

Social Entrepreneurship in Estonia, a brief description.

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The Republic of Estonia was occupied and incorporated within the Soviet Union in 1940–1941 and again during 1944–1991. The Soviet system did not support any kind of entrepreneurship; private profitable trade was called speculation and was considered a crime against the state.

Private businesses in the Soviet Union after World War II were generated gradually during Gorbachev's economic reforms starting in 1987. The small Republic of Soviet Estonia was suitable for economic reform experiments, which were badly needed to stimulate the severely depressed economy of the Soviet Union. Estonian opinion leaders used this situation cleverly, and in 1987 launched the idea of Estonian Economic Autonomy, aimed at establishing economic self-management for Estonia, which was subsequently accepted by the Soviet rulers. This provided Estonia with an advantage compared with other Soviet republics. Restoration of market institutions (1988–1991), was characterized by sharply negative economic growth, hyperinflation and mythological social rhetoric – stories about the origin of Estonians and their historical fight for self-determination (Lauristin et al., 1997).

1991–1994 was the period of restoration of Estonia's independence. The most important reform was the introduction in 1992 of Estonia's own currency – the kroon, which replaced the hyper inflating Russian rouble. This transition to a market economy opened new opportunities for private enterprises and self-employment. Most state-owned enterprises were privatised into the hands of investors or went bankrupt because their production was no longer needed. New enterprises were set up and led by young people (Tallo & Terk, 1998: 15), and were referred to as the 'generation of winners'.

The period 1995–1998, was marked by economic and cultural stabilization, as well as social adaptation to rapid changes – a transition from a society oriented towards seniority to a society oriented towards youth. Youth became a significant factor of social success; hand in hand with the first signs of economic development, society became increasingly stratified between cohorts of 'winners' and 'losers'; that is, people benefitting from or being victims of the economic and social changes (Titma, Tuma & Silver, 1998).

The period from 1999 to 2004, was a time of growth of inner tensions and intensive preparations (in Estonia) for EU accession. Accession was achieved in 2004, and from 2006 onwards, EU structural funds were open for Estonian applicants, not only was it a period of new post EU accession challenges, but also a period of identity crisis – turning from economic growth to a slowdown (Lauristin & Vihalemm, 2009).

These economic and political changes also mark the rebirth of civil society, however the establishment of social entrepreneurship in Estonia is still influenced by the impact of the long Soviet period whose shadow persists throughout our society even today almost 20 years later through several slowly vanishing prejudices.

Firstly, for instance, there is still a pejorative attitude toward entrepreneurship since during the Soviet period the earning of personal profit through business was largely considered illegal. The notion of “social” was for many years linked to “socialism” even after the demise of the Soviet Union and its socialist ideology. A similar tendency also exists for the term ‘co-operative’, which is understood by many to be like the socialist kolkhoz, even though cooperatives are a well-known and normal form of social entrepreneurship.

Secondly an additional factor influencing the development of social enterprise in Estonia has been that historically the primary and traditional role of the third sector was protection of Estonian culture and language. Following restoration of Estonian independence however, this responsibility became the obligation of the Estonian state.

For these reasons therefore, representatives of the Estonian third sector became somewhat disorientated, for the third sector to take on the role of employer was something new and thus the search for new roadmaps is an ongoing business.

Thirdly, the societal impact of the change to a liberal economy ideology should be considered which especially during the immediate re-independence period focused people’s minds on gaining material assets.

Fourthly, the adoption of both social democratic and liberal models of social policy in Estonia has had an impact on the development of social entrepreneurship. Resulting from this, clients are regarded as either local governments or private individuals.

The leading groups during this Estonian re-awakening period were the cultural elite, dissident groups and new NGOs. During the period 1988–1994, the number of NGOs increased by approximately 85%.

All these aspects characterize the Estonian social entrepreneurship model, the development of which is described in table 1 below.

Table 1: the development of the Estonian social entrepreneurship model

Phase	Characteristics	Social entrepreneurship
1988–1991	Restoration of market institutions, negative economic growth	
1991–1994	Restoration of Estonia’s independence. Most state-owned enterprises were privatised into the hands of investors, New enterprises were set up and led by young people (Tallo & Terk, 1998: 15).	Most organizations established in that time were on the basis of the liquidated state enterprises. The main client who buys their services was also the same municipality, it fulfilled the municipalities need of certain services.
1995–1998	Economic and cultural stabilization, society became increasingly	

	stratified between cohorts of 'winners' and 'losers' (Titma, Tuma & Silver, 1998).	
1999–2004	EU accession happened in 2004, and from 2006 onwards, EU structural funds were open for Estonian applicants (Lauristin & Vihalemm, 2009).	Opened financial support from foundations (EU grants or national).
2005–2008	Period of new post EU accession challenges, but also a period of an identity crisis – a turn from economic growth to slowdown (Lauristin & Vihalemm, 2009)	Organisations established in this period see the market differently; they try to find clients from private companies or individuals. The business model is quite different from these who have municipalities as fixed clients.

