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## **COMPARATIVE ANALYSIS OF DEVELOPMENT OF SOCIAL ENTERPRISES IN SELECTED EX-SOVIET COUNTRIES: UKRAINE AND LATVIA**

### **Abstract**

In macroeconomic terms social entrepreneurship is a relatively new phenomenon in many ex-Soviet countries. In the XXI century social entrepreneurship in countries such as Latvia and Ukraine become more and more popular as an effective mechanism for local social and economic problems solving. Starting from 1991 were created many initiatives that have been names as the social enterprises that time but were mainly target for helping people with disabilities in commencement of employment.

We selected Latvia and Ukraine in order to examine the effect of the European Union membership on trajectories of the social enterprise concept in both countries. In Latvia social sector received a strong support and financing from the European Social Fund, while in Ukraine socio-economic situation caused a large-underinvestment in the social sector. In our article, we will aim to present a picture of the state of art of social enterprises, using: comparison of official statistics with the original research conducted on the social enterprises in the field.

It is a commonly shared notion that social enterprise is the creation of social value by solving social problems. Accordingly, social enterprise can be deemed to be the production of new solutions to social problems in more effective, efficient, and sustainable ways. Analysing the consequences of the current economic crisis and its impact, for example, on health care services, there are those who have advanced the idea that social enterprise can constitute an effective strategy to counter-balance the retrenchment of public social provision.

This paper introduces the concept of social enterprise in selected ex-Soviet countries in the comparative perspective.

In particular, this paper will illustrate how during the Soviet time, different national identity was able to cope with the collectivistic culture thanks to their social and social values and the social cooperation, especially in countryside. Under the Soviet Union, a powerful heritage based on rural and natural icons helped people to preserve their national identity and a cooperative view in spite of the massive Russian immigration. We are persuaded that social enterprise ought to point to traditional values, but in innovative way. Social enterprise and social innovation are very close and they grounds on the values of cooperation and subsidiarity.

**Keywords:** Social enterprise, social education, social economy, sustainable development, CSR.

## Introduction

Social entrepreneurship can be placed between the traditional entrepreneurship and charity. From the classical point it differs by business objectives only but focuses on social change and solving social problems. From charity it distinguishes the entrepreneurial strategy of action. Social effects of social enterprise is a direct result of a deliberate and not an additional side effect of business – that is why social enterprise is different from other businesses.

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## Latvia Case

Social entrepreneurship is a fairly new concept in Latvia and the interest on social business has picked up in the last few years because of the economic crisis. In November 2012, Providus, a non-governmental and non-partisan think tank established in 2002, organized an international forum in Riga to discuss social entrepreneurship and it was significant that Latvian politicians didn't participate in this forum. At present, there are no formal policies specifically defined to support social enterprise in Latvia and social businesses are really few.

However, things are changing. In the last few years, research in this scope is multiplied (Bikse, Rivza & Riemere, 2015; Ahrens & Zaščerinska, 2015; Oganisjana, Surikova & Laizāns, 2015) and the government has begun to address the issues of the policy and legal framework for social enterprise. A recent research based on the international experiences regarding social entrepreneurship (Dobele & Dobele, 2014) estimated the economic gains of social businesses in Latvia would be relevant, whilst the social benefit burden in municipalities would decrease considerably (Fig. X).

