, distils the main policy issues stemming from them, and provides concrete recommendations for policy action.

Strengths

Solid foundations for facilitating access to finance for SMEs

Lithuania has a wide range of financing instruments available to SMEs, including bank loans and guarantees, from which social enterprises can eventually benefit in the absence of dedicated instruments to them. Overall, access to finance has improved for traditional SMEs over the last years. For example, the cost of borrowing for small loans with respect to large loans dropped from 21.2% in 2015 to 18.8% in 2016. More recently, the "Open Credit Fund 2" has started to provide loans to SMEs and start-ups at favourable interest rates (European Commission, 2017).

However, there is scope for improvement. For instance, the rejection of loan applications (percentage of loan applications by SMEs) increased slightly from 22.54% in 2015 to 22.77% in 2016 and remained substantially higher than the EU average at 8.57% (European Commission, 2017). In terms of guarantees, the Investment and Business Guarantees (INVEGA) is the main institution that undertakes this activity. It provides guarantees - similar to state guarantees - for credit institutions in order to address the issue of insufficient collateral faced by many start-ups.

Investments and financial sources, such as venture capital, cover the needs of SMEs at different stages of their lifecycle and put in place the financial foundations that could also be used by impact investors targeting social enterprises. The "Co-investment Fund" together with private investors invest in very small and small enterprises that do not distribute their profits to their owners - a common feature with social enterprises - and have operated for a maximum of 5 years after being registered. The European Union will allocate EUR 11.6 million of funds for this measure, which is also expected to attract private investments up to EUR 14.4 million. High growth firms can receive funds from the Baltic Innovation Fund, an investment fund of funds that aims at stimulating development of venture capital markets in the Baltic States (Lithuania, Latvia, and Estonia).

Accompanying financing with non-financial support schemes

Lithuania has accumulated significant knowledge and developed the capacity to provide financial and business development support to SMEs. Several business development support agencies are currently active. Verslumas LT[28] and Verslumas FP[29] aim at facilitating the adoption of new business ideas and promoting start-ups. Similarly, Tarptautiškumas LT[30] and Expo Konsultantas LT[31] support the development, implementation and internationalisation of new

[28] For more information, see: http://eimin.lrv.lt/lt/veiklos-sritys/es-parama/2014-2020-m/verslumas-lt
[29] For more information, see: http://eimin.lrv.lt/lt/veiklos-sritys/es-parama/2014-2020-m/verslumas-fp
[30] For more information, see: https://www.esinvesticijos.lt/lt/patvirtintos_priemones/tarptautiskumas-lt
[31] For more information, see: http://invega.lt/lt/expo-konsultantas-lt/

SME models. Finally, some others, such as the E-verslas LT[32] and Dizainas LT[33], offer capacity-building support in order to enable SMEs to innovate, grow and increase their productivity. These services could be applicable to a certain extent to social enterprises, for instance through the creation of braided support structures that cater to the needs both of SMEs and of social enterprises. However, for this to happen it would be essential that these mainstream structures understand the business model of social enterprises.

Although scant, there are some incubators supporting social enterprises to consolidate their business model. For example, Socifaction[34], is the first incubator created in Lithuania in 2015 for social enterprises and has provided on-going support for more than 70 initiatives from Lithuania and Latvia. The incubator also provides support for regional social business initiatives and funding for social business start-ups.

Public services funded by the EU Structural Funds and state funding are also available to SMEs. These services address different SME needs that are similar to the ones of social enterprises. For example, they leverage the use of networks, such as the Business Consultancy Network ("Business Consultant LT[35]"), and stimulate cooperation among enterprises through Collaboration Centres. They also strive to level the playing field across regions by spurring entrepreneurship in municipalities through 23 dedicated business information centres and incubators. Of course, these services would need to adapt to the specificities of the business model of social enterprises in order to address their needs, but the fact that they already exist for mainstream SMEs demonstrates that some infrastructure is readily available.