The attention given by the state and local governments towards social entrepreneurship in Estonia has been limited and insufficient for the effective development of these activities. There are no legal regulations or official surveys or major projects concerning social entrepreneurship, which suggests that Estonian politicians and leaders are largely unaware of the potential of and opportunities presented by this form of business. In Estonia, there has been some support for social enterprises from foundations and organizations established through civil society, and these are also disseminators of their ideas, but in total, legal and official support for social entrepreneurship is still limited.

The most common legal forms for social enterprises in Estonia are “associations, in Estonian 'mittetulundusühing' (MTÜ), or foundations, in Estonian 'sihtasutus' (SA)”, however in the Estonian language the association and foundation is a confusing terminology which implies a prohibition on earning income and therefore a restriction on any economic activity.

Further, under the Non-Profits Associations Act, the objective or main activity of associations and foundations cannot be earning income from economic activity. If economic activity becomes the main activity of an association or foundation, the association can be dissolved by a court ruling. Although no organisation has ever been dissolved for this reason, the Act’s vague wording causes significant confusion as to the extent to which the economic activity is allowed if at all, or how to determine the ‘main activity’ of the association.

This also appears to be contrary to the Estonian Civil Society Development Plan which is promoting an increase in the economical capacity of associations and foundations.

Those companies operating under the associations and foundations forms can as a result become alienated from the business sector as neither of these legal forms can

issue shares or distribute profit. Being a member of an organisation may not reassure possible investors sufficiently and investment is therefore often only received by way of a loan or a donation. Currently support measures for entrepreneurship are directed exclusively towards companies according to their legal form, without regard to the nature of the organisation's activities. Drawing distinctions between "sectors" of operation in tax policy in general can hinder the development of social enterprise.

Since the current legal forms are not particularly suited to social enterprise, this has created a situation where social enterprises actually create several legal entities – typically they have an association or foundation for their societal activities and a private limited company, in Estonian "osaühing" (OÜ), for entrepreneurial activities. The first can apply for support through the civil society organisations' programmes and the second can apply for the entrepreneurship support schemes. There is debate over the need to change this.

There is no formal identification scheme for social enterprises in Estonia nor are there any specific financial instruments directed to social enterprises in Estonia. Banks too, are not keen to offer loans to the social enterprise sector because it is still a novel concept and therefore carries a relatively high level of risk. The availability of public support to social enterprises is described in table 2 below.

Table 2: Publicly funded schemes specifically designed for or targeting social enterprises (Y=yes X=no)

Support type	Schemes specifically targeting social enterprises?	Schemes funded by ERDF/ ESF*?
Pre-start support (e.g. incubators)	X	X
Awareness raising (e.g. awards)	X	X
Social entrepreneurship education (e.g. school for social entrepreneurs)	X	X
Business support (e.g. business planning, management skills, marketing etc.)	Y (NFCS)*	X
Training and coaching schemes	Y	X

	(NFCS)	
Investment readiness support	X	X
Dedicated financial instruments	X	X
Physical infrastructure (e.g. shared working space)	X	X

* ERDF/ ESF-European Regional Development Fund/European Social Fund

* NFCS- National Foundation of Civil Society

Social enterprises in Estonia have a significant turnover, in 2013, for example, there were 125 active social enterprises employing around 1,400 individuals with a total revenue of 36.6 million euros, of which 24.4 million euros was business income (Social Entrepreneurship..., 2014). At the same time, the creative industries employed about 29,200 individuals and in 2011 their sales exceeded 1,000 billion euros (Mapping..., 2013).

Social entrepreneurs consider themselves a symbiotic part of Estonian society; they share interests with other institutions, and their efficiency is measured in terms of the growth of social welfare and cohesion, while profitability is a secondary and supportive objective. At different levels within the community and the third sector, social entrepreneurship operates with substantial networks and connections between stakeholders. Individual enterprises undertake a wide range of roles and tasks within communities and society and are able to integrate across many different areas of entrepreneurship. Therefore, an exploration of social entrepreneurship based on criteria can be a fruitful exercise and justifiable, making a wide examination across all sectors of society while also taking into account that many of them function as networks.

A more precise definition of social entrepreneurship could include a special form of entrepreneurship, especially when accompanied by government benefits for social enterprises (i.e. tax concessions etc.). At the same time, however, overly specific regulation could impede the development of social enterprise since the term is used as an umbrella for a wide range of entrepreneurial activities and is innovative by its very nature.

