



A map of social enterprises and their eco-systems in Europe

Country Report: Estonia

European Commission

Country Report: Estonia

This report provides a non-exhaustive overview of the social enterprise landscape in Estonia based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.

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Charu Wilkinson
Lead Managing Consultant
+44 (0)782 794 6021
charu.wilkinson@ghkint.com

ICF Consulting Services
Limited Watling House
33 Cannon Street
London
EC4M 5SB
T +44 (0)20 3096 4800
F +44 (0)20 3368 6960
www.icfi.com

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Prepared by	Riinu Lepa (external expert) and Alari Rammo (legal expert)
Checked by	Charu Wilkinson

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Headline summary

Definition(s) and concepts

There is no official definition of social enterprise in Estonia. Traditionally, social enterprise has been the activity of associations and foundations, offering a range of services, including work integration, previously provided by state enterprises. The concept of social entrepreneurship has now been introduced. Current definitions of social enterprises in Estonia are in a large part coherent among stakeholders. Aspects receiving wide agreement are that a social enterprise is: (1) working towards a societal aim, (2) has a viable business model and (3) if not financially self-sustainable already, should be moving towards it.

Policy and legal framework

There is no formal policy or legal framework specific to social enterprise.

Public support and initiatives

There are no formal policies specifically defined to support social enterprise. There are initiatives to better promote and support the sector, especially from the National Foundation for Civil Society (NFCS).

Networks and mutual support mechanisms

Networks have been established for associations and foundations and for social enterprises, e.g. through the Network of Estonian Non-Profit Organisations (NENO) and ESEN.

Marks, labels and certification systems

There are no formal social enterprise marks or reporting. ESEN is promoting through a handbook an impact measurement methodology and practice among its members. The aim in the network is to have impact reports of all members publicly available. The EU is funding a pilot statistical report of social enterprises in Estonia and a methodology for regular reporting.

Social investment markets

There are no specific financial instruments directed to social enterprises in Estonia. The interest of the investment community in social enterprise is low.

Spectrum of social enterprise

The most common legal form for social enterprises is the associations and foundations association. Limited companies registered as members of the Estonia Social Enterprise Network (ESEN) are also part of the spectrum.

Scale and characteristics

There are an estimated 300 to 450 social enterprises, based on assumptions, estimated by the author. Associations and foundations represent the main business model for social enterprises; but with new models starting to be developed and tested, including hybrid models where two legal forms are adopted (e.g. an association/ foundation for the societal activities and a private limited company for entrepreneurial activities).

Factors constraining the start-up and development of social enterprise

These generally are the same as for new/small businesses. Lack of investment funds is a constraint. The market is constrained by the inability of public procurement to effectively reflect social and environmental objectives.

1 Definitions and concepts of social enterprise in Estonia

Box 1 Origins of social enterprise in Estonia

A first network for associations and foundations organisations was established in 1991 by 26 foundations and charity organisations (the Network of Estonian Nonprofit Organisations, EMSL). The law for associations and foundations organisations was adopted by the government in 1996. More and more associations and foundations were created to answer the needs from the society to promote democratic values, enhance civil activism, etc. The operation of these organisations included volunteering, charity, donations, public funds or social service contracts, and often providing employment for disabled persons. These 'social enterprises' were established on the basis of the liquidated state enterprises. Established with the support of the state or municipality, their main clients are still the state

Within ten years of the introduction of the market economy there was an interest in extending civil interests from associations and foundations to traditional enterprises, defined as 'social entrepreneurship'. This concept was first formally introduced in Estonia in 2005, by the Good Deed Foundation, when there were already ~20,000 associations and foundations established.

Raudsaar and Kaseorg (2013a) suggest that the emergence of social entrepreneurship and for profit organisations reflected an interest in providing goods and services to a wider client base. Indeed, newer NGOs see the market differently, they try to find clients from private companies or individuals.

The Good Deed Foundation was established with an aim to make charity more effective in Estonia. The Project was managed by the EMSL and funded by National Foundation of Civil Society (NFCS). The first programmes included the supply of mentors and grants from private sector businesses to support leaders of associations and foundations. But the question remained: is this effective enough? Is there an actual impact? The decision to use the concept of social entrepreneurship was mainly motivated by the aim to increase the impact of change-making projects and organisations; the definition and examples of which were mostly derived from Ashoka. The Good Deed Foundation started to look for and support the development of organisations that could create large scale impact in innovative ways in Estonian society. Financial sustainability was a bonus, but not a requirement. Impact and scale were the most important aspects. (*Interview with Artur Taevere*)

The terms 'social enterprise' and 'social entrepreneurship' are not legally defined in Estonia, although stakeholders have defined these terms as the basis of various activities. Though the definitions are not always identical, there are no deep differences of principle between stakeholders.

Views of stakeholders

All interviewed stakeholders (representatives of public authorities, academics, network and support organisations) agree on the historical emergence of the term 'social entrepreneurship' in Estonia: the term was first introduced by Good Deed Foundation in 2005 and was mostly based on the Ashoka's definition and examples of social entrepreneurs.

Interviewed stakeholders also agree that the introduction of the term 'social entrepreneurship' is not the only origin of social enterprise in Estonia. There were other earlier developments occurring in the society, during which many societally oriented associations and foundations were established as (partially) self-financing organisations, providing products or services to the market. Some of these organisations have been identified as social enterprises later on, either by themselves or by social entrepreneurship field experts.

Senior specialist in University of Tartu Mervi Raudsaar describes the two parallel developments taking place: *“When we look at the development of the organisations in Estonia, the kind of Scandinavian welfare style was carried out by the associations and foundations that were established at the time of Soviet Union collapse. The old system was eliminated, the previously state owned social service providers were turned into associations and foundations, still very much dependent on local governments. On the other hand the newly created associations and foundations had a market-based business model. Here we have two parallel and very distinct approaches. This makes it very hard to create any policy or support mechanisms that would suit everyone.”*

Good Deed Foundation used two parallel descriptions of social enterprises during 2005-2010. There was a narrow 'social business' definition and a broader impact-based description. The reason for this was, as the development manager of the Good Deed Foundation at the time Agne Tamm stated: *“We needed the broad description because there were not much examples of the narrow one in Estonia. The narrow description left too many potential social enterprises out from the circle.”*

Box 2 The emergence of social enterprises in Estonia

Social enterprises in Estonia have emerged on the back of two parallel processes with differing implications.

Citizens' activism and the third sector development

In 2003 a commission was formed from representatives of the Estonian Government and from civil society to plan and implement the Estonian Civil Society Development Concept. Development plans were prepared and executed for 2007-2010 and 2011-2014. Currently, a development plan for a next period 2015-2020 is being prepared. Implementation of the plan is delegated to the Estonian Ministry of Interior.

Improving the organisational capacity of associations and foundations was raised as an important priority in the Civil Society Development Plan 2011-2014. The main indicators for the capacity were: the ratio of associations and foundations with paid employees and the ratio of associations and foundations having regular voluntary staff; with an interest in reducing the financial dependency of associations and foundations on the state and public funds.

A second initiative in the development of the social enterprise sector in Estonia has been the creation in 2009 of the NFCS. The main aim of NFCS is to increase the capacity of civil society organisations. This capacity building includes training in strategic management as well as financial planning and revenue creation, and development in areas of entrepreneurship – service/product development, marketing and sales, etc.

