

SOCIAL ECONOMY IN LATVIA: THE CASE OF CHARITY SHOPS

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Abstract. Social economy is a third sector among economies which develops slowly in Latvia. There is still lack of specific corresponding regulations, incomprehension within society and businesses about the core idea and functioning of social enterprises, lack of wider social recognition of this form of economic activity. Thus, the aim of the paper is to analyse experience of charity organization "Otra Elpa", which is the pioneer of social entrepreneurship in Latvia in terms of managing charity shops. The case study methodology was employed to answer two research questions: what factors influence development of charity shops, and what initiatives and projects have been supported by donations and charity. The data allows concluding that a lack of corresponding normative regulations hinders development of new social enterprises. There is a need for wider communication and explanatory work with businesses, municipalities, policy makers, and wider society. Donations collected in charity shops are used to support social projects in all regions of Latvia which aim to solve social problems at both national and local levels concerning socially vulnerable groups.

Key words: social economy, social entrepreneurship, charity, charity shops.

JEL code: L31

Introduction

Social economy is a new sector of economy evolving in Latvia, which is facing a number of challenges, for example, lack of specific corresponding regulations, incomprehension within society and businesses about the core idea and functioning of social enterprises, lack of wider social recognition of this form of economic activity. Thus, social economy is developing slowly.

The aim of the paper is to analyse experience of charity organization "Otra Elpa" ("Second Breath"), which is the pioneer of social entrepreneurship in Latvia and currently runs three charity shops (Otra Elpa). In order to reach the aim, the authors set following tasks: (1) to discuss theoretically the role of charity shops in social economy; (2) to investigate the experience of charity organization "Otra Elpa" employing case study methodology; (3) to identify factors affecting development of charity shops as a form of social economy in Latvia; (4) to study what types of social activities and projects are supported via charity. The authors seek to answer two research questions: (1) what factors influence development of charity shops; (2) what initiatives and projects have been supported by donations and charity? To answer these questions, the authors used case study methodology.

The role of charity shops in social economy

Social economy is defined as a third sector among economies between the private and public sectors, which is based on democratic values, and seeks to improve social, economic and environmental conditions in a given society (Lukjanska R., Cirule I., 2014). It includes organizations such as foundations, **cooperatives, non-profit organizations, social enterprises and charities**; social economy becomes more significant in Europe (Monzon Campos J.M., Chaves Avila R., 2012). It is because social economy promotes fulfilment of societal aims and has potential to create common wealth by producing goods and delivering services (Lukjanska R., Cirule I., 2014). In this paper, the authors focus on charity shops as a form of social entrepreneurship in social economy. Social entrepreneurship offers innovative solutions to social problems; income is planned to ensure entrepreneurial activities and reinvest in future development.

The role of social entrepreneurship is related to addressing problems of socially vulnerable groups, which are deeply rooted in and caused by traditional market economy (Dobele L., 2014). Solutions that social entrepreneurship seeks to offer can be reached by mobilizing and involving people from vulnerable groups in businesses (first off all offering employment opportunities), improving society's ability to ensure social

support, fostering economic growth and revitalizing surrounding. Charity shops allow from the one hand side to help those who are in need by donating and volunteering, and from other side – provides opportunity to earn some money for charity purpose. Operation costs normally are low; staff members often are volunteers or earn their salaries by working in the shops.

It is widely accepted that there are different methodologies and challenges to measure impact of social economy. There are differences among countries (Liger Q., Stefan M., Britton J., 2016). According to the Ministry of Welfare, in Latvia there is no precious statistics on social economy and social entrepreneurship, which leads to difficulties assess its wider impact.

Research methodology

The case study methodology (Yin R.K., 2003) was used in the research. The "Otra Elpa" as a case for the analysis was chosen for several reasons:

- it is the first charity shop chain in Latvia performing in compliance with understanding and core idea of social entrepreneurship;
- the organization is socially recognizable and sound cooperation partner among charity organizations;
- the operation of the organization is transparent, well communicated to public, and with well established and clear practices for selecting charity projects;
- the founder of the organization was involved in working group at national level coordinated by the Ministry of Welfare, which aimed to develop corresponding legal regulations for social entrepreneurship in Latvia.

In order to ensure methodological triangulation (Denzin N.K., 1978), data were obtained from various sources: literature review, statistics, semi-structured face-to-face and telephone interviews with representatives of charity organization "Otra Elpa" and the Ministry of Welfare of the Republic of Latvia, and the

authors' observations. One of the shops in Riga was visited and the authors were introduced with everyday work and premises.

