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# Challenges to the Development of Work Integration Social Enterprises in Latvia

**ABSTRACT**

Social entrepreneurship is becoming increasingly popular in Latvia because it allows enterprises to implement economic activities while tackling social problems relevant to society. Since 2018, when the Social Enterprise Law was introduced, the number of registered social enterprises has reached 195 (in 2021). Work integration is the most common field of activity of Latvian social enterprises. According to the Latvian legislation, 13 groups at risk of social exclusion can be employed in a work integration social enterprise (WISE), but, in reality, many of these groups are not employed. The research aimed to analyse the factors influencing the development of WISEs and identify the challenges to employing the target groups in Latvia. The challenges identified are related to the difficulties faced by entrepreneurs in finding potential employees from the target groups, the social, psychological and health conditions of the target groups, their level of education and motivation to work. The lack of specific support tools also poses a challenge. As a result, recommendations are given for improving this situation. The research used statistical analysis, however, for an in-depth analysis of the information, interviews were carried out with work integration social entrepreneurs and social entrepreneurship experts.

**KEY-WORDS**

WORK INTEGRATION SOCIAL ENTERPRISES, SOCIAL ENTREPRENEURSHIP, PEOPLE WITH DISABILITIES, LATVIA

## **1. Introduction**

Social entrepreneurship is becoming increasingly popular in Latvia and in the world, as it uses a business approach to solving social problems (Amin, 2009a; Millar, Hall and Miller, 2013; Mazzei and Steiner, 2021). Social entrepreneurship is a way to effectively address the problems of various groups at risk of social exclusion, which in the long term can make a positive impact on the development of both the state and society (European Commission, 2018). Since 2018, when the Social Enterprise Law was introduced in Latvia, the number of registered social enterprises has reached 195 (in 2021)<sup>1</sup>. Work integration social enterprises (WISEs) are a common type of social enterprises in Latvia as they make up approximately one third of total active social enterprises in the country (28%)<sup>2</sup>.

Extant literature on European WISEs includes works by Defourny and Nyssens (2008) who have highlighted the features of WISEs in Europe, while Chiaf and Giacomini (2009) have focused on theoretical aspects of WISEs. Moreover, a number of scholars conducted extensive research on WISEs in specific countries, e.g., Denmark (Hulgard and Bisballe, 2008), Greece (Adam, 2014), Ireland (O'Shaughnessy and O'Hara, 2016), Croatia and Slovenia (Majetic et al., 2019). Conversely, in Latvia there is a lack of comprehensive research on WISEs. Most authors emphasize that WISEs are one of the types of social enterprises (Dobele, 2013, Līcīte, 2018; Anca and Sloka, 2020), yet their activities are not analysed in depth. Besides, researchers mainly focus on the employment of people with disabilities (Anca and Sloka, 2020), although WISEs in Latvia may also employ other target groups. Analysis focussing on specific aspects of WISEs—for example, the engagement of Latvian WISEs in the digital environment (Casno and Sloka, 2021)—is also being developed. However, it is important to examine more in depth the context in which WISEs operate in order to identify opportunities for and challenges to their development. This is especially important because WISEs constitute approximately one third of the registered social enterprises and because they mainly employ people with disabilities, thus failing to employ people from the other groups at risk of social inclusion (target groups) identified in the Latvian legislation.

The aim of the research is to analyse the factors influencing the development of WISEs and to identify challenges to employing the target groups in Latvia. The research tasks are as follows: (i) to describe the theoretical framework of WISEs; (ii) to give insights into the Latvian legal framework for WISEs and the practical application of the requirements; (iii) to describe the target groups identified by legislation as potential employees in WISEs; (iv) to examine the challenges faced by WISEs and develop proposals for the improvement of their performance.

The research used statistical data analysis. For this purpose, the author used information from the Register of Social Enterprises that is kept by the Ministry of Welfare on social enterprises and

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<sup>1</sup> According to data provided by the Ministry of Welfare on 31/12/2021.

<sup>2</sup> Ibidem.

target groups employed in WISEs. For an in-depth analysis of the information, 11 interviews were carried out with work integration social entrepreneurs or managers employing different target groups (mainly people with disabilities) (Table 1).

**Table 1. Empirical sample: list of interviewees/WISEs**

<b>Code</b>	<b>Interviewee position</b>	<b>Activity of the organisation</b>	<b>Target group</b>
WISE1	Owner	Social care services	Persons with disability; unemployed persons who have dependent persons, unemployed persons older than 54 years of age and long-term unemployed persons
WISE2	Owner	Restaurant and mobile food service activities	Persons with disability; persons with mental illness
WISE3	Director	Call centre operations	Persons with disability
WISE4	Owner	Production of knitted and crocheted apparel; footwear and clothing wholesale	Persons with disability
WISE5	Owner	Production of corrugated paper and paperboard, paper and paperboard containers	Persons with disability; persons with mental illness
WISE6	Owner	Social work activities for the elderly and disabled	Persons with disability; orphans and children left without parental care from 15 years of age as well as adults conforming to this group until reaching 24 years of age
WISE7	Owner	A retail shop	Persons with disability; persons with mental illness; unemployed persons who have dependent persons, unemployed persons older than 54 years of age and long-term unemployed persons
WISE8	Director	Accommodation in guest house and other short-stay accommodation	Persons with disability
WISE9	Owner	Artistic creativity	Convicts and ex-convicts
WISE10	Owner	Artistic creativity	Persons with disability
WISE11	Owner	Social work activities for the elderly and disabled	Persons with disability

The interviews were conducted between February and May 2021 for the purpose of this research. In addition, in the same period of time three interviews were conducted with experts, namely the representatives of the Ministry of Welfare, the Social Entrepreneurship Association of Latvia and Altum, a state-owned development finance institution, to gain a deeper understanding of the challenges hindering the scaling and growth of WISEs and the effectiveness of the support instruments available to them. The research also analysed the literature on social entrepreneurship as well as the legal framework governing social enterprises in Latvia<sup>3</sup>.

