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Case study LITHUANIA

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1. INTRODUCTION

Lithuania is the southernmost and largest of the three Baltic Republics on the eastern shore of the Baltic Sea, with a territory of 65,200 sq. kilo- metres and a population of 3.7 million. The largest and most populous of the Baltic states, Lithuania is situated on the eastern shore of the Baltic Sea, in northeastern Europe. It is bordered by Latvia to the north, Belarus to the southeast, Poland to the southwest, and Kaliningrad, a territory of Russia, to the west. It has 60 miles of sandy coastline, of which only 24 miles face the open Baltic Sea.

After joining the EU in 2004, Lithuania saw its economy boom, reaching a record 8.9% GDP growth in 2007. Strong growth continued through much of 2008, but a weak fourth quarter, as financial stress spread through Europe, slowed growth to 3.0% for the year. In 2009, the global financial crisis hit the Lithuanian economy hard: the economy shrank by 15%, unemployment climbed to 13.7%, and salaries fell by 12.3%, the worst performance since comparable records began in 1995. Growing unemployment and lower income contributed to some limited social unrest in early 2009. That same year the government approved heavy budget cuts and passed a \$2.3 billion stimulus plan. In 2010 Lithuania's GDP grew slightly by 1.3%. Eurostat has forecast GDP growth of 5% and 4.7% in 2011 and 2012, respectively.

Supply of labour, which had been decreasing until 2007, was growing rapidly in 2008 – 2009. The number of registered unemployed increased 72% in 2009 compared with 2008. Decreasing number of the unemployed was recorded in 2010: about 18% less than in 2009. While demand for labour decreased from 121,000 to 91,800 in 2007 – 2009, 148,200 job offers were recorded in 2010.

In 2007, local labour exchange offices received 166,700 applications from the unemployed and on average 13,900 unemployed people were registered in the labour exchanges per month, compared with 17,800 in 2008, 30,800 in 2009, and 25,300 in 2010. There were 311,300 unemployed people in Lithuania as of 1 January 2011, which is 14.4% of all population of working-age. Compared with 1 January 2007, the number of the unemployed increased nearly three times and the ratio between the unemployed and the population of working age by 10.7 %.

2. CONCEPT

Lithuanian official definition rather stresses that social enterprises provide employment opportunities especially for the disabled and the long-term unemployed who produce goods and services according to commercial principles¹.

¹ Study on Practices and Policies in the Social Enterprise Sector in Europe, Austria, Austrian Institute for SME Research and TSE Entre, Turku School of Economics, Finland, Vienna 2007.

The official definition in Lithuania is, “an independent small or medium-sized enterprise [where] the employees classified as target groups account for at least 40% [of the workforce] and there are at least 4 such employees . . . ; [where] the enterprise is engaged in the development of employees’ working and social skills and social integration; [and] the enterprise’s income from activities [are] not eligible for support account for not more than 20%.”

In Lithuania, the social entrepreneurship concept is yet very new, but a number of innovative projects already tackle social problems applying market-based strategies. The most prominent are the salad bar Mano Guru, Not a Shop (a charity store), Maisto Bankas (a food charity organization), aukok.lt (a donations portal) and a number of other initiatives.

In Lithuania social enterprises are social mission driven organizations which apply market-based strategies to achieve a social purpose. The movement includes both non-profits that use business models to pursue their mission and for-profits whose primary purposes are social. Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their social or environmental purpose remains central to their operation.

As in most Europe, in Lithuania rather than maximizing shareholder value, the main aim of social enterprises is to generate profit to further their social and or environmental goals. This can be accomplished through a variety of ways and depends on the structure of the social enterprise. The profit from a business could be used to support a social aim, such as funding the programming of a non-profit organization. Moreover, a business could accomplish its social aim through its operation by employing individuals from disadvantaged backgrounds or lending to micro-businesses that have difficulty in securing investment from mainstream lenders.

Many Lithuania non-profit organizations see social enterprise as a way to reduce their dependence on charitable donations and grants while others view the business itself as the vehicle for social change. Whether structured as nonprofits or for-profits, social enterprises are simply launched by social entrepreneurs who want to improve the common good and solve a social problem in a new, more lasting and effective way than traditional approaches.