Research results and discussion

The first charity shop of the organization "Otra Elpa" was established in 2009 as an innovative solution for already existing charity fund in order to attract resources for social projects. As economic crisis in 2009 exposed its peak, traditional sources for charity ran out and operation of the fund was under the threat. Private businesses experienced crisis, unemployment rates increased, and donation flow dramatically fell down. The idea of charity shop came from foreign experience where charity shops were already well established practice in social entrepreneurship: many nongovernmental organizations and charity funds ran their own shops. To introduce this social innovation in Latvia was a brave step and a challenge as it required from implementers a lot of explanatory work and discussions with public authorities. Even later, in 2012, it was investigated that social entrepreneurship was not defined in legislation and did not have specific regulations (Lesinska A., Litvins G., Pipike R., Simanska I., Kupics O., Busevica K., 2012).

Currently, the fund runs three shops – two in Riga and one in Liepaja. 15 people in total are employed, but the shops have agreements with volunteers whose involvement was crucial in the beginning of social entrepreneurship. The "Otra Elpa" cooperates with "Apeirons" – organization of disabled people, which offers volunteering in the shops to unemployed disabled people as opportunity to obtain some skills useful for a labour market. Analysis of the "Otra Elpa" activities shows that the fund addresses social problems of vulnerable groups.

The data show that during the period of last five years there is increase in amount of financial donations comprising 11 thousand of EUR per year on average (Table 1).

Table 1

Financial donations in 2009-2016, EUR

Year	Total sum of donations per year	Change over previous year	Change over 2009
2009*	658	x	x
2010*	658	x	x
2011*	658	x	x
2012	11 511	+10 853	+10 853
2013	15 285	+3 774	+14 627
2014	7 705	-7 580	+7 047
2015	8 096	+391	+7 438
2016	15 369	+7 273	+14 711

*average for 2009-2011 (total sum divided per year)

Source: author's calculations based on data available at <http://www.otraelpa.lv/>

Stability of donations has been explained by popularity and trustworthiness of the organization. Also in material donations there is a significant increase during the last five years (Table 2), which is approximately 60.5 thousand of EUR per year.

Most of the items brought directly to the shops are clothes and footwear, which constitute the biggest share of income after they are sold (Figure 1). This amount significantly increases each year. Among other items, first of all books and magazines should be mentioned.

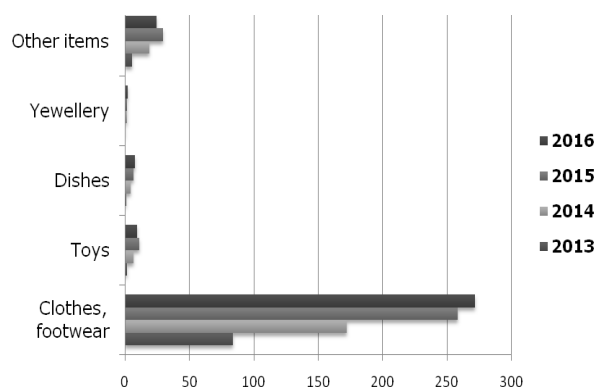
Table 2

Material donations in 2009-2016, EUR

Year	Total sum of donations per year	Change over previous year	Change over 2009
2009*	12 332	x	x
2010*	12 332	x	x
2011*	12 332	x	x
2012	26 613	+14 281	+14 281
2013	91 762	+65 149	+79 430
2014	202 662	+110 900	+190 330
2015	305 982	+103 320	+293 650
2016	314 885	+8 903	+302 553

*average for 2009-2011 (total sum divided per year)

Source: author's calculations based on data available at <http://www.otraelpa.lv/>



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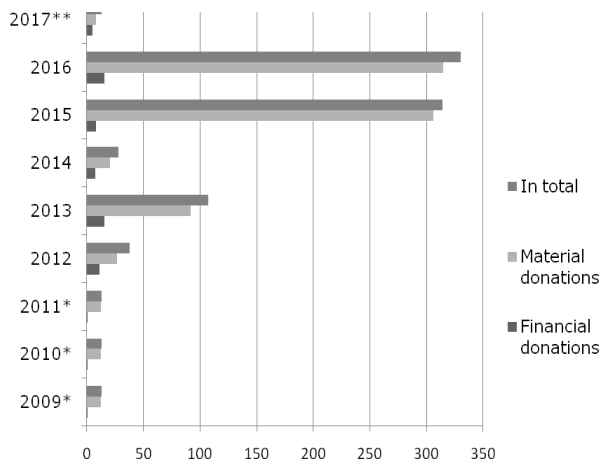
Fig. 1. Material donations in 2013-2016, thousand of EUR

After collecting and sorting material donations, the best (clean, qualitative, not worn-out and not damaged) items are sold in the shops. As shop's personnel do not provide cleaning and repairing services, they ask to donate items of good quality only. However, many items (mainly clothes and footwear) brought by people to the shops cannot be sold as their quality is not satisfactory anymore. Still, many of these things have been used, for example, as raw material for crafts or delivered to animal shelters. Keeping quality and cleanness standards is important in order to attract customers and maintain trustworthiness of cooperation partners. Shop assistants admitted that their everyday work involves also some elements of societal education: they explain and teach the culture of donation providing information on how donations are used, what quality of items is acceptable, how and where to donate, what initiatives and projects have been supported.