## **2. Theoretical framework of WISEs**

A rich literature on WISEs has developed in Europe—especially in Belgium, Italy and the UK—where several research centres are active and mainly grouped under the EMES International Research Network (Chandler, 2016). The main objective of WISEs is to help low-qualified unemployed people who are at risk of permanent exclusion from the labour market. WISEs integrate these people into work and society through a productive activity (Davister, Defourny and Gregoire, 2004). In countries formerly part of the Soviet Union, WISEs partly originated from sheltered employment workshops (May-Simera, 2018). However, the present research focuses on WISEs rather than sheltered workshops.

Researchers use different perspectives to describe WISEs; in this research, the author focuses on WISEs from the target group perspective. Davister, Defourny and Gregoire (2004) argue that there are two main institutional scenarios regarding WISEs: (i) there is a legal framework defining accurately the characteristics of the people that the enterprise can hire; (ii) there is no legal framework in this regard, therefore managers of the enterprise can define their target group. The situation in Latvia corresponds to the first scenario because the target groups are defined in the legislation. Spear and Bidet (2010) provided an even more detailed classification and proposed three categories regarding WISEs: (i) there are certain types of social enterprise which have their own legislative framework, and which are exclusively concerned with work integration; (ii) there are social enterprise types which are exclusively engaged in work integration, but although they are recognisable as a distinctive type, they do not enjoy a complete and specific legal recognition, and thus generally operate under a range of different legal forms also used by organisations out of the field of work integration; (iii) there are also other types of social enterprise that do not have their own specific legislation (e.g. worker cooperatives in the UK), and only a proportion of that type can be engaged with work integration (Spear and Bidet, 2010). According to this classification, Latvia corresponds in part to the first and third scenarios: there is a status that recognizes social enterprises, which are not bound to do only work integration.

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<sup>3</sup> I.e., the Social Enterprise Law and the Cabinet Regulation No. 173 “Regulations Regarding the Population Groups at Risk of Social Exclusion Risk and Procedures for Granting, Registration and Supervision of the Status of a Social Enterprise”.

Teasdale (2010) distinguishes WISEs on the basis of whether they provide direct employment to vulnerable groups, or whether they provide training and work experience opportunities to such groups. Teasdale also identifies a third group encompassing those WISEs that provide support to vulnerable groups whose exclusion is so acute that employment is not a realistic short- or medium-term aspiration. In Latvia, WISEs correspond to the first type as they provide direct employment to target groups.

Furthermore, it is possible to identify two main categories among the target groups: people with disabilities and able-bodied jobseekers with severe integration problems (Davister, Defourny and Gregoire, 2004). Within this category, various sub-groups can be distinguished: jobseekers with severe social problems (e.g., ex-prisoners or prisoners in probation, people affected by alcoholism, drug use, etc.), long-term jobseekers, young low-qualified jobseekers, jobseekers belonging to disadvantaged minorities (e.g., ethnic minorities), female jobseekers. WISEs usually integrate people from the first category, however, they often work with other target groups as well (Davister, Defourny and Gregoire, 2004). This is also the case of Latvia, where social enterprises mostly work with people with disabilities (including mental, physical etc.) and other target groups (European Commission, 2018).

Fonteneau et al. (2011) argue that the entrepreneurial character of WISEs empowers socially sensitive groups of people, improves productivity and supports decent working conditions. However, other scholars argue that these claims are exaggerated (Teasdale, 2012). They point out that these positive characteristics are observed in a small number of case studies and question whether these assumptions should apply to all WISEs. Also, researches show that social entrepreneurs face different challenges related to the employment of target groups in WISEs, which can affect the overall positive perception of WISEs. The main challenges identified in the literature are for instance the lack of education and qualification of target groups (Cooney, 2011; Qian, Riseley and Barraket, 2019; Anca and Sloka, 2020) and their limited participation in the work (Spear and Bidet, 2010). Amin (2009b) warns that individuals with histories of social exclusion cannot easily be transformed into economic agents just through placement in a social enterprise. He points out that these individuals need long-term support from the state, the community and the employers because wages in social enterprises are modest and career opportunities are limited. Nockolds (2012) points out that many WISEs adopt high-level flexibility and personalisation to meet the needs of their target groups, however, this entails various costs (the greater the challenges to placing an individual, the higher the related operational costs in terms of supervision, training, productivity, etc.).

To get a comprehensive picture of the challenges in integrating target groups, it is useful to classify these challenges. Some researches distinguish between internal and external factors (Heo and Xiaohui, 2019), while other between psychological, social and organizational factors (Knardahl et al., 2017). The author in this research uses the second approach to classify the factors influencing the employment of the target groups.

### 3. Characteristics of WISEs in Latvia

The Social Enterprise Law stipulates that a social enterprise is a limited liability company with a special status. The fact that only limited liability companies can apply for the status is quite a peculiarity in Europe (European Commission, 2020). In order to obtain the status, the enterprise must meet the following criteria:

- the Articles of Association of the limited liability company define its social goal as the sole and main goal of its economic activity;
- the shareholder meeting of the company has decided to acquire the status of social enterprise;
- the company does not distribute profit, but invests it to achieve the goals set in its Articles of Association;
- the company employs at least one employee;
- there is a democratic (participatory) enterprise management: a representative of the target group is involved in the enterprise's executive or supervisory board or an enterprise advisory body is established, and a representative of the target group or a representative of the association or foundation representing the target group, or an expert in the specific field is involved in it.