3. LEGAL FRAMEWORK

Lithuanian social enterprises have already accumulated some experience. In the June 1, 2004 the Lithuanian Parliament, Seimas, adopted the Law on Social Enterprises developed by the Ministry of

Social Support and Labour. The purpose of the law coincides with the purpose stated in the NAP/inclusion, i.e. to employ persons who lost the professional and general working capacity, as well as persons, who are socially inactive and cannot equally compete in the labour market, encouraging their return to the labour market, their social integration and extenuating social disjuncture.

Such people include the disabled, long-term employed, people of pre-retirement age, those who came back from the places of imprisonment, single parents with small children. One of the key objectives of establishing social enterprises is to support the return of such person into the labour market, facilitate their social integration and reduce their social exclusion. This Law made base for legal persons seeking to obtain the status of social enterprise and also defined the target groups of persons who can be employed in that kind of company. Social enterprise is not a new legal form of companies. The status of social enterprise may be obtained by any legal person complying with the following requirements:

1. satisfaction of the requirements for a small and medium-sized business entities in the Law on Small and Medium-Sized Business;
2. employees, pertaining to the target group specified in the Law (e.g., disabled people who are not working; long term unemployed persons, who have been registered in the labour exchange for over two years and other), comprise no less than 40% of average annual number of employees recorded in employee list, however the number of persons pertaining to the target groups is not less than four;
3. aims of the company's activities relates to the employment of the persons pertaining to the target groups, training of their work and social skills as well as social integration;
4. the company is not engaging in the activities included in the list of activities of the social enterprises nor subject to support, or the legal person's income from such activities nor exceed 20% of the total income of the legal person.

At the outset of 2011, a Draft Law Amending Articles of the Law on Social Enterprises of the Republic of Lithuania was submitted to the Seimas of the Republic of Lithuania. It was drafted in accordance with Commission Regulation 2008 declaring certain categories with a mission for social benefits, the ability to recognize and use new opportunities for engaging in continuous innovation, adaptation and learning processes, running, in spite of limited resources.

Social enterprises in Lithuania have a goal to employ socially vulnerable people, reintegrate them into the labour market and society, and reduce the social exclusion. Regular social enterprises in Lithuania have over 40% of socially vulnerable employees, and it might have over 50% of disabled employees. The government provides benefits and subsidies for the social business: wage subsidy and bonuses on social insurance fee contributions, bonus for each position opening, and funding towards the adaptation of the premises or acquiring specific equipment and funding scheme to assist with employee's training.

The overall aim according Law on Social Enterprises of social enterprises is, by employing the persons who are attributed to the target groups indicated in this Law and who have lost their professional and general capacity for work, are economically inactive and are unable to compete in the labour market under equal conditions, to promote the return of these persons to the labour market, their social integration as well as to reduce social exclusion.

A social enterprise is a legal person which is established in the Republic of Lithuania, has acquired this status in accordance with the procedure laid down by Law and fulfils all of the following conditions:

1. the number of employees who are attributed to the target groups listed in Article 4 of this Law accounts for not less than 40% of the annual average number of the employees on the staff list, and the number of the employees who are attributed to the target groups of persons is not less than four. A proportion of the employees who are attributed to the target groups to the average number of employees on the staff list shall be calculated in accordance with the procedure laid down by the Government or an institution authorised by it;
2. founding documents indicate the operating goals of this legal person relating to employment of the persons who are attributed to the target groups, development of their working and social skills as well as their social integration;
3. the legal person does not carry out the activities included in the list of non-supported activities of social enterprises as approved by the Government of the Republic of Lithuania or an institution authorised by it, or the income received from such activities over the tax period accounts for not more that 20% of the total income received by this legal person.

Social enterprise as well could be specific for the disabled and could act as legal person which is established in the Republic of Lithuania and fulfils all of the conditions. Tthe employees who are attributed to the target group of the disabled account for not less than 50% of the annual average number of employees on the staff list, of whom the disabled with Group I or Group II invalidity or the disabled for whom severe or moderate disability has been established or whose capacity for work does not exceed 55% or who are rated as having high- or medium-level special needs – for not less than 40% of the annual average number of employees on the staff list.