At the level of society, social enterprises provide services across all three sectors – public, private and the third sector, however, most social enterprises are NGOs, and therefore, function within the third sector. While practices of social entrepreneurship within any particular country depend upon the traditions of the third sector, they are also influenced by the social policy and economy of that country. It is therefore important that when attempting to explain social entrepreneurship all these factors are taken into account, especially in Estonia in the period since regaining independence.

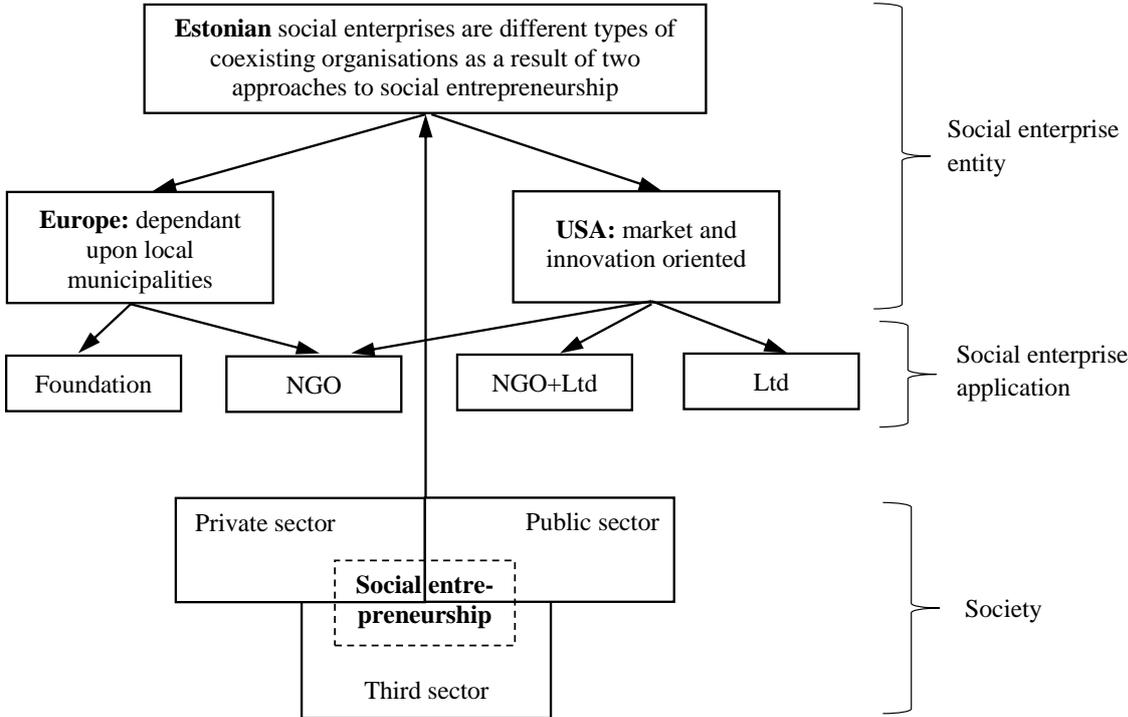
Social enterprises operating as NGOs can be divided into two types – the first do not have a sustainable business model and depend on local municipalities to finance their projects through donors, the second have written business models and are market oriented. These two typologies can also be applied to WISEs, which are not provided for by any special legislation in Estonia, although most of them are NGOs.

The types of social enterprises and their development in Estonia are presented in Figure 1. Estonian social policy is a fusion of social-democratic and liberal social policies. As a result, social enterprises in Estonia may regard different groups as their main partner: for organisations originating from a social-democratic background their main client might be the local municipality acting as the main welfare actor; for organisations originating from a liberal approach their main client(s) may be individuals aiming to improve their welfare with their own resources.

Similar differences are also evident within the Estonian third sector; this is largely a result of the historical context in which the third sector developed. On the one hand, NGOs established immediately following re-independence were created by municipalities, who today, remain the main customers for the services of these organisations. Local municipalities are often represented on the governing body of these organisations. On the other hand, other types of NGOs have been established on the initiative of citizens and are market oriented.