The Social Enterprise Law allows for various kinds of economic activity for social enterprises, and the social enterprises are not significantly restricted by choosing the most appropriate kind of economic activity. Social enterprises can provide social services, contribute to an inclusive civil society, promote education, support science, work on environmental protection and preservation, ensure the protection of animals or promote cultural diversity. The main aspect is that a social enterprise pursues a social goal, which, in the context of the law, is divided into three categories, each with specific performance indicators:

- i. employment of groups at risk of social exclusion, where at least 50% of the employees must belong to the target groups specified by the Ministry of Welfare<sup>4</sup>;
- ii. the social goal is to improve the quality of life for a specific social group, and not less than 30% of the services or goods produced are provided to the social group<sup>5</sup>;
- iii. other social goals, where at least 50% of the self-defined social impact indicators have been achieved.

In light of this, it can be concluded that one type of social enterprises are WISEs. And indeed, they make up almost one third of all active social enterprises (54 out of 193)<sup>6</sup>. The acquisition

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<sup>4</sup> See Cabinet Regulation No. 173 "Regulations Regarding the Population Groups at Risk of Social Exclusion Risk and Procedures for Granting, Registration and Supervision of the Status of a Social Enterprise".

<sup>5</sup> Ibidem

<sup>6</sup> According to data provided by the Ministry of Welfare on 31/12/2021: <https://www.lm.gov.lv/lv/media/17836/download>

of the WISE status is governed by the Social Enterprise Law and Cabinet Regulation No. 173 “Regulations Regarding the Population Groups at Risk of Social Exclusion Risk and Procedures for Granting, Registration and Supervision of the Status of a Social Enterprise”, which respectively specify the procedures for granting and supervising the status and the population groups at risk of social exclusion.

In Latvia, WISEs are a new phenomenon although their roots can be traced back to the 19<sup>th</sup> century social movements (European Commission, 2018). They were legally recognized on 1 April 2018, when the Social Enterprise Law came into effect and introduced the social enterprise status. Prior to that, there were nevertheless entities and individuals operating as WISEs, which would adopt various organisational and legal forms to achieve their goals.

The interviewees have been asked to express their considerations about the appropriateness of the criteria set out in the Social Enterprise Law. In the interviews, the social entrepreneurs mainly indicated that establishing WISEs, acquiring the status and meeting the criteria are understandable and feasible. However, there were also opinions that the process—from the registration of the enterprise to the completion of all formalities—was quite long. Various challenges to meeting the social enterprise criteria were also identified (Bogane, 2020), and the most important ones, with regard to WISEs, related to democratic enterprise governance and the employment of paid employees.

The social entrepreneurs interviewed indicated that the involvement of target groups in their enterprises’ management was often done formally or their involvement was mainly informative in nature. This was mainly due to the fact that the entrepreneur took responsibility for the economic activity of the enterprise, so often the target groups were informed about the decisions rather than directly involved in making them. It was also noted in the interviews that the role of the executive/supervisory boards was not clearly defined in the Social Enterprise Law. The entrepreneurs agreed that it was a good idea to encourage social entrepreneurs to consider taking into account the interests of the target groups, yet obliging them to create an advisory body was not a good idea. Several entrepreneurs emphasized that they had met this criterion formally by involving friends, acquaintances or family members in the advisory body, who theoretically performed the relevant functions. The debatable role of this criterion was also pointed out by the head of the Social Entrepreneurship Association of Latvia, who had found in discussions with social entrepreneurs that this criterion was often met more formally than in practice. At the same time, both the head of the Social Entrepreneurship Association of Latvia and the representatives of the Ministry of Welfare emphasized that there were several social enterprises that appreciated the practical application of this criterion, pointing out that such a criterion was necessary. This means that the role and application of this criterion need to be better explained to social entrepreneurs.

As regards the proportion of the target group employed, the Cabinet Regulation no. 173 states that the employment of groups at risk of social exclusion must make up at least 50% of the total employees. Most representatives of the WISEs interviewed believed that such a percentage distribution was optimal, as it helped to distinguish a social enterprise from a socially responsible

enterprise, thereby emphasizing that reducing the proportion would not be desirable. This could pose several risks. First, lowering the threshold for target group employment could lead to a situation in which socially responsible enterprises with a lower percentage of target group employment apply for preferential procurement contracts, thereby reducing the chances of social enterprises to win tenders. Second, there is the possibility of abusing the status of social enterprise.

The social entrepreneurs, the head of the Social Entrepreneurship Association of Latvia and the representatives of the Ministry of Welfare pointed to dishonest practices in some WISEs regarding the employment of target groups, i.e., often the employees were hired, yet no salary was paid (employees were hired only formally). Therefore, it was proposed (Ministry of Welfare, 2021) to introduce a minimum threshold for salary as well as to carry out additional controls in WISEs. The implementation of a minimum threshold for salary is likely to contribute to meaningfully meeting the “employ at least one employee” criterion. The head of the Social Entrepreneurship Association of Latvia proposed setting a minimum workload or minimum working hours for the target group workers employed by a WISE. For example, the minimum working time of target group employees could be at least 30% of the total working time of ordinary employees in the WISE. The introduction of such a criterion would reduce the abuse of the status of WISE (by hiring target group workers but not actually employing them).