Availability of funding for social economy and non-profit organisations

Lithuanian policy schemes and support structures also include some funding schemes directly targeting the social economy and non-profit organisations. Non-profit organisations are mainly funded either through grants or tenders provided by the state and the municipalities on yearly programmes, such as the "National Programme for the Social Integration of People with Disabilities" or the "Programme for Services Provided by Children Day-Care Centres". EU Structural Funds is another important funding source. For the period 2007-2013, it provided EUR 87 million in total to 230 associations and foundations or public enterprises. The LEADER programme is another example that leverages EU Funds for the development of rural community enterprises and is expected to provide funds for social enterprise start-up projects in rural areas from 2014-2020. Finally, some international initiatives, such as the joint EEA and Norwegian Financial Mechanism, dedicate significant amounts in the form of grants to support non-profit organisations aiming to foster innovation, research, and education, to enhance social inclusion, to reduce poverty, and support environmental protection. Lithuania has been granted EUR 56.2 million under the EEA Mechanism and EUR 61.4 million under the Norwegian Financial Mechanism for the period 2014-2021 (European Commission, 2018).

Challenges

Lack of tailored support to improve social enterprises' access to finance

While some of the funding schemes targeting SMEs and non-profit organisations may be accessible to social enterprises as long as they use these legal forms, there are only few initiatives designed specifically to support access to finance for social enterprises. Instruments available to

[32] For more information, please see here: https://www.esinvesticijos.lt/lt/finansavimas/patvirtintos_priemones/e-verslas-lt
[33] For more information, please see here: https://www.esinvesticijos.lt/lt/patvirtintos_priemones/dizainas-lt
[34] For more information, please see here: http://www.socifaction.com/
[35] For more information, please see here: http://invega.lt/en/partial-financing-consultations/

SMEs and entities undertaking business activities are not accessible to non-profit organisations and, conversely, grant programmes that aim to tackle social issues are not available to businesses and for-profit entities. As social enterprises are at the intersection of these entities, the lack of dedicated instruments reduces significantly their opportunities both to access seed-funding for their early stage of development, for example through grants, and to raise capital and attract investments for scaling-up.

Nascent social investment market for social enterprises

The Lithuanian social investment market remains at embryonic stage. Three critical challenges can be identified. First, social enterprises have limited, if any, awareness of the available financing instruments that they could use. Therefore, the demand of such instruments on their end is limited. Second, investors do not understand or even mistrust in some cases the business model used by social enterprises. They have a hard time identifying entities that serve a social purpose but are not non-profit organisations and, at the same time, they may have low profitability but are not SMEs. Therefore, the supply of financing is limited, if existent at all. Third, the lack of specialised intermediaries, which can bridge this demand and supply gap and facilitate the interaction between social enterprises and investors, hinders the development of a functional social investment market.

Key policy issues

Mapping the financing ecosystem for social enterprises

Mapping the financing ecosystem is essential in order to assess the maturity of the market. This allows the identification of the financing needs of social enterprises, the availability of specialised funders and the willingness of mainstream funders to support social enterprises. It could also capture the presence of specialised services providers, including consultants, lawyers and accountants, who can help social enterprises to build their capacity for financial sustainability, organisational resilience, and social impact measurement capacity. The results of such a stocktaking exercise could give a clear idea of the market gaps. These could be *knowledge gaps* both on the social enterprise side regarding the creation of a sustainable business model and on the investor side for understanding social enterprises as investees. There may also be *regulatory gaps,* which hinder social enterprise creation and market development, or *financing gaps,* which indicate the limited availability and diversity of financing schemes for social enterprises (European Commission, 2017).

A public or a private entity can undertake a social enterprise market mapping exercise. For example, Social Investment Scotland (SIS), a charity and social enterprise providing loans in Scotland (United Kingdom) undertook a market assessment in order to build solid foundations for its services. In this process, it researched the third sector in Scotland by geography and field of activity, identified intermediaries providing services to "third sector organisations", and looked into intermediaries' perceptions of barriers and opportunities to social investment. As a result, SIS created and provided a database with all this information to public bodies, such as Highlands and Islands Enterprise and the Scottish Government in order to help them develop a clear understanding of the state-of-play of the sector, reveal the most pressing needs and develop targeted policy actions (Social Investment Scotland, 2015).