The executive director of NFCS, Agu Laius, explains: *“Traditionally in the civil society organisations there are individuals with high ideals and very good understanding of the social problems, but rather few have experience in how to tackle these problems constructively and efficiently. Especially through using the methods of entrepreneurship.”*

In pursuit of this aim NFCS produced a first call for proposals for social entrepreneurship projects. The social entrepreneurship support program has supported five calls; and the projects have raised the awareness of the benefits of self-earned revenue among NGOs.

The political pressure, and interest of NGOs, for traditional third sector organisations' to become social enterprises mostly lies in the aim of increasing self-sustainable (financing) activities; based in part on the supply of goods and services under contract to public services. The need for support in these organisations is mostly regarding management

Social entrepreneurship concept promotion

The flagship social enterprise in Estonia was the Re-Use Centre (Uuskasutuskeskus), established by the Good Deed Foundation and other partners in 2004 even before the foundation started promoting social entrepreneurship. The Re-Use Centre was probably the first social enterprise in Estonia that also called itself ‘a social enterprise’. (Interview with Jaan Aps).

In 2005, Good Deed Foundation issued an Estonian translation of the book by David Bornstein *“How to change the world: social entrepreneurs and the power of new ideas”*. They also organised two social entrepreneur contests to find high- impact organisations for their support programme. Both of

these events contributed a great deal to developing the terms 'social entrepreneur' and 'social entrepreneurship' in Estonian society.

The Good Deed Foundation travelled around Estonian counties looking for high impact potential among the existing associations and foundations and also among high performing individuals. The results of this search were rather modest. As the executive director of GDF at the time Artur Taevere comments: "The existing organisations had too little ambition for us. We wanted to support programmes that would have an impact all over Estonia. But they were operating as local associations. There were very good specialists working in these organisations, knowing their field deeply. But they lacked ambition to spread the activities throughout Estonia."

Artur adds: "We noticed already in 2005 that the amount of potential social entrepreneurs is limited. This was our number one problem during the years when I was in GDF. I would say that it is an important obstacle even now."

The activities of Good Deed Foundation inspired several social entrepreneurs to start their enterprises, who did not necessarily wish to apply for the GDF portfolio organisation. Several social enterprises were started during 2005-2009 identifying themselves as such since the beginning. The organisations, which started as social enterprises from the beginning tend to be market oriented, with a readiness to develop products and services, and manage the sales and marketing, etc. The need for support to these organisations was mostly in the form of changes in legislation and regulation to allow equal opportunities with other enterprises.

The establishment of ESEN was an important milestone in defining social entrepreneurship in Estonia. It became a central point of reference for stakeholders. Agne Tamm describes it: *"At the time when ESEN was established, we (Good Deed Foundation) kind of gave away the task of defining social entrepreneurship to ESEN. If I had to go and make a presentation about social entrepreneurship now, I would take the definition from ESEN webpage."*

Defining features of social enterprises

Current definitions of social enterprises in Estonia are in a large part coherent among stakeholders. The aspects fully agreed upon are, that a social enterprise is: (1) working towards a societal aim, (2) it has a viable business model and (3) if not self-sustainable already, should be moving towards it.

ESEN sets the following criteria for a social enterprise: a clearly stated societal aim, a viable business model and entrepreneurial revenue up to at least 35 per cent of the total income, should be willing to measure its impact and all profit should be reinvested into the organisation (www.sev.ee).

Among interviewed stakeholders opinions vary regarding aspects of profit allocation. ESEN has stated that social enterprises should reinvest all profit into the social aims. Rasmus Pedanik commented on this criterion: *"In England it is acceptable, that profit can partly be allocated to the owners. It seems to me as a plausible option. Though I understand that in Estonia it is generally preferred to have clear regulations without too many distinctions made, which might create additional bureaucracy."* Senior specialist and lecturer Mervi Raudsaar emphasized a need to raise interest among entrepreneurs: *"To gain more interest towards social entrepreneurship from the entrepreneurs, I would allow partial profit allocation. Maybe that 70 per cent of profit should be reinvested and 30 per cent could be allocated to owners."*

In the Ministry of Interior and in NFCS the 'social entrepreneurship' was primarily understood as revenue earning in associations and foundations. The focus of the concept has not been so much on solving societal problems or impact. (*Interview with Rasmus Pedanik; interview with Agu Laius*)

Artur Taevere (Good Deed Foundation) emphasises the importance of impact: *"The definitions used in EU are to my understanding mostly concentrated on the self-sustainability. It seems to me that the impact is largely missing from the definitions."*

In the Estonian Civil Society Development Plan 2011-2014 social entrepreneurship is defined as '...economic activities of citizens' associations with the objective to solve a social

problem through entrepreneurship; companies may be partners to citizens' associations in social entrepreneurship'.

Public awareness of social entrepreneurship

Public awareness of the term remains rather low. According to the survey executed by TNS Emor only 20 per cent of the respondents stated that they know what social entrepreneurship is and were able to name social enterprises (Good Deed Foundation, 2013).

Agne Tamm (Good Deed Foundation) comments: "*There was a raise in awareness levels between 2004 and 2008, but to our surprise the awareness level of social entrepreneurship had not increased from 2008 to 2013.*" One of the reasons is suggested by Mervi Raudsaar stating that the popularity of the concept of social entrepreneurship and the emergence of the community around Good Deed Foundation was rather localized to Tallinn. According to Mervi in southern Estonia the concept was not spreading at all. The first significant change was caused by the creation of the social entrepreneurship incubator SEIKU in 2013 in Tartu (*interview with Mervi Raudsaar*).

Raudsaar and Kaseorg (2013b) executed a study among 255 university students and entrepreneurs to investigate how well the essence of social entrepreneurship definition is understood. The results indicate that the respondents are not aware of the meaning or definition of "social entrepreneurship".

2 The ecosystem for social enterprise in Estonia

2.1 The policy and legal framework for social enterprises

There are no legal forms which are tailored specifically for use by social enterprises in Estonia. This means that although there are no specific regulations or legislation that restricts their establishment, there is also no legal form which allows for a social enterprise's particular characteristics. Potential legal barriers to establishing social enterprises have been overcome through social entrepreneurs' interpretation of the law regarding associations and foundations organisations which presents several potential risks, mainly concerning taxation.

The most common legal form for social enterprises is the associations and foundations association. In the Estonian language the associations and foundations association has a confusing name which implies a negation 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. The stakeholders were asked to comment on this situation:

Executive director of NFCS Agu Laius gave a following comment: *"There have been discussions about this nuance in the non-profit law with politicians. In different times, this aspect has been interpreted differently. But the practice was developed which allowed income generation for associations and foundations. As the state had a liberal approach to it, the organisations were allowed to operate. The Tax Office has not over-emphasized it and politicians never saw it as a problem."*

Rasmus Pedanik (Ministry of Interior): *"There were so few NGOs having more than 50 per cent of self-earned revenue, that it was not considered a problem. Rather it was said that it would be great if they would earn at least 10-20 per cent of income through entrepreneurship."*

Social enterprises operate mostly as associations and foundations and as a result can be 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. To date all support measures for entrepreneurship are directed exclusively towards companies by legal form and without regard to the essence of the organisation's activities. Drawing distinctions between "sectors" of operation in tax policy in general can hinder the development of social enterprise.

The interviewed stakeholders all agree that it is time to prepare an appropriate legal framework for social enterprises in Estonia. The sector is not large in terms of the level of activity, but it is well-developed and there are more and more social enterprises emerging.