#### **4. Characteristics of target groups employed by WISEs in Latvia**

In accordance with Cabinet Regulation No. 173, there are 13 population groups at risk of social exclusion (target groups) that may be employed by WISEs in Latvia:

- i. persons with disability;
- ii. persons with mental illness;
- iii. persons for whom the conformity with the status of the needy family (person) has been determined by municipal social services;
- iv. unemployed persons who have dependent persons, unemployed persons older than 54 years of age and long-term unemployed persons;
- v. the Roma ethnic minority;
- vi. convicts and ex-convicts;
- vii. persons with problems of addiction to alcohol, narcotic, psychotropic or toxic substances, gambling or computer games;
- viii. persons whose place of residence is declared in a night shelter;
- ix. victims of human trafficking;
- x. persons to whom the status of a refugee, alternative status or the status of a stateless person has been granted in the Republic of Latvia;



- xii. orphans and children left without parental care from 15 years of age as well as adults conforming to this group until reaching 24 years of age;
- xiii. parents or a guardian caring for a child with disability;
- xiii. persons caring for a child after reaching the age of majority, a grandchild, a brother, a half-brother, a sister, a half-sister, a parent, a grandparent or a spouse if the dependent is a person with disability or a person with a mental illness.

Overall, it could be concluded that the list of target groups is large, yet in practice not all target groups are employed by WISEs. However, it should also be noted that out of the overall number of WISEs registered in the Social Enterprise Register (54) only 33 provide information on the typology of target groups employed. The analysis of the available data published in the Register reveals that persons with disabilities is the most common target group employed by WISEs (20 WISEs work with people with disabilities); 7 WISEs work with unemployed persons with dependents, unemployed persons over 54 years of age and long-term unemployed; and 5 WISEs work with other groups, such as people with mental illnesses (1), people with alcohol, narcotic, psychotropic, toxic, gambling or computer gambling addiction problems (1), prisoners or persons released from prison (2) and Roma people (1).

Although WISEs mostly employ persons with disability, previous research studies show that overall this target group is little reached and the proportion of persons with disability employed has not reached the desired level (BISS, 2020). WISEs employ only a limited number of people with disabilities compared with the Latvian population of people with disabilities. An assessment of the national employment policy on persons with disabilities revealed that, according to the State Employment Agency (2021), the total number of the registered unemployed with disabilities was high (it amounted to 10,179 or 15.1% of the total number of registered unemployed persons in the country). Besides, about half (53.8%) of them were over the age of 50, 31.8% were long-term unemployed, and 2.3% were young (15-24 years). Compared to the market demand for labour, the number of social enterprises implementing work integration measures for persons with disability was small. It could be concluded that the employment of persons with disability could be increased by promoting the development of WISEs.

The fact that some of the target groups envisaged by Regulation No. 173 are not employed by WISEs could be explained by the challenges that are faced by social entrepreneurs in employing such target groups, and by the insufficient support tools in place for WISEs. However, despite the fact that several target groups defined in Cabinet Regulation No. 173 were not employed by social enterprises, the inclusion of these groups is justified and necessary. With the development of social entrepreneurship and an increase in the number of social enterprises, there is potential for employment of other target group employees.

Overall, it is commendable that in Latvia analyses of WISEs are performed and discussions with social entrepreneurs are underway. As a result of such discussions, in 2021 another target group was identified, namely “persons caring for family members with disability who need special care”

(before that 11 target groups were identified in Cabinet Regulation No. 173). This is due to the fact that people who spend most of their time caring for a family member are largely dependent on their needs and often have limited access to education or professional development, which reduces their competitiveness and makes it difficult for them to enter the labour market. Although there are different life situations in which several persons take care of a family member with a disability (e.g., both parents or both grandparents), it is the care giver that needs more support. It is necessary to provide such persons with an opportunity to be employed, socialize and participate in improving their life quality. Taking into account this situation, in February 2021, Cabinet Regulation No. 173 was supplemented to include two additional target groups at risk of social exclusion, namely “parents or a guardian caring for a child with disability”; and “persons caring for a child after reaching the age of majority, a grandchild, a brother, a half-brother, a sister, a half-sister, a parent, a grandparent or a spouse if the dependent is a person with a disability or a person with a mental disorder”. Social entrepreneurs interviewed were positive about the inclusion of such a paragraph in Cabinet Regulation No. 173. They expressed recognition that the Ministry of Welfare accepted their proposal to supplement the list with two additional target groups. This indicates that the Ministry of Welfare responds to the real problems identified by social entrepreneurs and makes appropriate amendments to the relevant legal framework. Also, it shows the development of the social entrepreneurship field and the importance of WISEs in the welfare state.

In the interviews, social entrepreneurs also pointed out that in order to expand the list of target groups, it is necessary to assess what persons turn to social services for help, thereby gaining the best idea of the target groups who need help and integration into the labour market. At the same time, however, it should be borne in mind that it is risky to further expand the list of potential target groups, thereby making the list too broad and creating the risk that it is difficult to distinguish a social enterprise from a conventional enterprise. Besides, the target group “persons for whom the conformity with the status of the needy family (person) has been determined” includes a rather wide target audience. Therefore, it could be concluded that in Latvia the list of target groups to be employed by WISEs is sufficiently wide.

## **5. Challenges to employing target groups in WISEs in Latvia**

The research conducted for this study reveals several challenges related to the employment of target groups in WISEs. These can be classified as: (i) organizational, (ii) social, health and psychological, (iii) individual and (iv) financial.

### *5.1. Organizational challenges*

This research shows that entrepreneurs often face challenges in identifying target groups, especially those target groups other than persons with disabilities (e.g., Roma people and former convicts) due to regulations protecting personal data. Therefore, the potential willingness of

entrepreneurs to employ such persons collides with their inability to identify and locate them. In other words, this means that the integration of these target groups in the labour market, although urgent, is difficult. This may also explain why there is currently no WISE in Latvia employing victims of human trafficking, persons whose place of residence is declared in a night shelter, persons to whom the status of a refugee, alternative status or the status of a stateless person has been granted in the Republic of Latvia, and persons for whom the conformity with the status of the needy family (person) has been determined.