Understanding and acknowledging the diversity of financing needs of social enterprises

Social enterprises have different financing needs depending on their stage of development, from start-up to scale-up. For example, at the start-up stage, they tend to rely more on grants or on personal savings and donations from friends and/or family (a strategy also known as "bootstrapping"). The reason is that it is more difficult to take on a debt due to limited collateral

or the perception of being high-risk loan or investment recipients (European Commission, 2017). Technology can offer innovative solutions to this challenge (see Box 6.1).

Box 6.1. LendMN: a microfinance FINTECH

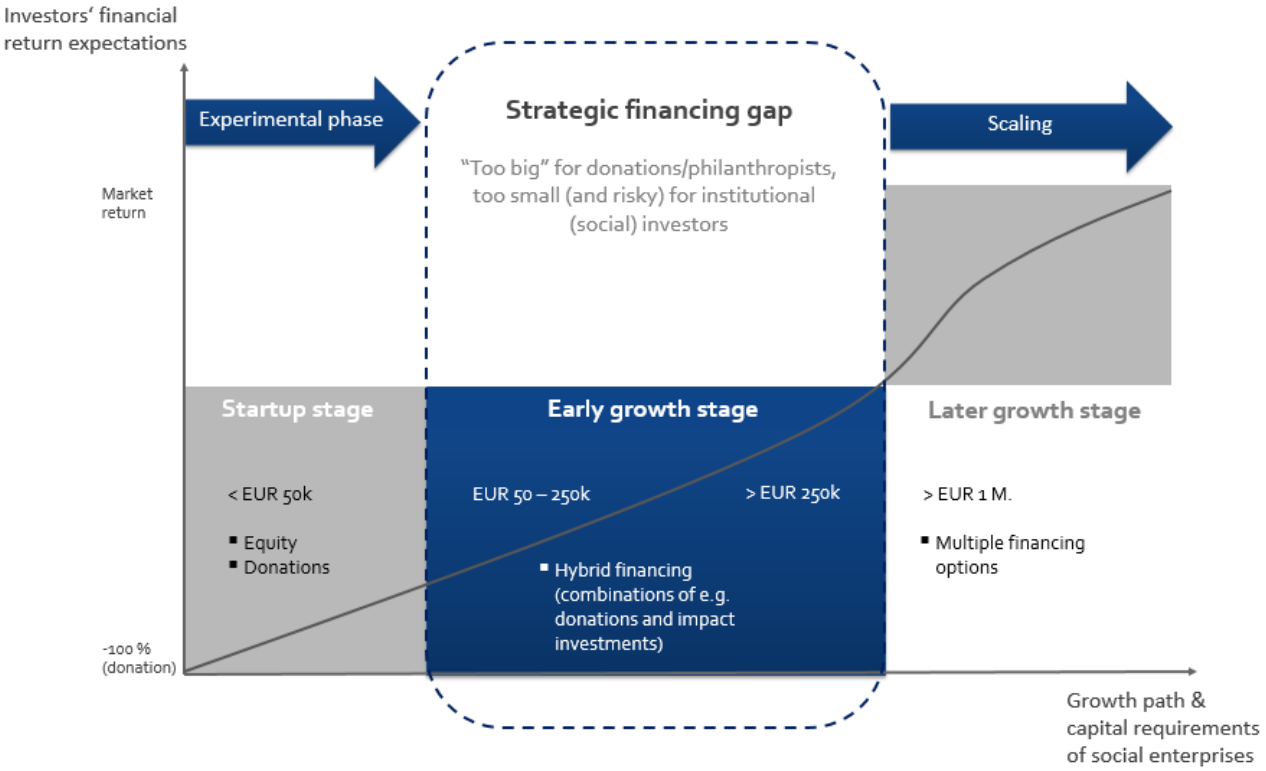
LendMN was created in 2015 in Mongolia. It is a mobile-based microlending solution for those who cannot access traditional financing, which relies on Artificial Intelligence (AI). An AI-based credit scoring algorithm is able to grant a loan based on data retrieved from conventional (e.g. bank statements, electricity bills) and non-conventional (e.g. web crawler, geolocation and App usage) sources. LendMN's low cost, highly scalable and fully customisable platform allows charging low processing fees and no collateral, while reducing paper work. Its loans range from MNT 50,000 to MNT 1 million (USD 20.4 to USD 407.5) for up to 30 days. Clients can apply for an unlimited number of repeat loans. A strong repayment record enables a client to qualify for higher amount future loans.