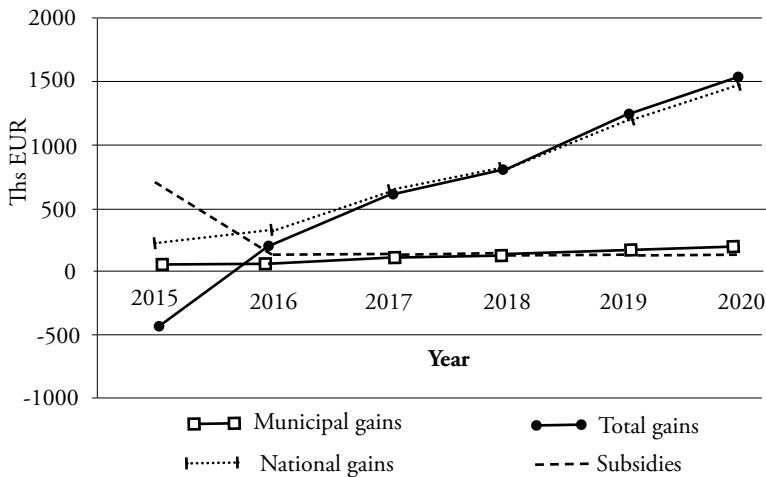


Figure 1. Economic gains from developing social entrepreneurship in Latvia in the period 2015-2020, ths euro (from (Dobele & Dobele, 2014, 37)

It has been observed that the low level of entrepreneurship-related abilities, knowledge and skills in Latvian universities represents one of the main barriers to social entrepreneurship development (Melnikova & Zaščerinska, 2016). In fact, entrepreneurship courses are missing in non-economic fields of study, and more generally inter-disciplinary approaches are rare. This confirms the prevailing underestimation of the potentiality of social enterprise development.

There are no fiscal incentives in place to foster and support the growth and development of social enterprises in Latvia (European Commission, 2014). Incentives are dependent on the legal form of the enterprise rather than its social purpose. Accordingly, the current popular form of a social enterprise is the non-profit organization (such as an association or a foundation form. This can create some problems if the profit-making activity is the main activity of an association or foundation. In this case, the organization must register as a separate company

and divide its activities into two legal entities or risk being wound up by the State Revenues Service.

Nevertheless, many Latvian economic analysts and researchers share the idea that social economy can actually contribute to reduce unemployment, inequality, and poverty and Government of Latvia has recently started work on developing a policy and legal framework for social enterprise.

The principal strands of governmental investments are the inclusion of people with special needs and incentives for small and medium enterprises (SMEs). Of course, social businesses can access the support available to enterprises, particularly SMEs.

In Latvia, there are also some private initiatives aimed at supporting social enterprise and social entrepreneurship, e.g. the Latvian Christian Academy, a higher education institution in Latvia, that runs an accredited Masters program on social business administration. The aim of the master is reported as follows:

“The programme is focused on penetrating acquisition of forms and methods of caritative social in times of change; special emphasis is on principles of social economy in the context of social work. These skills lay good foundation for further private entrepreneurship in the field. The knowledge is both required and innovative in European context”.<sup>1</sup>

The recent interest in social issues and in the modernization of social services is demonstrated by a new national science program on social telerehabilitation. This new three-year multidisciplinary program, whose name is VPP INOSOCTEREHI (“Innovative solutions in social rehabilitation in Latvian schools in the context of inclusive education”) focuses on social inclusion (Marzano, Lubkina & Rizakova, 2015) and is being conducted by four Latvian Universities (Rezekne Technology Academy, Latvia University, Riga Technical University, and Liepaja University). VPP INOSOCTEREHI investigates the use of mobile technology in the scope of social rehabilitation (<http://telerehabilitation.lv/>).

In 2014, only two years from the international forum of Providus, the Foundation for an Open Society organized a two-day international forum on social impact and social entrepreneurship: this time the Director of the Labour Market Policy Department of the Ministry of Welfare participated in the discussion “Social entrepreneurship in Latvia – Quo Vadis?”.

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<sup>1</sup> <http://en.kra.lv/studies/master-level-studies/#master-social-bus>; last accessed 20.05.2016.

## Case of Ukraine

In the XXI century social entrepreneurship in Ukraine is gaining popular as an effective mechanism for resolving local social and economic problems. However, it can be said that the culture of social entrepreneurship is still being created. Starting from 1991 (after independence) were created initiatives that have not yet define a social enterprise, and mainly were aimed to help people with disabilities make the employment. In terms of the macroeconomic social entrepreneurship is a relatively new phenomenon in Ukraine. Traditional Ukrainian entrepreneurs do not show much interest in the social objective and are inclined only to multiply profits, and the state does not see the big chance to fight social problems. In Ukraine, social entrepreneurship is often equated and confused with corporate social responsibility (CSR), in which the social effect is a side effect and at the same voluntary, so that at any time you can start and end the same way after a corresponding decision of management. This means that the social purpose should be the overriding objective of the organization and must be enrolled in the charter organization or in another document adopted by the founders and which is applicable rule by the organization.