### *5.2 Social, health and psychological challenges*

The social entrepreneurs interviewed also indicated that challenges are posed by the social and psychological background of specific target groups such as refugees and Roma. Cultural differences and language barriers are some examples of the challenges that need to be taken into account when working with such groups.

To promote the involvement of various target groups, it is important that social entrepreneurs cooperate with organizations representing the interests of the target groups, thus obtaining for instance information about potential employees. The interviews revealed that the social entrepreneurs used contacts from organizations that worked with specific target groups. Also, very often the organizations give rise to the idea to establish a social enterprise that would serve as a workplace for the involvement of the particular target group in the labour market. Such cooperation is very positive, as it promotes the involvement of target groups into the labour market. Furthermore, thanks to this interaction, the social entrepreneur understands and is aware of the abilities and skills of a potential employee.

Cooperation with local governments and their social services is also key, as in the case for instance of persons for whom the conformity with the status of the needy family (person) has been determined. Such cooperation is more often observed in rural areas where local governments are “closer” to the population and communication takes place in an informal way, sometimes even through mutual acquaintances. It emerged from the interviews that cooperation with the local government is mainly based on the initiative of social entrepreneurs and takes place on a more informal level. Yet this cooperation is also important for the local government as a way to solve local socio-economic problems. Closer cooperation between social entrepreneurs and local authorities could be promoted in various forms. For example, municipal social services could create a “list” of people from the target group (e.g., persons for whom the conformity with the status of the needy family (persons) has been determined, unemployed persons who have dependent persons, unemployed persons older than 54 years of age and long-term unemployed persons) who could potentially be employed. This list could then be disclosed by the municipality at the request of social entrepreneurs (taking into account the aspects relating to personal data protection), who often do not know where to find employees from the target group. Also, when launching grant programmes for young entrepreneurs, local governments could set advantages for those entrepreneurs who tackle

social problems relevant in a particular region and employ people at risk of social exclusion in their enterprises. It should also be taken into consideration that WISEs are often not located in the city centre, making it difficult for people at risk of social exclusion (especially persons with disability or mental disabilities) to physically reach their working place if they do not live nearby the social enterprise. Therefore, local governments could, as far as possible, cover transport costs or provide these groups with transport services.

Furthermore, several social entrepreneurs pointed out, they should be prepared for frequent situations where the employees are not able to work due to their fragile health conditions. Employment and its intensity are strongly influenced by the nature of the disability. Since health problems are common to many individuals at social risk, the workload needs to be tailored to them. In accordance with the Labour Law, the workload may be determined by the employer in agreement with the employee. The employer and the employee may agree on the terms and conditions of the employment contract, which can stipulate a shorter working day or working week. With regard to social risk groups that are employed by WISEs, the Labour Law does not directly prescribe to set part-time work as mandatory. However, in practice, managers of WISEs take into account the abilities and health conditions of their employees, thereby setting an appropriate workload, especially for persons with disability. Another unpredictable aspect for WISEs is the fact that a person with disability is entitled to social and rehabilitation services provided by the government. Most often, the person receives relevant information shortly before the service is provided, which causes problems for the manager in finding a replacement for the employee.

The social entrepreneurs interviewed emphasized that persons with disabilities can predominantly do low-skilled work. This relates to their low level of education and the individual's access to appropriate education. The social entrepreneurs emphasized the role of promoting employment among the target groups at an early age at national level, i.e. after finishing school. Very often people with disabilities do not have work experience because of low level education and limited abilities to get a job. This is also indicated by the findings of previous research studies that the employment policy on persons with disabilities depends on the person's access to appropriate education (BISS, 2020).

The training of target groups could be identified as a challenge to their employment. This applies to almost all social risk groups that have a low level of previous education or training. For example, persons who have been granted the refugee, alternative or stateless status in the Republic of Latvia usually have no knowledge of Latvian and need time to integrate into the country besides into the enterprise.

Persons with disability and mental disabilities may need a special approach and the support of an assistant. Persons with the I or II group of disability<sup>7</sup> who work and need support have the opportunity to receive support for up to 160 hours per month. The required amount of support is assessed taking into account both the person's ability to move outside the home and the ability to

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<sup>7</sup> For the target groups (i) persons with disability and (ii) persons with mental illness, the Disability Law (Section 6. Classification of Disability) distinguishes: (a) group I disability—very severe disability; (b) group II disability—severe disability; (c) group III disability—moderately pronounced disability.

navigate the environment, use public or other types of transport. However, this type of support is not always sufficient and it is not easy to find an assistant.

Also persons with problems of addiction to alcohol, narcotic, psychotropic or toxic substances, gambling or computer games, often require a specialist who not only provides vocational training but also helps to address social and psychological problems. According to the State Employment Agency, asylum seekers, refugees and persons with alternative status can receive in addition to the services of a social worker those of a social mentor. They both act to help these persons get acquainted with the Latvian society and start a permanent life in Latvia. For example, they can help to register with the State Employment Agency and a family doctor, open a bank account, provide housing assistance and help declare the place of residence, accompany children to school, etc. However, these persons are often not informed about the availability of this service, which consequently is not fully used.