During the first three years following its creation, LendMN received USD 16.5 million in funding from various sources, including several influential Japanese funders. It has also launched the most successful IPO in Mongolian history and received numerous awards. In September 2018, LendMN employed more than 100 people, registered 265 000 users and 60 000 active borrowers. Since 2017, following the launch of its AI-powered microlending, LendMN has issued 570,000 micro-loans amounting to USD 45 million. Its on-time repayment rate is 98.5% and net profit margin varies between 45 and 50%.

Source: https://lend.mn/en/

When social enterprises are at an early growth stage and have a consolidated business model, which can be more appealing to funders because they can demonstrate their capacity to pay back any principal and interest payments, they face a "financing gap". At this stage, social enterprises are either too small to be interesting for investors or intermediaries, who may not always grasp their social value proposition, and too big to keep attracting donations. Therefore, they seek hybrid forms of financing, which can combine different sources.

Figure 6.1. Diversity of Social Enterprises' Financing Needs



Note: This figure was developed by the Financing Agency for Social Entrepreneurship (FASE).
Source: (OECD/EC, 2017)

Access to finance is getting easier to social enterprises that manage to go through the two previous stages, also known as the "valley of death" due to the low enterprise survival rates, and to scale-up their model and impact (OECD/EC, 2017). In this case, they can manage to attract funds from impact and mainstream investors as they are more "investment ready" or get easier loans from banks.

The importance of creating an integrated ecosystem for financing social enterprises

An integrated ecosystem that brings together public and private funders, social enterprises, and specialised providers can stimulate the creation of social enterprises, improve their competitiveness, promote the growth of those with proven business models, and attract new players to the market. Some countries have established dedicated funds in their efforts to build a cohesive social impact investment market, which combines financial with non-financial support (for an example, see Box 6.2).

In terms of financial support, apart from the use of public funds and grants that are crucial for social enterprises, it is important to diversify the funding sources. This can be achieved by mobilising private capital and encouraging investments to social enterprises. In early stage markets, as in Lithuania, risk-sharing mechanisms, which provide guarantees to investors in order to mitigate the risk associated with social enterprises, can incite them to lend money on more favourable terms. As the market matures and more social enterprises reach scale, private investors and business angels can be encouraged to use equity or quasi equity mechanisms.

Non-financial support often provided through capacity-building programmes is linked to funding. At the start-up phase, social enterprises usually need skills and experience for accessing and leveraging different types of funding, or the skills to become financially self-sustainable. At the early growth stage, they often need assistance to professionalise their processes and functions.

At the scale-up stage, social enterprises may benefit from investment-ready programmes in order to scale their impact (OECD/EC, 2018). Specialised service providers and intermediaries can be instrumental in this regard, as they match the needs of social enterprises with development programmes for specific and available funds.

At the same time, the affordability of the services of specialised providers is often a concern for social enterprises (OECD/EC, 2017). Countries have responded differently to this concern. For example, ES Fund[36] TiSE, a loan fund in Poland, provided loans to social enterprises coupled with free advisory services. Portugal through its market catalyst institution for promoting social investments, Portugal Inovação Social, has created a voucher system that provides social enterprises with grants to access these services.