Target Groups of the Persons Employed in Social Enterprises are specifically described in the Law and is distinguished from other business entities. Employment in social enterprises of the persons who are attributed to at least one of the following target groups is supported by government and can apply for social enterprise status. 1) the disabled with Group I, Group II or Group III invalidity or severe or moderate disability or the disabled whose capacity for work does not exceed 55% or who are rated as having high- or medium-level special needs (irrespective whether they are registered with a local labour exchange

office or not); 2) the long-term unemployed who have been unemployed for more than two years since their registration with a local labour exchange office; 3) the persons for whom not more than five years are left until the pensionable age, where they have been unemployed for more than one year since their registration with a local labour exchange office; 4) a mother or a father who alone takes care of and raises a child under eight years of age, where this person has been unemployed for more than six months since his registration with a local labour exchange office; 5) the persons who returned from imprisonment institutions, where they were imprisoned for more than six months and registered with a local labour exchange office not later than within six months from their release from a correctional institution, provided they are registered with the local exchange office for not less than six months.

Where a legal person seeking or having the status of a social enterprise requests it must be prepared the information available about the persons who are registered with a local labour exchange and are attributed to the target groups mentioned above. A municipality and a local labour exchange office shall provide recommendations to a social enterprise regarding employment of the specific persons who are attributed to the target groups.

A social enterprise must carry out, according to a plan the measures aimed at the development of working and social skills as well as social integration of the persons who are attributed to the target groups and provide conditions for them to participate in other measures having the same purpose.

3. SOCIAL ENTERPRISE CHARACTERISTICS *(3-5 pages)*

In former communist countries, during the socialism era, the development of the voluntary sector has been stopped and private co-operatives substantially lost power. The former communist countries today see the establishment of social enterprises as a possibility to fill the vacuum that has been left after the state rapidly withdrew its responsibility of the social sector after 1989.

In Lithuania, since 1 July 2006 the previous individual income tax rate of 33% was reduced to 27%, and since 1 January 2008 this rate was set to 24%. Proportional decrease of tax rate on wages decrease social cohesion and the chance to reduce social exclusion was missed. In 2005 in order to ensure funding of social programmes and measures reducing poverty and social exclusion, the temporary the Republic of Lithuania Law on Social Tax was adopted setting out the social tax rates of 4% (for 2006) and 3% (for 2007) for legal entities paying corporate income tax. From 1 January 2008 the social tax is no longer imposed on legal entities. Refusal of social tax on profit does not strengthen social inclusion. All together, the renouncement of social tax on profit, the reduced personal income tax, and transfers from Social

Insurance Fund to private pensions fund reduce Government's opportunity to finance social protection and social inclusion measures in the threshold of economic decline.

The Law of the Republic of Lithuania on Social Enterprises has provided better opportunities for setting up of social enterprises and creating financial incentives for employers **setting up jobs for vulnerable people**. The Law on Support for Employment that is not included into the 2008-2010 NRP names the following groups of the vulnerable people: the disabled; persons who have completed vocational rehabilitation programmes; persons taking up their first employment according to the acquired speciality or occupation; the long-term unemployed; persons over 50 years of age who are capable of work; pregnant women; persons who have been released from places of imprisonment; persons whose unemployment period is or exceeds 2 years from the date of registration with a local labour exchange office; persons addicted to drugs, psychotropic or other psychoactive substances, who have completed psycho-social and/or vocational rehabilitation programmes; victims of trafficking in human beings.