### *5.3. Individual challenges*

Various challenges to the integration into work of target groups relate to their motivation to work and are influenced by the presence of several national and municipal social benefits. Often, persons of the target groups prefer to receive benefits from the municipality rather than to work for a small salary. This tendency was mentioned by several entrepreneurs interviewed and was identified in previous researches (Dobeļe, 2013; European Commission, 2018; Ministry of Welfare, 2021). In Latvia, municipalities provide the guaranteed minimum income (GMI)—a financial support to cover the minimum daily expenses—and a housing benefit for the poor and needy. According to the Law on Social Services and Social Assistance (Article 33), a minimum income threshold is set for the provision of social assistance:

- the guaranteed minimum income threshold is 109 EUR for the first or only person in a household and 76 EUR for other persons in the household;
- the income threshold of a needy household is 272 EUR for the first or only person in a household and 190 EUR for other persons in the household;
- each local government is entitled to determine the income threshold of a low-income household not higher than 436 EUR for the first or only person in a household and 305 EUR for other persons in the household, but not lower than the income threshold of a needy household laid down in Paragraph two of Article 33.

Given that one of the groups at risk of social exclusion defined in Cabinet Regulation No. 173 represents persons for whom the conformity with the status of the needy family (person) has been determined, a minimum income threshold is an important aspect, as it motivates or demotivates the persons to begin employment relationships with WISEs. By promoting employment of target groups that are at risk of social exclusion, the incomes of such individuals slightly increase. This is beneficial for the municipality, as it reduces the burden on its budget. In addition, it should be

noted that other benefits may be paid to the needy residents of the municipality in addition to the GMI and the housing benefit: e.g., benefit for medical services, for the education and upbringing of a child. If a person starts working and earns a salary, they lose the benefits provided by the municipality. This can discourage people to work in WISEs if they receive a minimum wage that is lower or only a little bit higher than the minimum income threshold. Earlier research studies (Dobeles, 2013; Dobeles, Dobeles and Zvirbule-Berzina, 2014; European Commission, 2018) suggest that there is a risk of developing a “benefit recipient” culture. There is no single, centralized instrument or solution to this problem because the person must be willing and able to work. One of the potential solutions suggested by social entrepreneurs is as follows: the benefits granted by local governments are temporarily suspended (e.g., for up to three months) if a person enters an employment relationship. The payment of the GMI benefit is suspended for the period during which the person is working, which is then continued if the person terminates the employment relationship (this could be especially relevant when engaging in seasonal work). It is possible that people fear that working in a social enterprise would generally result in less financial benefits than receiving help from the municipality. There can also be situations that workers are not paid any salary, but such situations are very rare. Therefore, to reduce the risk of losing income, they prefer not to start employment relationships at all.

The situation is similar with regard to unemployment benefits. As a social entrepreneur pointed out in the interview, in practice there have been situations in which a potential employee prefers to continue receiving unemployment benefits instead of engaging in an employment relationship. To reduce such a risk, the size of unemployment benefits was reduced in Latvia as of 1 January 2020. However, from 2022 onwards, the earnings for the last four months before becoming unemployed are not taken into account for the calculation of unemployment benefits. Such amendments were made to motivate a faster and more effective return to the labour market and full integration into the social insurance system. Overall, it could be concluded that persons are often afraid of losing benefits paid by the municipality or the national government, and they prefer not to work, but to continue to receive the usual benefits instead of trying to start an employment relationship.

#### *5.4. Financial challenges*

The research also identified financial challenges for WISEs. Although the entrepreneurs interviewed stated that their WISEs are self-sustainable and generate profits, the situation differs from case to case. The financial situation of WISEs is affected by external factors e.g., the COVID-19 pandemic, the competition in the market (Dobeles, 2013; European Commission, 2018) and internal factors e.g., low productivity of target groups (European Commission, 2018), low skills and lack of work experience, which in turn have an impact on their competitiveness and effectiveness. As a result, WISEs need additional financial support. This research did not analyse the types of financial support available to all social enterprises, but focused on specific support instruments designed for WISEs and the related challenges. It should be noted that most types of support are limited to the employment of persons with disability.

As regards tax relief, it should be noted that the Law on Personal Income Tax does not provide for significant relief for persons employed by a social enterprise, and, until 2020, there were no significant support instruments regarding mandatory state social insurance contributions. The general rate for the employees is 11%, while for people with disabilities it is 10.12%. As regards employers' mandatory social insurance contributions, the general rate is 24.09% against the 22.52% for employees with disabilities, which means that the reduction of labour costs is minimal. Besides, the rate is not differentiated between conventional companies and companies with the social enterprises status. However, a positive signal in this regard is the tax relief introduced by the Ministry of Welfare from 2021 onwards, which provides support to persons with disabilities and persons with mental disabilities in light of their lower labour productivity. More specifically, social insurance contributions paid by WISEs (employer rate is 23.59%) are now compensated from projects supported by the European Structural and Investment Funds. This kind of support is important and could be expanded in the future to cover a wider range of target groups employed by WISEs. The representatives of the Ministry of Welfare interviewed in the framework of this research were cautious about expanding the range of target groups, pointing out that risks could arise, one of them being that persons with disability or other target groups would only be recruited because they "bring money". The representatives of the Ministry of Welfare emphasized that the introduction of fiscal stimuli is effective and necessary, yet the stimuli need to be proportionate and reasonable. Social entrepreneurs interviewed suggested introducing other types of support beyond employer tax compensation for WISEs, e.g., fully subsidizing mandatory state social insurance contributions and subsidizing part of the salaries of target groups as well as specialists providing support to them.