Box 6.2. Portugal Inovação Social

A market catalyst promoting the social investment sector through an integrated approach

Portugal Inovação Social acts as a market catalyst promoting the social investment sector in Portugal through the mobilisation of EU structural funds. Its funding programmes support innovative financing instruments tailored to the needs of both social enterprises and investors. In addition, it aims to promote social innovation and tackle the financing mismatch between supply and demand in the social sector. Portugal Inovação Social has six overarching objectives: 1) to improve the competitiveness of social enterprises; 2) to promote the growth of projects with proven intervention and business models; 3) to create evidence and inform public policy decisions; 4) to attract new players to the market; 5) to promote an outcome-based culture in the public sector; and 6) to promote the development of priority geographic areas.

Portugal Inovação Social proposes four funding programmes, featuring distinct objectives and measures tailored to social enterprises' different developmental stages. These are being implemented for the period 2016-2020 and follow common application process, with calls for proposals:

- **Capacity-building for social investment** enables social enterprises to apply for grants to access support from specialist providers.
- **Partnerships for impact** promote venture philanthropy in Portugal through a match-funding system.
- **Financing instrument of social impact bonds (SIBs)** promotes the importance of an outcome-based focus among public entities.
- **Social Innovation Fund** is a wholesale fund co-investing in Portuguese social enterprises and social investment products with a demonstrated potential to generate social and financial returns.

The programmes are further synergistic, meaning that a social enterprise having benefitted from, for instance, the capacity-building programme can use its new skills to apply to the Social Innovation Fund.

Source: (OECD/EC, 2017)

Recommendations

- **Establish a market catalyst for developing the Lithuanian social investment market**

  Within the framework of the "Strategy for Social Enterprise Development" (Chapter 3) a market catalyst for the development of the Lithuanian social investment market could be established. This market catalyst could be based on the expansion of an existing structure such as Enterprise Lithuania and would have a twofold mandate. First, it could take stock of the state-of-play and assess the needs of the social investment market in place in a thorough way. Second, it could

develop policy actions that are coherent with the broader ecosystem for supporting social enterprises.

- **Raise awareness about the hybrid nature of social enterprises and explore the possibility to extend existing funding sources to them**

  Raising awareness through dedicated campaigns about the specificities of social enterprises, notably their entrepreneurial approach for attaining social impact in a financially sustainable way, among both private investors and the grant-making community, could help in building a better understanding. Based on this understanding, concrete policy actions could be taken in order to allow social enterprises to access currently available funding sources only to SMEs and non-profit organisations by lifting existing barriers and adapting funding conditions.

- **Encourage the development of a dedicated fund that will address the needs of social enterprises throughout their lifecycle**

  The creation of a dedicated fund, like the Lithuanian Social Entrepreneurship Fund, would provide a 360 degree long-term and sustainable response to social enterprise needs. It could develop a diverse set of programmes that help social enterprises from start-up to scale-up both in terms of financial means and of business development support. More precisely, it could help building social enterprise capacity to become viable, rendering them investment-ready, making them part of broader partnerships with the local communities and foundations, while leveraging a varied set of private financial sources.