Stakeholders also agree that the first step in reaching a supportive legal framework is to execute **analysis and research of the current status, needs and possible effects of various legal scenarios**.

Agu Laius (NFCS) emphasis that it is actually good that the development of the sector has been a bottom up process and that Estonians did not start with defining legal frameworks: *"These would be very difficult and risky to define only on theoretical level. Done theoretically the regulations could get restricting. It is important that we first map the problems created by not having the legal framework and then estimate, if and which kind of regulation we need for social enterprises."*

The ESEN has taken it as a strategic aim to influence modification of the operational environment of social enterprises. Chairman of the management board of ESEN Jaan Aps specifies the following needs of social enterprises that might need legislative modifications: removing unfair (and/or misguided) barriers to support mechanisms, especially in relation to ineligibility of civil society organisations to business support; and consideration of social and environmental aspects in public procurement rules. Aps adds *“The prerequisite for both of those developments is better understanding of the concept of societal impact by public sector decision makers.”* (Interview with Jaan Aps)

The current legal forms are not fully suitable for social enterprises. This has caused a situation where social enterprises actually create several legal entities – typically they have an association or foundation for the societal activities and a private limited company for entrepreneurial activities. The first can apply for the civil society organisations' programmes and the second can apply for the entrepreneurship support schemes. There is debate over the need to change this.

One view is that if the NGO is the sole owner of the limited company it could get the benefits of both legal forms, although it is acknowledged that changes in the rules on use of profits and assets would be needed to ensure retention in the business. An alternative view is that two legal forms confuses the mission and complicates accountability, with scope for misleading reporting, especially of staff costs. The loss of transparency in governance is seen as contrary to the underlying rationale for social enterprise. There should be only one legal form.

Cooperation with legislators

ESEN is working on creating contacts with state authorities to open discussions about the legal framework for social enterprises. According to the chairman of the management board of ESEN Jaan Aps the ministries (especially of Economy and of Legal Affairs) have been informed about the issue at the Secretary General level. Aps summarizes: *“Their current informal opinion is that the existing framework enables social enterprises to operate. Also, in their opinion the current number of social enterprises would not justify the costs of creating a new legal form.”*

Aps adds: *“Estonia has kept both its enterprise as well as non-profit legislation much simpler than in many other countries. Any new form is considered by the officials as an unnecessary complication. Of course it would be doable, but only with strong political will. Our [ESEN] advocacy activities will first address the knowledge and attitudes related to creation of societal impact in a financially sustainable manner. Only then we can touch again upon the issue of legal framework.”*

ESEN was included as a partner in several important planning processes in 2013. The practical results of these cooperation opportunities have not emerged yet, but hopefully will create better opportunities for activities of social enterprises. These processes include:

- Compiling the Estonian Civil Society Development Plan 2015-2020. In this period social entrepreneurship and social innovation both have a place among the other priorities for civil society.
- Research commissioned by the Ministry of Finance and carried out by PwC on how Estonia can use financial instruments offered by the EU during the 2014-2020 period. The final report recommends using the combination of financial instruments and grants both for start-up and mature social enterprises. (Ministry of Finance, 2013)
- Planning the use of EU Structural Assistance opportunities during the 2014-2020 period by Ministry of Finance. ESEN was involved in the formulation of development needs and prioritization of development goals.

2.2 Public support schemes targeting social enterprises

A summary of the public support targeting social enterprise is summarised below (Table 2.1)

Table 2.1 Overview of publicly funded schemes specifically designed for or targeting social enterprises (✓=yes X=no)

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these 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.)	✓ (NFCS)	X
Training and coaching schemes	✓ (NFCS)	X
Investment readiness support	X	X
Dedicated financial instruments	X	X
Physical infrastructure (e.g. shared working space)	X	X

National Foundation of Civil Society (NFCS)

NFCS is the state financed civil society fund in Estonia. NFCS was established by the Estonian Government on February 18, 2008. Executor of the founder's rights is the Ministry of the Interior. The goal of NFCS is to help building the capacity of Estonian associations and foundations to develop civil society and shape an environment that fosters civic action. The target groups are associations and foundations acting in public interest and registered in Estonia.

NFCS has run social entrepreneurship business plan support programmes once a year since 2009. Every year 20-25 civil society organisations create business plans for their entrepreneurial activities and get initial support for executing the plans. Additionally NFCS has provided training and coaching support for social enterprises or potential social enterprises.

2.3 Other specialist support and infrastructure available to social enterprises

There are two universities running regularly a course on social entrepreneurship for their students. These are Estonian Business School and Tartu University. In both schools it is an elective class.

No law firms or investment funds are specifically targeting social enterprises.

2.4 Networks and mutual support mechanisms

Estonian Social Enterprise Network (ESEN)

The Estonian Social Enterprise Network (ESEN) was established by 19 social enterprises in 2012. With the network a definition of social enterprises was described, which included criteria for which organisations from both origins (associations/ foundations and social entrepreneurs) were eligible. The creation of ESEN is an important milestone, because from then on regular and systematic advocacy activities for social enterprises were started.

The aim of ESEN is to increase the number, capability and impact of social enterprises in Estonia and improve awareness of social entrepreneurship as a valued and important

sphere of activity in society. ESEN operates as: (1) a member organisation: informing and inspiring members, creating and mediating cooperation, training and consultation opportunities, advising on the evaluation of social impact; (2) an advocacy organisation: representing members' common interests, collaborating in creation and development of financial and non-financial support arrangements; (3) a developer and spokesperson of the field: supporting educational activities and research, participating in international cooperation, informing general public about social entrepreneurship.

Social Entrepreneurship Incubator (SEIKU)

SEIKU is the first Estonian social entrepreneurship incubator. It was initiated in 2013 by social enterprise Domus Dorpatensis. The first year of the incubator SEIKU was also funded by NFCS. Incubators aim is to help kick-start enterprises that are solving societal problems. Incubator program involves training, counselling, mentors and working space in a shared office. The first group of eight social enterprises started in October 2013. An important benefit for the participants in the incubator is peer support and communication.

Good Deed Foundation (Heateo SA)

Good Deed Foundation is the only venture philanthropy organisation in the Baltics. The main focus of the foundation is on supporting high-impact social initiatives (both social entrepreneurs and associations and foundations). Projects and organisations that show the greatest potential to solve pressing problems in Estonian society are selected into the portfolio. Some of these organisations are established by Good Deed Foundation, others are found by regularly gauging the effectiveness of existing organisations. The portfolio organisations are supported by means of financial investment and professional consulting (e.g. volunteers from Swedbank, Hill & Knowlton, KPMG, Fontes). An important benefit for the portfolio organisations is peer support and communication.

Network of Estonian Non-profit Organisations (NENO)

NENO is the single and largest Estonian organisation uniting public benefit associations and foundations. NENO is a membership organisation created for the implementation and protection of the common interest of Estonian public benefit associations and foundations. NENO unites currently (spring 2014) 107 large and medium-sized active and operational public benefit associations and foundations in Estonia from all fields. As most of the social enterprises in Estonia are associations and foundations, NENO is a very important partner and stakeholder, especially regarding their know-how in terms of legislation and regulation.

2.5 Marks, labels and certification systems

There is no formal identification scheme for social enterprises in Estonia.