In 2010, the Commission for the Affairs of Social Enterprises under the Lithuanian Labour Exchange analysed 37 applications of legal entities for the status of a social enterprise. The status of a social enterprise was granted to 28 companies, out of which 14 were granted the status of a social enterprise, and 14 – the status of a social enterprise of the disabled. Social enterprises are administered by 9 territorial labour exchanges. The majority of companies are established in Vilnius, Kaunas and Klaipėda. At the end of 2010, 130 social enterprises operated in Lithuania, out of which 90 enterprises were social enterprises of the disabled. A total of 3,600 employees worked in social enterprises, out of whom 2,500 (68.6 percent) belonged to target groups. By applying state social support funds, social enterprises subsidised wages of 128 assistants, who assisted 709 disabled persons in performing their job functions. These enterprises received LTL 24,200,000 of the state support, out of which LTL 6,700,000 were allocated by the state budget and LTL 17,500,000 originated from the European Social Fund.

Throughout Lithuania, social enterprises that (re-)integrate disadvantaged persons into the labour market or provide work places for people with special needs (disabled, long-term unemployed etc.) seem to be the type of social enterprise that receives most attention by policy makers. The measures under the activities of this type of social enterprises can be categorised as follows:

- o income transfers in form of subsidised services targeted to the persons of low income or bad labour market position
- o sheltered work in various forms
- o subsidising work in the open labour market (subsidies allocated either to the disabled or to the employers)

Social enterprises seem to be of rather small size and most often act at a local level (often under regional or local competency). There is also variation between those groups to whom these measures are targeted (disabled, unemployed, ex-prisoners, poor, disadvantaged persons etc.). Thus, the promotion and development of social enterprises concerns both the sectors of social policy, employment policy and industrial policy.

Specific type of social enterprises is social enterprises of disabled persons. Social enterprise of disabled persons is a social enterprise, where employees, pertaining to the disabled persons target group, comprise not less than 50% of average annual number of employees recorded in employees list, from which the disabled persons with the ability to work up to 25% and from 30% to 40% (former I and II disablement group) – not less than 40% of the average annual number of employees recorded in employee list. Social enterprise of disabled has the rights and duties as of social enterprise; however it can receive additional support from the state.

The Law provides for the financial support by the state to social enterprises in order to compensate additional expenses related to employees' pertaining to the target groups lesser work productivity, limited efficiency, etc.

Social enterprise may receive 3 types of state aid:

1. partial salary and social security contributions compensation;
2. work place establishment subsidy;
3. training subsidy.

Additionally, social enterprises for disabled persons may receive other 3 types of benefits:

1. subsidy for the working environment arrangement to disabled persons;
2. subsidy for additional administrative and transport expenses;
3. subsidy for the compensation of assistant.

According to the Supplement to the Law on Property Tax, the profit of the social enterprises is taxed at the rate of 0%, if: (a) during the taxation period employees of the company pertaining the target group specified in the Law of Social Enterprises, comprise not less than 40% of the average annual number of employees recorded in employee list, and (b) during the taxation period the company is not engaging in the activities included in the list of activities of the social enterprises not subject of the support, or the legal person's income from such activities during the taxation period is not exceeding 20% of the total income, and (c) on the last day of the taxation period the companies have status of social enterprise.

Over a period of two and a half years, six business encouragement centres for disabled people have been established in the main cities of Lithuania. Specially trained consultants provide a range of services

in these centres. The counselling service includes business planning, development of social enterprises, information on financial sources for business and advice on the physical adaptation of premises for people with disabilities. The centres also offer administration services and training courses, as well as job-searching techniques and mediation regarding employing people with disabilities.

A new law regulating social enterprises came into effect in 2007 and some organisations that employed people with disabilities but did not qualify for the status of a social enterprise lost financial support from the state, which was aimed at the specific needs of disabled employees. Consequently, a number of employees with disabilities lost their jobs. As a result of the new law, some new social enterprises will be established and they will need considerable support to start their activities, as it will be a new area of work for them.

Apart from social enterprises, some business people with disabilities want to run their own business. They face numerous challenges that are not shared by able-bodied business people. In a modern-day labour market, problems in relation to mobility can be solved in a different way, while psychological characteristics can be compensated by new information technologies.