With regard to the national employment policy on persons with disability, the entrepreneurs interviewed pointed out that an important support instrument were the services provided by the State Employment Agency, which are intended to provide support for the integration of the unemployed with disability into the labour market. These include: a grant for the salary of an unemployed person, a grant for the remuneration of a supervisor for the unemployed person, a grant for the adaptation of the workplace, a paid health examination and a grant for the training of an employee, as well as for the services provided by a sign language interpreter, an assistant and occupational therapist to the unemployed person. The social entrepreneurs interviewed indicated that they mainly provided jobs subsidized by the State Employment Agency, the purpose of which was to employ the unemployed in subsidized or government co-funded jobs and help them to understand the requirements of the labour market, integrate into society and find permanent employment. However, the social entrepreneurs also pointed out that the administrative process was quite long, resulting in the loss of a potential employee when the entrepreneur did not want to wait that long. In addition, the problem was that the subsidized jobs were significantly fewer than the real demand, and participation in the measure was limited in time, i.e. employment support for a person with disability lasted for 24 months, after which it was often terminated (State Employment Agency, 2020).

In Latvia, one of the most important support instruments for the development of social enterprises, including WISEs, were the grants available through the European Social Fund project “Support for Social Entrepreneurship” that started in 2016. Project implementation period was planned until 31 December 2022, however, at the end of 2021, the amount of funding available for grants was reached for the projects, and no new project applications were accepted. These grants for social enterprises were provided by the Ministry of Welfare in cooperation with Altum, a state-owned development finance institution (hereinafter Altum grants). A grant available to a social enterprise could amount up to 200,000 EUR for long-term tangible investments, long-term intangible investments, remuneration, consulting and training and current assets. The grant covered 90% of the eligible costs of a business project, while not less than 10% was the enterprise’s co-financing.

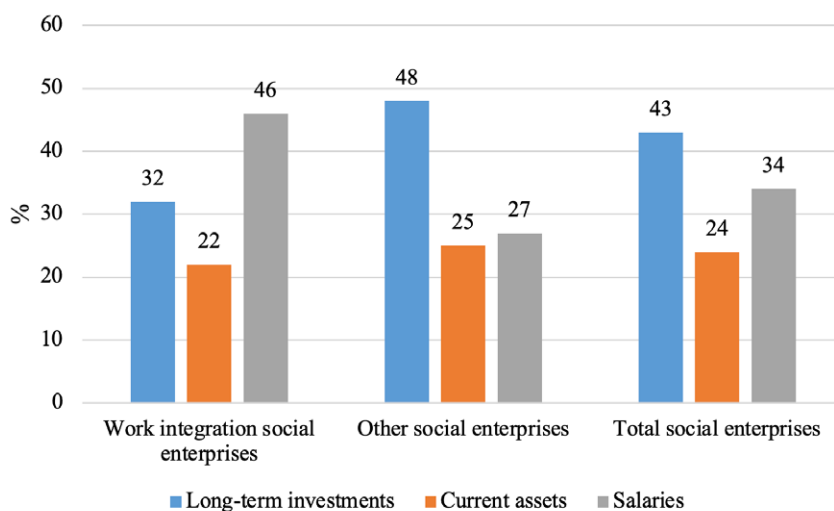
As pointed out by the Altum representative, the head of the Social Entrepreneurship Association of Latvia and the representative of the Ministry of Welfare, Altum grants have provided a great opportunity for the creation and development of a social entrepreneurship environment in Latvia. They have enabled established social enterprises to expand their economic activity and start-ups to begin their operation in this niche. The social entrepreneurs who have availed themselves of the Altum grants unequivocally stressed that they have been a significant support, and many admitted that without them the intended ideas probably would have not been realised at all. While WISEs have mostly used Altum grants to pay salaries, they acknowledged that these grants have been very useful for other purposes, e.g., to expand their operations, pay taxes in a timely manner and introduce new job positions. The social entrepreneurs interviewed also pointed out that Altum grants have been crucial for personnel training, as access to lifelong education, professional training and skills development were identified as a challenge to employing target groups.

As regards the opportunities provided by Altum grants for WISEs, previous research studies (Ministry of Welfare, 2021) showed that about half of WISEs received Altum support for a total amount of EUR 453,081 (Altum, February 2021 data).

The importance of grants for salaries is evidenced by previous research studies (Ministry of Welfare, 2021). The research analysed a total of 52 social enterprise applications for Altum grants, of which 17 were from WISEs, for a total amount of approx. 2 million EUR. Out of the total amount of grants received by social enterprises, 43% (1,069,012 EUR) was directed to long-term investment (see Figure 1 below). An analysis of the differences between WISEs and other social enterprises revealed that WISEs spent the largest amount of grants (46% or 406,565 EUR) on their employees’ salaries, while the other social enterprises allocated the largest amount to long-term investments (48% or 790,865 EUR). This could be explained by the fact that the goal of WISEs is to create jobs for people at risk of social exclusion; therefore, a larger amount of grant funding is used to achieve this goal (Ministry of Welfare, 2021).



**Figure 1. Percentage breakdown of grants by type of expenditure and by type of social enterprise**



Source: Ministry of Welfare (2021).

As shown in Figure 1, 43% (849,877 EUR) of all social enterprises was spent on the salaries of 151 employees, of which 45 were the employees of the target groups. The number of target group employees supported represented only 30% of the total employees supported in social enterprises. In total, the grant was used to support 74% of employees in WISEs (45 target groups employees and 66 other employees) (see Table 2, below). It could be concluded that overall the number of target group employees supported through grants was relatively small. This challenge was also emphasized in an interview with an Altum representative who pointed out that job creation for target group employees was not as successful as originally planned.