Regarding social impact measuring, there is also no official system for it, although ESEN is promoting an impact measurement methodology and practice among its members. There is a handbook issued for the purpose. By spring 2014 ten of members of ESEN had completed their first social impact report. The aim in the network is to have impact reports of all members publicly available. The reports are available: <http://sev.ee/impact-measurement/>

2.6 Social investment markets

There are no specific financial instruments directed to social enterprises in Estonia.

The demand for such instruments is similar to other enterprises, but the conditions might need modifications.

According to the analysis done by PwC about the need for financial instruments in Estonia, banks are not ready to offer loans to the social enterprise sector because it is a novel concept and therefore with high risk level. For risk capital investments social enterprises are considered insufficiently profitable (Ministry of Finance, 2013). PwC concluded that the interest of a credit institution might be low towards social enterprises.

One of the possible investments for social enterprises could be crowdfunding platforms, where individuals can choose to invest into organisations. Institutional investors might prefer to invest through other funds to distribute risks (Ministry of Finance, 2013).

2.7 Overview of the key actors in the social enterprise ecosystem

A summary of key actors in the social enterprise ecosystem

Type of actor	Example of actor
Policy makers - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and	Estonian Ministry of the Interior (responsible for the implementation of Civil Society Development Plan)
Customers – authorities contracting social enterprises	Estonian Unemployment Insurance Fund (Töötukassa) and Health Board (Terviseamet) Both are contracting several social enterprises that provide employment opportunities for disadvantaged groups
Organisations promoting, certifying and awarding social enterprises labels	No such organisations.
Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models	Social entrepreneurship incubator SEIKU
Organisations that have the capacity to act as an observatory and to monitor the development and to assess needs and opportunities of social entrepreneurs/social enterprises	Estonian Social Enterprise Network, ESEN (Sotsiaalsete Ettevõtete Võrgustik, SEV)
Providers of social enterprise start up and development support services and facilities (such as incubators)	Social entrepreneurship incubator SEIKU Good Deed Foundation (Heateo SA)
Business support providers	Enterprise Estonia, EE (Ettevõtluse Arendamise Sihtasutus, EAS)
Facilitators of learning and exchange platforms for social enterprises	Estonian Social Enterprise Network (ESEN)
Social enterprise (support) networks, associations	Estonian Social Enterprise Network, ESEN (Sotsiaalsete Ettevõtete Võrgustik, SEV) Good Deed Foundation (Heateo SA)
Key providers of finance	National Foundation of Civil Society, NFCS (Kodanikuühiskonna Sihtkapital, KÜSK) Enterprise Estonia, EE (Ettevõtluse Arendamise Sihtasutus, EAS)
Research institutions	Tartu University, Faculty of Economics and Business Administration. Tartu University, Centre for Entrepreneurship and Innovation. The centre is a member of SERNOC network, Social Entrepreneurship Research Network for the Nordic Countries.

3 Mapping of social enterprise activity in Estonia

3.1 The spectrum of social enterprises in Estonia

In Estonia following organisations have emerged as social enterprises:

- **Associations and foundations identified as social enterprises.** Associations and foundations that have been identified as social enterprises either by themselves or by other stakeholders. Most of them have established themselves consciously as social enterprises, sometimes with some revenue generation. Some are social enterprises in essence, operating in accordance with the social enterprise definition, but have not come to acknowledge it (yet).
- **Business organisations identified as social enterprises.** Private limited companies that have been identified as social enterprises either by themselves or by other stakeholders. The ones that have joined Estonian Social Enterprise Network have committed to a total limitation on the distribution of profits.
- **Hybrids (associations/ foundations + business) identified as social enterprises.** The hybrids are a combination of more than one legal entity, identified as social enterprises either by themselves or by other stakeholders. Sometimes the entities are legally related, e.g. an association/ foundation is an owner of the private limited company. In other cases there is no legal relation between the entities, but the founders regard their activities to be a social enterprise as a whole. These organisations typically keep their entrepreneurial activities to the business entity and socially aimed activities to the association/ foundation. There are also examples of three and even more legal entities acting as one social enterprise.
- **Associations and foundations with revenue generating activities and societal mission – but not recognised.** These organisations could be considered social enterprises, as they are in sync with quantitative criteria of non-governmental activity and a business model. But they have not been identified as social enterprises either by themselves or by other stakeholders. At least not yet.

Note that in Estonia cooperatives are by law for-profit and aimed towards the interest of their members. Cooperatives are not considered to be part of social entrepreneurship activity. To the current knowledge of Social Enterprise Network experts, there is no cooperative in Estonia that calls itself a social enterprise.

3.2 Application of operational definition: determining the boundaries

The table below provides a discussion on the extent to which the above legal forms meet the criteria set by the EU operational definition of social enterprise. A more detailed mapping of the various characteristics of these legal forms can be found in Annex 1.

Table 3.1 Mapping of the main legal forms adopted by social enterprises against the core criteria of the EU operational definition

Dimension	Criterion	Associations and foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (associations/ foundations + business) identified as social enterprises	Associations and foundations with revenue generating activities and societal mission – not recognised
Economic	The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	These social enterprises are striving to achieve financial sustainability. Currently the level of entrepreneurial income might vary from about 20 per cent up to 100 per cent of the total income.	The main activity of private limited companies by law is entrepreneurial activity. These social enterprises might occasionally execute funded projects, but they are fully self-sustainable.	In hybrids the entrepreneurial activities are typically executed by the private limited company. <i>See the comment above for “Business organisations identified as social enterprises”.</i>	<i>See the comment above for “Associations and foundations identified as social enterprises.”</i>
Social	It must pursue an explicit and primary social aim: a social aim is one that benefits the society	These organisations have clearly stated their societal aims in their documents and communication messages. They are fully compliant with the criterion.	The ones that have joined ESEN have clearly stated their societal aims in their documents and communication messages. They are fully eligible with the criterion.	In hybrid forms, the association/ foundation is typically executing the societal aim. They comply with the criterion.	Associations and foundations typically have societal aims. In this group of organisations the aims are not 'validated' as social entrepreneurship aims by the organisations themselves or by stakeholders. They would potentially meet the criterion.
Governance	It must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making	Associations and foundations are not allowed by law to distribute profits. Asset locks are not regulated by law and it is up to the organisation itself to regulate it in their constitution.	Private limited companies are by law allowed to distribute profits. The organisations, that have joined ESEN have committed to no profit allocation.	Business entities are allowed to distribute profits.	Associations and foundations are not allowed by law to distribute profits. Asset locks are not regulated by law and it is up to the organisation itself to regulate it in their constitution.

Dimension	Criterion	Associations and foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (associations/ foundations + business) identified as social enterprises	Associations and foundations with revenue generating activities and societal mission – not recognised
	It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	All self-defined social enterprises are established by private individuals and fulfil the criterion of independence fully.	All self-defined social enterprises are established by private individuals and fulfil the criterion of independence fully.	All self-defined social enterprises are established by private individuals and fulfil the criterion of independence fully.	For non-recognised but potential social enterprises, data about the founders' independence from government is unknown.
	It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	It is difficult to assess the extent of participatory management without qualitative research among these organisations.	It is difficult to assess the extent of participatory management without qualitative research among these organisations.	It is difficult to assess the extent of participatory management without qualitative research among these organisations.	For non-recognised but potential social enterprises, data about the founders' approaches to governance is unknown.

3.3 Measurement of social enterprises

It is difficult to undertake a quantitative analysis of social enterprises in Estonia as there is no specific indicator that would differentiate them from other organisations. There is no national statistics collected for the social enterprise sector.