4. EFFICIENCY

In Lithuania, with a view to reaching the strategic goal **“to seek balance in the labour market, increase its flexibility and security, improve employees' qualifications and ability to adapt to changes”**, the following programmes are under implementation. The funds of the **Programme for the Increase of Employment** are allocated for the support to social enterprises; vocational training of the unemployed by applying active labour market policy measures; maintenance of the European Social Fund Agency; promotion of corporate social responsibility; support for the establishment of trade union coordination centres in regions and development of the infrastructure of territorial labour exchanges.

To what extent have the specific objectives been met? During 2007, 15 new social enterprises were established, 11 whereof were granted the status of the social enterprise for the disabled; now there are 64 social enterprises in operation, 40 whereof are the social enterprises for the disabled. Social enterprises have already been engaged in the activities in all counties of the country. 4 enterprises have organized training of general and special nature, which was attended by 138 persons, belonging to the target groups.

In 2007, there were 87 new workplaces created for the disabled, 20 workplaces were accommodated for such purpose. 64 currently operating social enterprises employ 2476 employees, 1529 or 61.7 percent

whereof are the persons, belonging to the target groups. Upon application of the state support, 4 enterprises have accommodated the work and rest environment for 52 disabled people. Furthermore, 64 assistants work in the social enterprises for the disabled, who help 564 disabled people to perform their work functions.

What obstacles/risks were faced in implementing the initiative? The problems are faced in search for the employers. According to many employers, the state support is useful; however, it is complicated to work with the disabled persons. The employers also fear that the activities of the social enterprise will not be profitable.

How these obstacles and risks addressed? The territorial job centers organize seminars and training for the employers, explaining the legal, social, and psychological employment aspects of the disabled persons, etc.

Value added:

1. Enhanced motivation of the disabled to be more actively involved in the labor market
2. Broader awareness and consciousness of the employers in respect of the need to employ those disabled persons, who want to work.

Shortcomings:

1. The threat that the disabled, working in such enterprises, will get less and less chance to get into an open labour market
2. Lack of attention to the monitoring and evaluation of the work efficiency of the social enterprises as well as generalization of experience of the social enterprises

The greatest concentration of the social enterprises is in Vilnius (1/3 of all social enterprises, operating in Lithuania), whereas in the regions the establishment of the social enterprises is inactive. The Social Enterprise Association was established and unites range of social innovators in Lithuania. The Association was established to promote the concept of social entrepreneurship, create a platform to share best practices, assist in reaching financial and other resources relevant for the social innovators. SE Association represents social entrepreneurs by influencing public policy, promoting the movement within the society, establishing cooperation ties with public institutions and private sector. SE Association is a tool used to build sector infrastructure. The ultimate goal is a favorable environment for the agents to flourish.

5. CONCLUSIONS AND RECOMMENDATIONS

Seeking successful integration in the labour market, individuals were encouraged to acquire new or upgrade their acquired qualifications; focus was shifted to supporting of temporary employment; social enterprises were promoted; and workplaces were subsidised in order to help young people find employment. The changing Lithuanian Labour Exchange played an important role in increasing employment rates. After the system was reorganised and the activities were optimised, the institution became even closer to an individual seeking real assistance.

Lithuania may serve as an example of the restructuring process that the new EU Member States and some candidate countries currently undergo and of their **political position towards social enterprises**. In Lithuania, the state seems to have a rather narrow view of social enterprises, focusing on small businesses which employ people from the target groups, as reflected in the Law on Social Enterprises. In the case of NGOs, some of which are similar to social enterprises as they are defined in other EU countries, their relations with the government are rather weak. This causes a lack of favourable legislation regulating NGOs activities. Due to the weak links with the public, Lithuanian people lack awareness and understanding of the NGOs' role in dealing with social problems.

The need of unemployment regulation is very important issue nowadays. Unemployment regulation tools can be address towards labour supply either demand. Recently opened scientists discussion about growing need to regulate labour supply because of high volunteer caused unemployment and situation when open work places cannot be filled with existing labour supply because of the various reasons. This article objective is to review possible unemployment regulation tools oriented towards labour supply. The research was done using methods like analysis of the scientific publications, statistical data comparison and analysis. The main results are systematized and evaluated of unemployment regulation tools oriented towards labour supply in Lithuania.