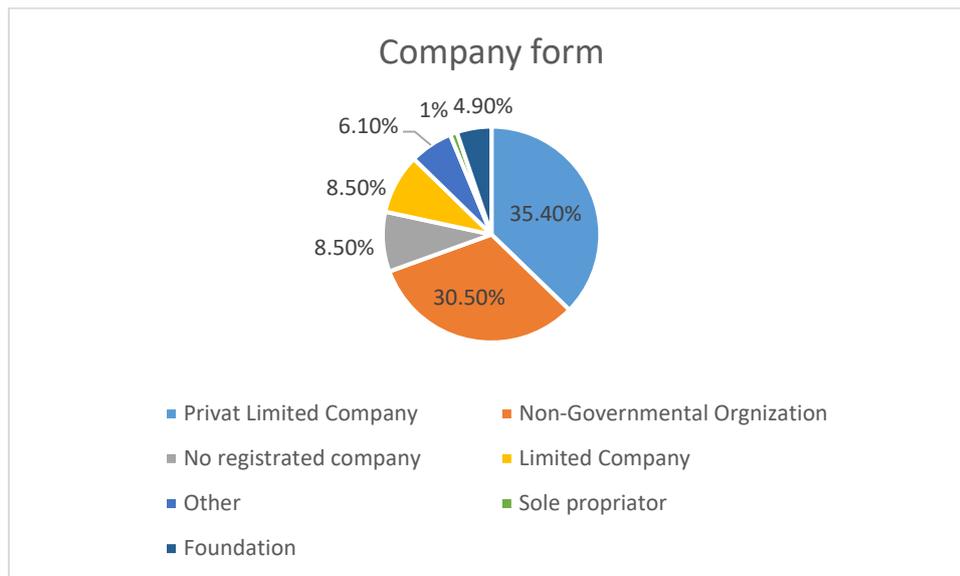
While different types of social enterprises coexist in Estonia as a result of the fusion between the social-democratic (European) and liberal (USA) social policies that were applied simultaneously in the country; there is however, as yet, no fusion or combined type of social enterprise.

Figure 1: Types of social enterprises and their development in Estonia



Global Entrepreneurship Monitor 2015 (GEM 2015)

In the GEM survey of 2015 there was a block of questions specifically oriented towards social entrepreneurship. According to the data the social entrepreneurial index in Estonia was 15% and TEA was 13,1% (in 2012 it was 26%).



The majority of social enterprises were operating in the social sector (29%), although many were engaged in environment and education activities (17-19%).

Social Entrepreneurship in formal and informal education

As entrepreneurship courses are available for all students and vocational school pupils, educational institutions are working to develop special courses on social entrepreneurship. In Estonia we have 8 universities – 7 public and 1 private university, and in 5 universities we have special courses on social entrepreneurship. The courses are quite small – 3 ECTP, but in some cases extend to 4-6 ECT. One university is also developing a master programme in social entrepreneurship.

In all universities and vocational schools there is possibility for real idea development teams of students to get further help from entrepreneurship counsellors in the universities or they can turn to local county development centres.

The Estonian Social Entrepreneurs Network is organising a range of courses on social entrepreneurship – the target groups are social entrepreneurship start-ups or entrepreneurship counsellors from entrepreneurship development centres. They have also created a special incubation programme (NULA) for social entrepreneurship start-ups.

Support networks

In Estonia three social enterprise umbrella or support organizations have been created and a brief overview of their definitions is given below.

a) Good Deed Foundation (2013) is the only venture philanthropy organisation in the Baltic's. They concentrate on supporting high-impact social initiatives (both social enterprises and non-profits). Their achievements include both achieving systemic change (state-level adoption support system for children without parental care) and starting up successful social enterprises (in the fields of: employment for people with disabilities; HIV-prevention; re-use).

Their definition is: "Social entrepreneurship is a type of enterprise, acting on the purpose of societal objectives."

b) The National Foundation of Civil Society (2013) is established as an independent legal entity – a foundation. Its aim is to increase the capacity of Estonian NGOs in developing civil society and shaping an environment that fosters civic initiative. The contribution of the Foundation is most of all channelled towards advocacy organizations and networks with national scope, to finance the activities and projects of NGOs with similar public benefit, and the programs and projects of organizations and institutions developing civil society. They consider SE as launching actions and measures, ensuring stable cash flow of non-governmental organizations, based on entrepreneurial principles and pursuing desirable social and environmental changes.

c) The umbrella organization "Estonian Social Enterprise Network" (2013) was established as an NGO by 19 social enterprises in April 2012. In order to gain the greatest benefit for society, their aim is to increase the number, capability and impact of social enterprises in Estonia and improve awareness of SE as a valued and important sphere of activity in Estonian society. They haven't formulated a definition of social enterprise but tried to describe it with features. Social/societal purpose forms the centre of their definition while other important aspects include having a sustainable business model and the requirement to reinvest surpluses. According to their definition, there are many social enterprises in Estonia. The diversity of which is extremely wide. Services provided vary from telemarketing jobs through support to people with special needs to activation of local communities by renovating and finding new uses for old manor houses.

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