**Table 2. Grant amounts allocated to the financing of salaries in social enterprises, EUR**

Type of social enterprise	Altum grant used for salaries, EUR	Number of employees	
		Target group employees	Other employees
WISEs	406,565	45	66
Other social enterprises	443,313	-	85
In total	849,877	45	151

Source: Ministry of Welfare (2021)

Overall, it could be concluded that Altum grants have been used in accordance with the social goals of the grant project and that WISEs have increased the number of their employees at a higher rate than other social enterprises. However, a comparison of WISEs with other social enterprises reveals risks to sustainability for the enterprises that have received Altum grants. The risk is related to the fact that employment increases but no long-term investments are made, as is the case with other social enterprises. This increases the risk that, after the Altum grant programme for social enterprises is over, there might be a lack of resources for employee remuneration.

To summarise, in Latvia the current tax policy is irrelevantly favourable for WISEs while support instruments for them are insignificant.

### 5.5. Overview of the main challenges

The main challenges to WISEs are summarized in Table 3.

**Table 3. Main challenges to employing target groups by WISEs**

Challenges	Cause	Solution
<i>Organizational challenges</i>		
Difficulty in finding target groups (e.g. victims of trafficking, refugees etc.)	The disclosure of the lists of target groups is limited by the protection of personal data	Promoting cooperation between social entrepreneurs and: - organizations representing the interests of various target groups - municipalities and their social services
<i>Social, health and psychological challenges</i>		
Social and psychological peculiarities of target groups	Backgrounds, values and cultural differences of target groups	Promoting cooperation between social entrepreneurs and organizations representing the interests of various target groups
Health status of target groups	Employment and its intensity (especially in the case of persons with disability) are influenced by the nature of the disability	Promoting the flexible terms and conditions of the employment contract, which stipulate a shorter working day or working week
Education level of target groups	Access to education, as well as the experience and qualifications of target groups	- Promoting employment among the target groups at an early age at national level, i.e. after finishing school - Promoting a mentor or an assistant to work with target groups

**Table 3. Continues**

*Individual challenges*

Motivation of target groups	Target groups often prefer to receive benefits from the municipality rather than to work for a small salary	<ul style="list-style-type: none"> <li>- Suspending temporarily the benefits granted by local governments (e.g. for up to three months) if a person enters an employment relationship</li> <li>- Suspending the payment of the GMI benefit for the period during which the person is working, which is then continued if the person terminates the employment relationship</li> </ul>
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*Financial challenges*

Jobs subsidized by the State Employment Agency	<ul style="list-style-type: none"> <li>- The administrative process is quite long, which could result in the loss of a potential employee</li> <li>- Because of the long administrative procedure the entrepreneur does not want to wait that long</li> <li>- The subsidized jobs are significantly fewer than the real demand</li> <li>- Employment support for a person with disability lasts for 24 months, after which it is often terminated</li> </ul>	Establishing a simplified application procedure for subsidized jobs
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Grants administered by Altum and the Ministry of Welfare	The number of target group employees supported under the grant programme is relatively small	The grant programme is over; therefore, no grant proposals are made. It is advisable to promote similar support programmes in the future for social enterprises
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Tax relief	Relief on social insurance contributions paid by an employer and an employee for social enterprises is insignificant (social insurance contributions paid by the employee: the general rate is 11%, the rate for a person with disability is 10.12%; social insurance contributions paid by the employer: the general rate is 24.09%, the rate for a person with disability is 22.52%), yet the rate is not differentiated between social enterprises and conventional Ltds	From 2021 onwards, the Ministry of Welfare provides support to the following target groups: persons with disability and persons with mental disabilities. Social insurance contributions paid by WISEs (employer rate – 23.59%) are compensated from projects supported by the European Structural and Investment Funds. This kind of support could be expanded in the future to cover a wider range of target groups employed by social enterprises
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Source: Author's own compilation.

## 6. Conclusions

In Latvia, WISEs are a common type of social enterprise: in 2021, they accounted for 28% of all registered social enterprises. To be regarded as a WISE, an enterprise must meet the criteria specified by the Social Enterprise Law and employ at least 50% of people belonging to a group at risk of social exclusion. Overall, the social entrepreneurs interviewed believed that the requirements for obtaining the WISE status are understandable and clear. However, they revealed that, in practice, the involvement of target groups in the management of the enterprise is often only formal and that there are dishonest practices regarding the employment of target groups (i.e., often the employees are hired, but their work is not remunerated).

In Latvia, WISEs may employ any of the 13 social exclusion groups specified by Cabinet Regulation No. 173. Yet, in practice, they mostly employ persons with disabilities (55% of cases) and disadvantaged unemployed people, leaving out many other groups at risk of social exclusion.

The research identified the main factors influencing and challenging the performance of WISEs. Most problems were common, regardless of the target group employed: lack of education and experience of the target group employees, their health status, social and psychological problems, as well as motivation.

The research found that there are few financial stimuli for social entrepreneurs that would promote the employment of groups at risk of social exclusion. Social entrepreneurs use the services provided by the State Employment Agency regarding subsidized jobs (yet they were available for all companies and not specifically for those that acquired the social enterprises status). The tax relief is marginal, i.e., the reduction in mandatory state social insurance contributions only applied to the employment of persons with disabilities and is very small. As a result, labour costs for the employer are only slightly reduced. However, these conditions apply to economic operators of all legal forms. In addition, the stimuli are so insignificant that they do not motivate the enterprises. In 2021, the Ministry of Welfare expanded the list of support instruments to provide support to some target groups, namely persons with physical disabilities and persons with mental disabilities. Accordingly, from 2021 onwards, social insurance contributions paid by WISEs (employer rate is 23.59%) are compensated from projects supported by the European Structural and Investment Funds.

The most important kind of financial support for the development of WISEs was a grant programme administered by the Ministry of Welfare and Altum, which WISEs mainly used for their employee salaries.

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