ESEN is involved in a project funded by European Union with an aim to compile a pilot statistical report of social enterprise sector in Estonia and a methodology for regular reporting.

For the social entrepreneurship sector pilot report¹ an effort was made to compile the sample by using automatic criteria on the data in the national commercial register. The criteria used based on the operational definition are described in the table below:

Criteria in operational definition	Criteria for sample compiling
Social enterprise must: ... engage in economic activity: this means it must generate income from market sources;	Entrepreneurial income >16000 euros per year. (by law the level of tax registration obligation for Estonian organisations)
... pursue an explicit and primary social aim: a social aim is one that benefits the society	Hand selection of NACE activity codes by the purpose of activity.
... have limits on distribution of profits and/ or assets: the purpose of such limits is to prioritise the social aim over profit making;	Only associations and foundations (profit reinvestment by law).
... be independent and participatory: independence means autonomy from the state while participation means it allows stakeholder views to be appropriately represented in its decision making processes.	- Only associations and foundations considered; - Exclusion of organisations related to state institutions (data compiled by Statistics Estonia)

The result of this kind of automatic data collection was a list of 290 associations and foundations. As not all of these organisations are actually identified as social enterprises, the list could be called 'potential social enterprises'. Using only automatic criteria for data extraction this is the best possible result.

A smaller, purposive sample of social enterprises (125 organisations) was used in the same project funded by EU to be able to describe a profile of “an average social enterprise”. The preliminary results indicate that on this sample a typical social enterprise in Estonia is a associations and foundations, which has operated for 9 years, is a micro enterprise (1-9 employees), earns ~55 per cent of its income from selling products or services and is working in social service sector.

3.4 Characteristics of social enterprises

3.4.1 Legal forms

Majority of social enterprises in Estonia use the legal form of associations and foundations. Specifically, there are two principal legal forms used by social enterprises:

- Association, in Estonian 'mittetulundusühing' (MTÜ), and
- Foundation, in Estonian 'sihtasutus' (SA).

There are also some social enterprises that operate as private limited companies. They mostly use the legal form of limited liability company (LLC), in Estonian 'osaühing' (OÜ).

Several social enterprises are using a combination of an association/ foundation (mostly MTÜ) and limited liability company (OÜ).

¹ Sole responsibility of the data presented about the project lies with the author

3.4.2 Business models

3.4.2.1 Sources of income

Sources of income vary across the spectrum of social enterprise. The ratio of trading income can vary from about 20 per cent to 100 per cent. Many social enterprises use different national and EU grants for projects. Some social enterprises collect donations, but it is not a very common way of funding the activities. About a third of social enterprises are offering public service. Many of these organisations have contracts and long-term cooperation with state institutions.

3.4.2.2 Social impact

Social enterprises in Estonia vary significantly in the way they deliver societal impact. Even though there are social enterprises that deliver their impact through the people they employ, the majority of the organisations achieve societal changes through selling their products or services. There are some examples of social enterprises, where the entrepreneurial activities are not directly linked to the societal mission, e.g. a social enterprise earns income with room rental services and the profit is allocated for reaching the social aims.

3.4.2.3 Use of paid workers

The number of employees in social enterprises varies significantly – from small organisations with no full time employees up to organisations with about 40-50 employees. Typically, social enterprises in Estonia are micro enterprises, with 1-9 employees.

Many social enterprises include voluntary staff in their activities. It is a common practice to have volunteers in the team. It would require specific research to find out how high is the dependence on the use of voluntary work in social enterprises while providing products or services.

3.4.2.4 Fields of activity

About a third of social enterprises offer public services, including job provision, care for elderly people, kindergarden services, family support, mental health support, fire services, etc.

There are several social enterprises providing full work integration tailored for disadvantaged people. Their main aim is to provide job opportunities for their target group. For example Estonian Association of Blind Masseurs creates job opportunities for visually impaired individuals; several social enterprises provide job opportunities for people with disabilities, long term unemployed, etc. Several of these organisations provide training programmes as part of the service.

Social enterprises with environmental mission are offering environmental friendly consumer services – e.g. recycling/reuse centres, local markets, local food providers, environmental friendly building services, fair trade goods, hiking in nature, etc.

Another area of activity is culture. There are social enterprises aiming at preserving local traditional handicraft, music, building techniques, and more.

Many social enterprises are increasing the quality of life for all through producing services and products that meet collective needs and contribute to community and social capital development, for example:

- community services in rural areas (cinema, library, cafe, day care, etc)
- anthroposophic pharmacy services;
- increasing entrepreneurial skills of young people;
- training for promoting healthier life-styles.

3.4.2.5 Target groups

The target groups of social enterprises vary significantly according to the entity of the organisation. There are no 'main' target groups.

3.5 Summary of mapping results

It is important to note that the number of social enterprises operating in compliance with the operational definition needs case by case verification and cannot be done via automatic data extraction. The existence of a clear social aim cannot be verified otherwise. This is a reason, why in the categories of Estonian social enterprises (see section “*The spectrum of social enterprises in Estonia*” and the table below) the remark “... identified as social enterprise” is prevalent.

Even though there is no legal definition or official labelling system of social enterprises in Estonia, it is still important that there is some identification for them. It could be done either by themselves or the social enterprise stakeholders (e.g. ESEN, Good Deed Foundation, SEIKU), preferably by both sides. The first three categories of organisations in the table below are verified based on information collected from social enterprise stakeholders. The 4th category “Associations/ foundations with revenue generating activities – not recognised” includes potentially many social enterprises, but they have not been verified yet.

The majority of the social enterprises are associations or foundations, although it is an increasing trend among social enterprises to create a hybrid of two organisations: a private company for entrepreneurial activities and an association or foundation for reaching the social aims.

Table 3.2 Mapping the ‘universe of social enterprises in Estonia – Core criteria

Criterion	Institutionalised Forms of social enterprise	Other types of organisations traditionally regarded as social enterprises			
		Associations/ foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (associations/ foundations + business) identified as social enterprises	Associations/ foundations with revenue generating activities – not recognised
Core criteria					
The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	-	Yes, at least to certain extent and striving to be self-sustainable	Yes	Yes	Yes, to certain extent
It must pursue an explicit and primary social aim: a social aim is one that benefits the society	-	Yes	Yes, at least the ESEN members	Yes, usually the owning / linked association/ foundation defines it	Yes
It must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making	-	Non-profit by nature	No profit cap by any legislation. Members of ESEN have committed to no profit allocation	If ownership is 100 per cent, they are essentially. If not, no profit cap by any legislation	Non-profit by nature
It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	-	No asset lock by any legislation. Asset lock as a requirement for social enterprises has not been emphasized so far in Estonia	No asset lock by any legislation. Asset lock as a requirement for social enterprises has not been emphasized so far in Estonia	No asset lock by any legislation. Asset lock as a requirement for social enterprises has not been emphasized so far in Estonia	No asset lock by any legislation. Asset lock as a requirement for social enterprises has not been emphasized so far in Estonia
It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	-	Autonomous	Autonomous.	Autonomous.	Autonomy should be confirmed case by case to see if the association/ foundation is not established by state organisations or private businesses
The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	-	Encouraged, but not a requirement			