In the Ukrainian social entrepreneurship description should return to the historical roots of Ukrainian organizations, which operate on the territory of contemporary Poland. Ukrainians had a very well organized structure of local communities, due to that in 1930 there were over 3000 co-operatives that represent 30% of the cooperatives on Polish territory belonged to the Ukrainians. In addition to the cooperative Ukrainians had well-developed socio-educational organizations dealing with social problems such as Prosvita, the Alliance of Ukrainian, Ridna Shkola, Cooperative Union of Ukrain, Sokol Society and many others.

Currently, the main barrier of social entrepreneurship in Ukraine is the low level of social capital, and thus the lack of trust in society.

Successive governments of Ukraine were not interested in supporting social entrepreneurship or the creation of the foundations for social support systems, and the unit put at the front of a social problem remained the same. An important element in the social history of the nation was a revolution Euromajdanu, which caused a new opening, and also became a spontaneous uprising of society to change. Previous government of President Viktor Yanukovych tried to hinder the operation of the social sector, among others, by introducing laws hindering the operation of non-governmental organizations on the territory of Ukraine.

Currently the Ukrainian society created a lot of various projects related to the extraordinary situation which was an armed conflict in the East of Ukraine. As in the case of Euromaidan a significant part of the support came from the bottom

up organizations and it is often informal. An example of such organization is the People's Hospital (Ukr. "Народний госпіталь")<sup>2</sup>.

People's Hospital was founded in mid-January 2014 at the initiative of seven volunteers, none of whom was a representative of the medical industry, mostly professionals: PR-managers, project managers, manufacturers and IT professionals. This organization managed a very high level of social trust. They managed to collect more than 1 million UAH at the time of the biggest clashes Euromaidan (approx. € 83,000 at the that time exchange rate). It has been effective in supporting wounded in clashes winter and ensure the supply of equipment and medical care in the most difficult period.

The organization was able to establish and maintain contacts with a large number of doctors, surgeons and nurses in hospitals, both in and abroad of Ukraine, with hundreds of medical volunteers, who then began to serve on the area of the ATO (Anti-Terror Operations), which led the Ukrainian army in the regions of Donetsk and Lugansk. The organization dealt with the realization of medical needs, logistics of collecting funds for equipping the military backpacks, organized first aid training for military medical instructor.

This social project shows how a small number of people (7 founders) could to build facilities of public confidence and provide effective assistance to victims in a very short time. In this case, social entrepreneurship is a response to the social problems caused by extraordinary events where the state is against (in the case Euromajdanu), or is not able to organize an effective network of support (eg ATO). In the latter case, the activity of organizations such as People's Hospital, can be considered a response to the public on the inefficiency of the state.

After Euromaidan majority NGOs deal with the problems of democratization of society, protection of the human rights or civil society. It is also an important group of organizations such as the National Hospital, which deal with medical and psychological support for the wounded and the families of those killed in the operation ATO, and there are programs for displaced persons from the territory of Donetsk, Lugansk, or the Crimea. A similar operation goes with majority funds from the competitions organized by the European Union for Ukraine.

## Conclusions

Latvia and Baltic countries have started to promote awareness and understanding of social enterprise practice. Researchers and the social organizations themselves are the

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<sup>2</sup> [https://www.facebook.com/narodnyihospital?ref\\_type=bookmark](https://www.facebook.com/narodnyihospital?ref_type=bookmark); last accessed 18.12.2017.

principal protagonists in disseminating the knowledge necessary to create a favorable environment for social enterprise. Although sometimes the ideas of some activists risk being too utopist and theoretical, social innovation and social entrepreneurship represent key factors for development sustainability. The necessity of implementing new social services and, at the same time reducing their global costs, makes people more creative and encourage the use of knowledge to helping public benefit causes.