Annex A. Legal and regulatory evolutions of the framework for social enterprises

Table A.1. Evolutions related to the Law on Social Enterprises since 2004

Law on Social Enterprises (Law No. IX-2251, 2004)	Implementation Order of the Law on Social Enterprises (Order No. 1-7093, 2015)
The Law distinguishes two types of WISEs: a WISEs in which at least 40% of employees (annual average number) belong to at least one of the following target groups: people with disabilities, long-term unemployed, persons who are not more than five years away from retirement age, single parents, former inmates, and drug addicts after rehabilitation. The number of employees from these target groups must not be lower than four in total; b WISEs in which at least 50% of employees (annual average number) are disabled. People with a severe or moderate disability must represent at least 40% of employees. The number of employees with disabilities must not be lower than four in total. Both types of WISEs must: 1. specify in their founding documents the activities related to the employment of persons belonging to the target groups, and the activities related to the development of their working and social skills and social integration; 2. not carry out activities included in the list of non-supported activities of social enterprises approved by the government, or the income received from such activities cannot account for more than 20% of their total income.	WISEs can have any legal form with the exception of state and municipal institutions, public, trade unions, religious communities, **associations** (art. 3).
Draft Law amending the Law on Social Enterprises (Bill No. XIIIP-1530, 2017)	
To qualify as WISEs, legal entities must: 1. have at least 40% of employees belonging to the following target groups: unemployed with a severe degree of disability (max. 25% of work capacity); unemployed with a moderate degree of disability (max 30-40% of work capacity); unemployed with a light degree of disability (max. 45-55% of work capacity); unemployed over 50 years of age. The number of employees from these target groups must not be lower than four in total; 2. have any legal form with exception of state or municipality institution, a trade union, a religious community, or an association. (art. 8); 3. use **at least 75%** of the net profit for the activities related to their social objective (art. 27); 4. if they are a joint-stock company or private limited liability company, **possess no less than half of the equity capital** and this should be specified in the articles of association or in the legal statutes.	

Legend: New criteria or amended criteria in **bold**.
Source: OECD elaboration in cooperation with Irena Pranskeviciute.

Table A.2. Evolutions related to the Conception of Social Business since 2015

The Conception of Social Business (Decree No. 4-207, 2015)	Recommendations for the Specification of Social Business Criteria (Order No. 4-533, 2016)
To qualify as a social business, entities must: 1. in accordance with foundation documents, pursue regular economic activities seeking as the main objective to have a measurable and positive social impact; 2. reinvest the profit earned in accordance with predetermined procedures to achieve the main objectives; 3. be managed accountably and transparently, involving stakeholders into management; 4. be independent of state and municipal institutions, public sector and other organizations.	To qualify as a social business, entities must: 1. have permanent economic activities, and **at least 50%** of their income must be generated through market activities (sales of goods or services); 2. create jobs with **fair salaries** for employees; 3. **be oriented toward individuals who are more sensitive to socio-economic challenges and risks**; 4. be oriented toward society and **have more positive impact on the environment than a conventional business**; 5. create benefits in **listed areas**; 6. reinvest **more than 50%** of their profit for the social purpose; 7. be transparent and make information about their profit and its reinvestment available to the general public; 8. be independent in terms of management from public or private organisations that are not oriented toward the implementation of their social goal.
Draft Law on Social Business, submitted to Parliament (Bill No 18-6947, 2018)	
Social business must: 1. **be a very small or small enterprise**[37]; 2. seek measurable positive social impact in accordance with the list of societal/social problems in the defined areas; 3. generate more than 50% of total income through economic activities; 4. reinvest **more than 80%** of their profits towards measurable positive social impact; 5. **involve stakeholders in the management**; 6. not be a public or private legal person, controlled by the state or a municipality, a political party or religious group; 7. not be engaged in business dealing with : explosives, tobacco, etc.	

Legend: New criterion or amended criterion in **bold**.
Source: OECD elaboration in cooperation with Irena Pranskeviciute.

[37] The revised version of the bill, not yet submitted to Parliament, opens up to medium sized enterprises (Ministry of Economy, 2019).

Annex B. Methodological note and programme of the study visit

This report is based on the available statistics, desk research and qualitative data gathered prior, during and after the study visit undertaken in Lithuania in May 2018 (see Table below). The study visit was also prepared based on the updated mapping report of the European Commission on Lithuania (European Commission, 2018).