Table 3.3 Possible scale of activity of social enterprise

Criterion	Institutionalised Forms of social enterprise	Other types of organisations traditionally regarded as social enterprises			
		Associations/ foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (Associations/ foundations + business) identified as social enterprises	Associations/ foundations with revenue generating activities – not recognised
Estimated number (2012)	-	app. 100-120 (2012)	app. 5 (2012)	app. 20-30 (2012)	App. 300 (2012)
Estimated % meeting core criteria (approx)	-	98%	100%	100%	50%
Estimated number meeting core criteria	-	app. 100-120	app. 5	app. 20-30	app. 150

Table 3.4 Mapping the ‘universe of social enterprises in Estonia – Mapping criteria

Dimension	Criterion	Institutionalised Forms of social enterprise	Other types of organisations traditionally regarded as social enterprises			
			Associations/ foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (Associations/ foundations + business) identified as social enterprises	Associations/ foundations with revenue generating activities – not recognised
Mapping criteria						
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	-	Trading income about 20-100% of total income.	Trading income prevalent.	Trading income about 20-100 per cent of total income.	Trading income >16000 euros per year.
	The use of paid workers	-	Yes	Yes	Yes	Yes
Social dimension	Fields of activity	-	Operate in various sectors of the economy: social services, retail, culture, education, real estate, health, construction, etc.	May operate in all sectors of the economy. Socially destructive sectors (alcohol, tobacco, arms, etc) are discouraged	May operate in all sectors of the economy. Socially destructive sectors (alcohol, tobacco, arms, etc) are discouraged	Operate in various sectors of the economy. But mostly: social services, education, culture, health, environment, etc.
	Target groups (customers/ users of goods and services provided)	-	No specific target groups	No specific target groups	No specific target groups	No specific target groups
Independence and governance	Transparency - a system for measuring and reporting impact	-	ESEN members are encouraged and supported to measure impact	ESEN members are encouraged and supported to measure impact	ESEN members are encouraged and supported to measure impact	No

Dimension	Criterion	Institutionalised Forms of social enterprise	Other types of organisations traditionally regarded as social enterprises			
			Associations/ foundations identified as social enterprises	Business organisations identified as social enterprises	Hybrids (Associations/ foundations + business) identified as social enterprises	Associations/ foundations with revenue generating activities – not recognised
Other characteristics						
	Legal forms	-	Association/ foundation	Limited liability company	Association/ foundation + limited liability company	Association/ foundation

3.6 Opportunities and barriers

Enabling factors for social enterprises:

- Establishing legal entities in Estonia can be done very fast and easy. All official processes are undertaken online;
- Estonian laws are rather flexible allowing organisations to operate a liberal approach to citizen activism;
- Advisory support systems are well developed. The ESEN is a central point of information for any topic regarding the operational issues of social enterprises. There is a nationwide network of business consultants who are informed and trained about social entrepreneurship able to provide counselling in this field;

Constraining factors for social enterprises:

- No legal framework for social enterprises. This creates confusion over which legal form should be used, and which kind of support mechanisms and benefits could be used;
- Many associations and foundations that have ambition to become social enterprises lack knowledge and experience needed for successful enterprise set-up. The people in these organisations are used to the project-to-project style of operation. They lack an understanding of market based activity and have difficulties in changing their approach;
- There are no entrepreneurial support mechanisms for associations and foundations. Social enterprises need start-up support, investment and growth support as other enterprises do, but as associations and foundations they are not eligible for the entrepreneurial support mechanisms;
- Public procurement criteria do not support social and environmental values. Social enterprises have fewer opportunities for securing public service contracts.

Box 3 Change drivers giving a push to creation of social enterprises

The main drivers for change have been:

- Growing dissatisfaction with the quality and reach of the social services by the state. Many social entrepreneurs have started their organisations based on a personal need or a need of a family member / friend. For example the Estonian Association of Blind Masseurs was started by visually impaired individuals to create job opportunities for their members. A person with minor physical disability started a social enterprise that provides job opportunities for disabled people, because he was unable to find a job otherwise. There are several similar stories.
- Growing general awareness of the environmental and societal problems and wish to create a more ethical life for our generations and our children. Several social enterprises are dealing with reducing waste, recycling, local food production, etc. Also social enterprises are dealing with public health, e.g. the prevention of HIV risk behaviour, alcoholism, drug abuse, etc. Part of the motivation for these social enterprises is effectiveness and impact. The larger state programmes for the same aims tend to stay abstract and their impact takes a long time to emerge.
- Unemployment in Estonia has been higher than the EU average in the last three years. The employment rate among disabled people was 19.3 per cent in 2011. The same year there were 1,475 persons with disabilities registered as unemployed, available to work if the conditions are accustomed to their needs. There are no defined work integration social enterprises (WISEs) in Estonia, but similar actions are carried out by NGOs and enterprises as social enterprises (Raudsaar and Kaseorg, 2013a).

- In recent years the reduction of available support money from the European Union funds for Estonia has created a need for associations and foundations to become financially more independent. NGOs are looking for training and consultation in order to be able to set up entrepreneurial activities. The political advisor in the Ministry of Interior, Rasmus Pedanik, comments: “It is unknown what happens when the euro support is finished. The problem has not been truly acknowledged yet. It's like an elephant in the room which nobody talks about. ... Today a big part of our budget is financial support euros. I can't say we live in debt, but we don't live on our own money.”

Annex 1 Comparative overview of legal forms commonly used by social enterprises in Estonia

Legal form	Association	Foundation	Private limited company
Definition	<p>A association is an organisation of persons who have decided to come together for a particular purpose, the objective or main activity of which is not the earning of income from economic activity.</p> <p>Any income of an association may only be used to achieve the objectives specified in its articles of association. An association shall not distribute profits among its members.</p> <p>A social enterprise can use this form by choosing a social purpose as its objective.</p>	<p>A foundation is an organisation established to administer and use assets to achieve the objectives specified in its articles of association. The founder(s) may but does not necessarily have to transfer anything to a foundation. Assets can also be gained later.</p> <p>A social enterprise can use this form by choosing to prescribe a social objective in the articles of association.</p>	<p>A private limited company is a company commonly used by for-profit organisation. It is typically established with commercial aims to distribute profits to its shareholders. The shareholders are the owners of the company. A shareholder is not personally liable for the obligations of the company.</p> <p>A social enterprise can still use a private limited company as its legal form. The constitution (Articles of Association) of a private limited company can be drafted to provide for the features of a social enterprise. For example, the Articles can include social purposes and provisions which cap the dividends that can be paid to shareholders.</p>
Key national legislation governing legal form	Non-profit Associations Act General Part of the Civil Code Act	Foundations Act General Part of the Civil Code Act	Commercial Code General Part of the Civil Code Act
Whether the legal form is used exclusively or not exclusively for social enterprise	Not exclusively for social enterprise The purposes of an association are unrestricted.	Not exclusively for social enterprise The purposes of a foundation are unrestricted.	Not exclusively for social enterprise The purposes of a private limited company are unrestricted. The objects of a social enterprise which is a private limited company may include a reference to the social enterprise' social aim(s).
Methods of creation	<p>An association may be founded by at least two persons (natural or legal).</p> <p>The founders enter into a memorandum of association and approve the articles of association.</p>	<p>A foundation may be founded by either one or several founders (natural or legal).</p> <p>A foundation shall be founded by a notarised foundation resolution or on the basis of a notarised will. The founders must approve the articles of association of the foundation.</p>	<p>A private limited company may be founded by at least one person (natural or legal).</p> <p>The founders shall enter into a memorandum of association and approve the articles of association.</p>