In the current Ukrainian situation with socio-economic unstable situation the social entrepreneurship sector requires more support in terms of capacity-building programs (ang. Capacity building) with the European Union, because the lack of cash in the economy, as well as the historically low rate of national currency prevent the financing of such projects by State or by business.

We expect the rapid development of social entrepreneurship in case of economic and social stabilization, suppress armed conflict at the East of Ukraine, as well as to make progress in European integration. Only the European Union support the social economy will effectively build the infrastructure for social enterprises in Ukraine. Then Ukraine could reach into their tradition of social entrepreneurship, while building on the existing network of social capital, which begins to form after the revolution Euromajdanu.

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## **Analiza porównawcza rozwoju przedsiębiorstw społecznych w wybranych krajach postkomunistycznych: Ukraina i Łotwa**

### **Streszczenie**

W ujęciu makroekonomicznym przedsiębiorczość społeczna jest stosunkowo nowym zjawiskiem w wielu byłych krajach sowieckich. W XXI wieku przedsiębiorczość społeczna w krajach takich jak Łotwa i Ukraina staje się coraz bardziej popularna jako skuteczny mechanizm rozwiązywania lokalnych problemów społecznych i gospodarczych. Począwszy od 1991 r. powstało wiele inicjatyw, które w tamtym czasie były nazywane przedsiębiorstwami społecznymi, ale były głównie ukierunkowane na pomoc osobom niepełnosprawnym w rozpoczęciu zatrudnienia.

Wybraliśmy Łotwę i Ukrainę, aby zbadać wpływ członkostwa w Unii Europejskiej na trajektorie koncepcji przedsiębiorstwa społecznego w obu krajach. Na Łotwie sektor społeczny otrzymał silne wsparcie i finansowanie z Europejskiego Funduszu Społecznego, podczas gdy na Ukrainie sytuacja społeczno-gospodarcza spowodowała duże niedoinwestowanie w sektorze społecznym. W naszym artykule postaramy się przedstawić obraz stanu przedsiębiorstw społecznych, wykorzystując: porównanie oficjalnych statystyk z oryginalnymi badaniami przeprowadzonymi na przedsiębiorstwach społecznych w terenie.

Powszechnie uważa się, że przedsiębiorstwo społeczne tworzy wartość społeczną



poprzez rozwiązywanie problemów społecznych. W związku z tym przedsiębiorstwo społeczne można uznać za produkcję nowych rozwiązań problemów społecznych w bardziej skuteczny, wydajny i zrównoważony sposób.

Analizując konsekwencje obecnego kryzysu gospodarczego i jego wpływ, na przykład na usługi opieki zdrowotnej, są tacy, którzy wysunęli ideę, że przedsiębiorstwo społeczne może stanowić skuteczną strategię przeciwdziałania ograniczaniu publicznego świadczenia usług socjalnych. Niniejszy artykuł przedstawia koncepcję przedsiębiorstwa społecznego w wybranych krajach byłego Związku Socjalistycznych Republik Radzieckich (ZSRR) w ujęciu porównawczym.

W szczególności niniejszy artykuł pokaże, jak w czasach radzieckich różna tożsamość narodowa była w stanie poradzić sobie z kolektywistyczną kulturą dzięki swoim wartościom społecznym oraz współpracy społecznej, zwłaszcza na wsi. W czasach Związku Radzieckiego potężne dziedzictwo oparte na ikonach wiejskich i naturalnych pomogło ludziom zachować narodową tożsamość i wspólną wizję pomimo ogromnej rosyjskiej imigracji.

Jesteśmy przekonani, że przedsiębiorstwo społeczne powinno wskazywać na tradycyjne wartości, ale w innowacyjny sposób. Przedsiębiorczość społeczna i innowacje społeczne są bardzo bliskie i opierają się na wartościach współpracy i pomocności.

**Słowa kluczowe:** przedsiębiorczość społeczna, edukacja społeczna, ekonomia społeczna, zrównoważony rozwój, CSR.