Table B.1. Programme of the study visit

May 21, 2018 – Vilnius	
Name	**Organisation**
Public Institutions	
Raminta Krulikauskienė	Ministry of the Economy and Innovation
Lineta Jakimavičienė	
Aurelija Kriščiūnaitė	
Tomas Lavišius	
Gytis Morkūnas	Enterprise Lithuania
Živilė Baušienė	
Neringa Stroputė	
Vytautas Adomaitis	
Aurelija Mineikaitė	Ministry of Social Security and Labour
Daiva Liugienė	
Erika Tauraitė-Kavai	Lithuanian Labour Exchange
Saulius Gaigalas	Office of the Government of the Republic of Lithuania
Justas Džiugelis	Seimas (Parliament) of the Republic of Lithuania
Ilona Javičienė	Ministry of Agriculture
Sigutė Mečkovskienė	
Kristina Sabaliauskienė	Ministry of the Interior
Dalia Masaitienė	
Laura Kuoraitė	Public Procurement Office

May 22, 2018 – Vilnius	
Name	**Organisation**
Public Institutions	
Jūratė Laurikėnaitė	Ministry of Finance
Audronė Misiūnaitė	
Dainė Denisovienė	Ministry of Education and Science
Povilas Poderskis	Vilnius City Municipality
Agne Jakštienė	Ministry of Environment
Rūta Galeckaitė	Ministry of Health
Associations (excluding social businesses)	
Raimundas Balčiūnaitis	Lithuanian Confederation of Industrialists
Kęstutis Jankauskas	Lithuanian Business Confederation (ICC Lithuania)
Modesta Kairytė	Association of Local Authorities in Lithuania
Gintarė Petkevičienė	Association “Knowledge Economy Forum”
Mantas Šnioka	Association “Investors' Forum“

Dalius Serafinas	Small and Medium-sized Business Council
Artūras Vasiliauskas	British Council

May 23, 2018 – Vilnius	
Name	**Organisation**
Social business and NGO representatives	
Jurgita Ribinskaitė-Glatzer	"Reach for Change"
Monika Juknienė	NGO "Avilys"
Arūnas Survila	VšĮ "Nacionalinis socialinės integracijos institutas"
Edvinas Regelskis	Lithuanian Social Business Association
Martinas Žaltauskas	NGO Council
Violeta Jankauskienė	Local Activity Group Network
Marija Bunkaitė	VšĮ "Orūs Namai"
Reda Sutkuvienė	VšĮ "Socialiniai paramos projektai"
Violeta Masteikienė	"Friends' JAM"
Andželika Rusteikienė	VšĮ "Geri norai LT"
Henrika Varnienė	Association "Lithuanian Disability Forum"
Ilona Tarvydienė	Social Enterprise Association (WISE)
Leonas Kirkilovskis	Lithuanian Social Enterprise Association (WISE)
Gediminas Bartkus	Union of Disabled Social Enterprises (WISE)
Lina Blaževičiūtė	Responsible Business Association of Lithuania
Gintarė Vikmonaitė (LiJOT valdybos narė)	Lithuanian Youth Council

May 24, 2018 – Vilnius	
Name	**Organisation**
Academics, researchers, consultants	
Laurynas Totoraitis	Vilnius University Law Clinic
Giedrė Stumbrytė	Lithuanian Innovation Centre
Mantas Bileišis	The General Jonas Žemaitis Military Academy
Daiva Koponen	Kaunas University of Technology
Inga Gurauskienė	
Jolita Greblikaite	
Džiugas Dvarionas	ISM University of Management and Economics
Phil Tulba	Phil Tulba Consulting
Irena Pranskeviciute	Author of the update of the EC mapping of social enterprises in Lithuania
Julija Moskvina	Lithuanian Social Research Centre, Lithuania
Other	
Laura Galdikienė	Swedbank
Ramūnas Stonkus	Association of Lithuanian Credit Unions
Ausma Bartkutė	Investment and Business Guarantees (INVEGA)
Edvinas Kašėta	Agricultural Credit Guarantee Fund
Sabina Sinicienė	Lithuanian Private Equity and Venture Capital Association

May 25, 2018 - Vilnius
Debriefing with the Ministry of the Economy and Innovation.

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