Legal form	Association	Foundation	Private limited company
	<p>A notarised application must be made to the registration department of a county court or applications can be made online without the need of a notary. A state fee applies.</p> <p>Organisations operating in the areas of activity subject to special requirements are required to also register in the Register of Economic Activities.</p>	<p>A notarised application must be made to the registration department of a county court. A state fee and a notary fee apply.</p> <p>Organisations operating in the areas of activity subject to special requirements are also required register in the Register of Economic Activities.</p>	<p>A notarised application must be made to the registration department of county court or applications can be made online without the need of a notary. A state fee and notary fee apply.</p> <p>Organisations operating in the areas of activity subject to special requirements are also required register in the Register of Economic Activities.</p>
Required capital or assets	There is no required capital or assets.	There is no required capital or assets.	Share capital shall be at least 2,500 euros.
Management and corporate governance	<p>Required to have a management board of directors (minimum of one board member).</p> <p>The management board members are elected by the general meeting of members or by proxies if so prescribed in articles of association.</p> <p>A member of the management board is under a duty to perform his or her obligations with the diligence and loyalty normally expected from a member of the management board.</p>	<p>The governing bodies of a foundation are the management board and the supervisory board.</p> <p>The supervisory board shall plan the activities of the foundation, organise the management of the foundation and supervise the activities of the foundation.</p> <p>The supervisory board shall have three members unless the articles of association prescribe a greater number. Members of the management board or auditors shall not be members of the supervisory board.</p> <p>The procedure for appointment and removal of members of the supervisory board is provided for in the articles of association. Ordinarily the supervisory board members are either appointed by founders or by the supervisory board itself.</p> <p>Members of boards are under a duty to perform his or her obligations with the diligence normally expected from a member of that board.</p>	<p>Required to have a management board of directors (minimum of one board member).</p> <p>In cases where the requirement of a supervisory board is included in the articles of association, there shall be three members otherwise stated.</p> <p>Management board members are either elected by general meeting or by supervisory board, if one. Supervisory board is elected by general meeting.</p> <p>A member of the management board shall perform his or her obligations with the diligence normally expected from a member of the management board and shall be loyal to the legal person.</p>
Rights of members	The legal form does have members.	The legal form does not have members.	The legal form does have members

Legal form	Association	Foundation	Private limited company
	<p>Ultimate control of the association rests with the members because of their right to attend, speak and vote at general meetings. The general meeting of members can amend the articles of association and appoint and remove the management board or another body.</p>		<p>(shareholders).</p> <p>Ultimate control of the company rests with the members because of their right to attend, speak and vote at general meetings. The general meeting of members can amend the articles of association and appoint and remove the management board.</p> <p>Members have the right to increase or reduce shared capital, elect and remove members of supervisory and management boards, approve the annual report and distribute profit, decide on dissolution, merger, division or transformation. Shareholders have also the right to receive information from the management board.</p>
Voting and representation of members in general meetings	<p>The highest body of an association is the general meeting of its members. All members of an association may participate and vote in the general meeting unless otherwise provided by law.</p> <p>Each member of an association has one vote.</p> <p>The management board shall call the general meeting as and when as required by law or the articles of association, or if it is required in the interests of the association.</p> <p>The management board shall call the general meeting at the request of at least one-tenth of the members unless the articles of association prescribe a smaller representation requirement.</p>	Not applicable to legal form.	<p>The members are represented at shareholder meetings.</p> <p>The management board shall call the general meeting as and when as required by law or the articles of association, or if it is required in the interests of the association.</p> <p>Members can also require the directors to call a general meeting.</p> <p>Members' resolutions are either ordinary resolutions which are passed by a simple majority (51 per cent or more) of members eligible to vote and voting, or special resolutions which are passed by 75 per cent or more members eligible to vote and voting.</p>
Types of shares, if any	This legal form does not have shares.	This legal form does not have shares.	<p>This legal form does have shares.</p> <p>The number of votes of a shareholder is</p>

Legal form	Association	Foundation	Private limited company
			proportional to the shares owned.
Distribution of dividends on share capital	The legal form does not distribute its profit to its members. An association may use its income only to achieve the objectives specified in its articles of association.	The legal form does not distribute its profit to its members. A foundation may use its income only to achieve the objectives specified in its articles of association.	Subject to profits available for distribution, there are no limits on dividends unless the Articles of Association provide such limits.
Distribution of reserves	No legal provisions regarding reserves.	No legal provisions regarding reserves.	Share capital shall not be reduced below the minimum amount of share capital provided by law. Upon a resolution of the shareholders, a legal reserve may be used to cover a loss if it is not possible to cover the loss from available shareholders' equity, or may be used to increase share capital. Payments shall not be made to shareholders from legal reserve.
Allocation of the surplus particularly to compulsory legal reserve funds	No requirement to allocate surpluses to compulsory legal reserve funds.	No requirement to allocate surpluses to compulsory legal reserve funds.	If the articles of association prescribe the formation of the legal reserve, it shall not be less than one-tenth of the share capital.
Distinction dividends/refunds and distribution of refunds	Refunds not applicable to legal form.	Refunds not applicable to legal form.	There is no distinction between dividends and refunds.
Restrictions on ability to trade	The objective or main activity of an association cannot be the earning of income from economic activity. Any economic activity can only be a mere by-product of the main activity. An organisation can establish a separate company and earn income from its dividends.	There are no restrictions on the ability to trade however, a foundation shall not grant loans to or secure the loans of founders or members of the management board or supervisory board of the foundation, or of persons with an equivalent economic interest, unless otherwise provided by law. A foundation may use its income only to achieve the objectives specified in its articles of association.	There are no restrictions on the ability to trade however there are certain restrictions on which shareholders a private limited company can grant or guarantee a loan to.

Legal form	Association	Foundation	Private limited company
Internal financing (e.g. investment title, member investors, increase in members contributions)	Membership fees are possible as a way of financing the association's operation. An association can also accept loans or donations from its members.	The founders are free to grant further funding at any time.	Shareholders may increase share capital by issuing new shares or increasing the nominal value of a share. The company can also seek loans from its members.
External financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non-member investors	An association cannot raise funds by way of equity investment. An investor or donor may grant donations or provide a loan. They may become a member of the association by paying of the membership fee.	An investor or donor may grant donations or provide a loan. The status of 'founder' cannot be gained post establishment.	Upon increase of share capital, a shareholder has the right to acquire issued shares in proportion to the shareholder's share unless the resolution on increase of share capital prescribes otherwise. If a shareholder does not wish to exercise the right, the other shareholders have the right to acquire the new shares. If the shareholders do not wish to exercise the right, the new shares may be acquired by third persons who will become a member. The company can also raise finance by providing loans or bonds, grants and donations. In these situations the investor is not required to become a member.
Transparency and publicity requirements (and related auditing issues)	Annual reports are published online by government in the Central Commercial Register. Associations which are registered as Charities are obliged to submit an additional form to the Tax and Customs Board on using gifts, donations and other income. External audits do not usually apply to associations. However, pursuant to Auditors Activities Act, an audit of the annual accounts is compulsory for any legal entity (accounting entity), in whose accounts at least two of the following conditions are exceeded: 1) sales revenue or income 2,000,000 euros;	Annual reports are published online by government in the Central Commercial Register. Foundations which are registered as Charities are obliged to submit an additional form to the Tax and Customs Board on using gifts, donations and other income. Pursuant to Auditors Activities Act, an audit of the annual accounts is compulsory for any legal entity (accounting entity), in whose accounts at least two of the following conditions are exceeded: 1) sales revenue or income 2,000,000 euros; 2) total assets as of the balance sheet date	Annual reports are published online by government in the Central Commercial Register. Pursuant to Auditors Activities Act, an audit of the annual accounts is compulsory for any legal entity (accounting entity), in whose accounts at least two of the following conditions are exceeded: 1) sales revenue or income 2,000,000 euros; 2) total assets as of the balance sheet date 1,000,000 euros; 3) average number of employees 30 people. or if at least one the following conditions are

Legal form	Association	Foundation	Private limited company
	<p>2) total assets as of the balance sheet date 1,000,000 euros;</p> <p>3) average number of employees 30 people.</p> <p>or if at least one the following conditions are exceeded:</p> <p>1) sales revenue or income 6,000,000 euros;</p> <p>2) total assets as of the balance sheet date 3,000,000 euros;</p> <p>3) average number of employees 90 people</p> <p>In practice, the number of associations to exceed above-mentioned limits is almost non-existent.</p> <p>A review of annual accounts is also compulsory for all legal entities when at least two of the indicators of the financial year exceed the following conditions:</p> <p>sales revenue or income 1,000,000 euro;</p> <p>total assets as of the balance sheet date 500,000 euro;</p> <p>average number of employees 15 people.</p> <p>at least one of the indicators of the financial year exceeds the following conditions:</p> <p>sales revenue or income 3,000,000 euro;</p> <p>total assets as of the balance sheet date 1,500,000 euro;</p>	<p>1,000,000 euros;</p> <p>3) average number of employees 30 people.</p> <p>or if at least one the following conditions are exceeded:</p> <p>1) sales revenue or income 6,000,000 euros;</p> <p>2) total assets as of the balance sheet date 3,000,000 euros;</p> <p>3) average number of employees 90 people</p> <p>In practice, the number of associations to exceed above-mentioned limits is almost non-existent.</p> <p>A review of annual accounts is also compulsory for all legal entities when at least two of the indicators of the financial year exceed the following conditions:</p> <p>sales revenue or income 1,000,000 euro;</p> <p>total assets as of the balance sheet date 500,000 euro;</p> <p>average number of employees 15 people.</p> <p>at least one of the indicators of the financial year exceeds the following conditions:</p> <p>sales revenue or income 3,000,000 euro;</p> <p>total assets as of the balance sheet date 1,500,000 euro;</p>	<p>exceeded:</p> <p>1) sales revenue or income 6,000,000 euros;</p> <p>2) total assets as of the balance sheet date 3,000,000 euros;</p> <p>3) average number of employees 90 people.</p> <p>A review of annual accounts is also compulsory for all legal entities when at least two of the indicators of the financial year exceed the following conditions:</p> <p>sales revenue or income 1,000,000 euro;</p> <p>total assets as of the balance sheet date 500,000 euro;</p> <p>average number of employees 15 people.</p> <p>at least one of the indicators of the financial year exceeds the following conditions:</p> <p>sales revenue or income 3,000,000 euro;</p> <p>total assets as of the balance sheet date 1,500,000 euro;</p> <p>average number of employees 45 people.</p>

Legal form	Association	Foundation	Private limited company
	average number of employees 45 people.	average number of employees 45 people. Foundations are also under stricter audit obligations. Review of the annual accounts is also compulsory for a foundation where either the: sales revenue or income 15,000 euros; or total assets as of the balance sheet date 15,000 euros.	
Employee involvement systems	There are no legal requirements or restrictions on staff involvement in decision making.	There are no legal requirements or restrictions on staff involvement in decision making.	There are no legal requirements or restrictions on staff involvement in decision making. Only employees who are shareholders can receive a proportion of the profits.
Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)	<p>An association may be dissolved by decision of the general meeting.</p> <p>An association will also be dissolved if the number of members falls below two (or any other number specified by law or the articles of association).</p> <p>An association can also be dissolved by a court ruling at the request of the Minister of Internal Affairs or any other person or agency so entitled by law (compulsory dissolution) under certain conditions.</p> <p>It is also possible to start a voluntary liquidation process or bankruptcy proceedings.</p> <p>An association can also enter reorganisation proceedings. This involves the application of a set of measures in order for an enterprise to overcome economic difficulties, to restore its liquidity, improve its profitability and ensure its</p>	<p>A foundation may be dissolved by a resolution of the founders if provided for in the articles of association; or the articles may provide for the supervisory board to make such a decision.</p> <p>A foundation can also be dissolved by a court ruling at the request of the Minister of Internal Affairs or another interested person under certain conditions.</p> <p>It is also possible to start a voluntary liquidation process or bankruptcy proceedings.</p> <p>A foundation can also enter reorganisation proceedings. This involves the application of a set of measures in order for an enterprise to overcome economic difficulties, to restore its liquidity, improve its profitability and ensure its sustainable management.</p>	<p>A private limited company can be dissolved:</p> <ul style="list-style-type: none"> - by a resolution of the shareholders; - by a court decision; - by declaration of bankruptcy of the private limited company; - by abatement of the bankruptcy proceeding of the private limited company before declaration of bankruptcy; - on other bases prescribed by law or the articles of association. <p>It is also possible to start a voluntary liquidation process or bankruptcy proceedings.</p> <p>A private limited company can also enter reorganisation proceedings. This involves the application of a set of measures in order for an enterprise to overcome economic difficulties, to restore its liquidity, improve its profitability and ensure its sustainable management.</p>

Legal form	Association	Foundation	Private limited company
Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)	<p>sustainable management.</p> <p>The remaining assets are distributed among the persons entitled as provided for in the articles of association.</p> <p>Unless provided for differently, assets are usually distributed in equal parts among the members of the association at the time of dissolution.</p>	<p>The remaining assets are distributed among the persons entitled as provided for in the articles of association.</p> <p>Unless provided for differently, assets are usually distributed in equal parts among the founders.</p>	<p>The remaining assets are distributed among the shareholders according to the nominal values of their shares unless the articles of association prescribe otherwise.</p>
Conversion to another form of company	Not applicable for legal form.	Not applicable for legal form.	<p>A company may be transformed into a company of a different class.</p> <p>A company may not be transformed into an associations.</p>

Annex 2 List of Information Sources

A2.1 References

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- Raudsaar, M., Kaseorg, M. 2013a. Social Entrepreneurship as an Alternative for Disabled People. GSTF International Journal on Business Review (GBR), Vol.2 No.3, pp.120-125
- Raudsaar, M., Kaseorg, M. 2013b. An Exploration of Social Entrepreneurship in Estonia. International Journal of Business and Management Studies, ISSN: 2158-1479, 2(2), 19-29

A2.2 List of consultees

Name of the person interviewed	Organisation/ Role	Stakeholder category
Rasmus Pedanik	Ministry of Regional Affairs, Political advisor 2011-2014	Policy maker
Agne Tamm	Good Deed Foundation NGO, Development manager 2008-2014	Associations of social enterprises
Mervi Raudsaar	University of Tartu, Faculty of Economics and Business Administration, Centre for Entrepreneurship and Innovation Senior specialist, Lecturer	Academics and other experts
Artur Taevere	Good Deed Foundation, Founder and first general manager 2003-2009	Associations of social enterprises
Jaan Aps	Estonian Social Enterprise Network, Chairman of the Management Board	Associations of social enterprises
Agu Laius	National Foundation of Civil Society (NFCS) Executive director	Organisations providing support