Sometimes people donate very valuable items (e.g. jewellery, antiques, fur, porcelain, and historical coins), which are not sold at regular basis but in organized auctions.

To summarize up, it is obvious from the Figure 2 that total amount of donations both financial and material has significantly increased during last couple of years.

Table 3



*average in 2009-2011

**in January 2017

Source: author's calculations based on data available at <http://www.otraelpa.lv/>

Fig. 2. Material and financial donations in 2009-2017, thousands of EUR

The organization has cooperation with a number of Latvian designers who create original art objects, clothes, accessories and other items of recycled materials. All works are sold in the charity shops for higher prices than donated items. 30 % of income is devoted to the shop.

The shops have established a very successful practice how to make donation more personally responsible by increasing involvement in decision making. Each customer and benefactor in the shop is offered to vote for a particular social project he or she would like to be supported by money that shop takes. On the basis of their own experience, to avoid situations when people should choose, for example, between helping animals or children, the shops offer voting for similar initiatives.

Even though the shops are in Riga and Liepaja (city in Kurzeme region), their supported target groups and social projects cover all regions of Latvia (Table 3).

Number of supported social projects in Latvia*in 2009-2016

Target groups/projects	2009-2011	2012	2013	2014	2015	2016	In total
Excellent students	N-3						3
Children with disabilities	R-2 N-3	Z-1 R-2	N-3 R-2	N-1 R-1	L-1 N-1 R-1	N-1 V-1	20
Legal support for NGOs	R-1 K-1						2
Prisons; people released from prison persons	R-1		R-1	R-1			3
Culture and public activities for children	R-1 K-1	N-1 K-3	N-4 R-1 L-1 Z-1 K-3	R-1 V-1 K-1 N-1	K-1	K-1	22
Sport activities	K-1	N-1	N-1		N-1	K-1	5
Musical activities, purchase of music instruments	K-1	K-1 N-1		K-1			4
Healthy life style	K-1	K-1		N-1			3
Environmental project		Z-1					1
Victims of violence		R-1	K-2	R-1			4
Learning projects		R-1N-1	N-2L-1			R-1	6
Social centres and shelters		V-1K-1	K-1	R-2	L-1		6
Innovative projects		K-1					1
Seniors			N-1	R-1	K-1		3
Children without parents			Z-1 V-1 K-1			V-1	4
Victims of Zolitude (in Riga) tragedy			N-1				1
Parishes			K-1			R-2	3
Soup-kitchens			K-1	K-1	R-1		3
Refuges						R-1	1
Projects in total	16	18	30	14	8	9	97

*N-national level, R-Riga, Z-Zemgale region, L-Latgale region, K-Kurzeme region, V-Vidzeme region

Source: author's calculations based on data available at <http://www.otraelpa.lv/>

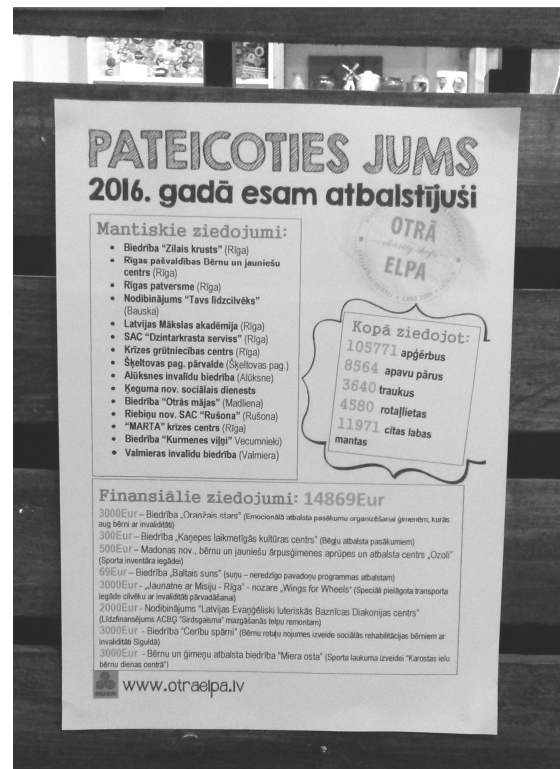
Project ideas are proposed by organizations and submitted for a competition once in two months. Competitions are announced on the website. The fund chooses three projects and proposes them for voting – customers in the shops collectively choose an initiative.

Great part of the projects and initiatives are of national level, but many of them focus on local needs in regions, municipalities and non-governmental organizations. Most frequently, people support projects of national level and initiatives in Riga as well as Kurzeme region (mostly because the shops are in Riga and Liepaja); however, at least 4 to 5 projects have been supported also in other regions.

Analysis reveals that supported projects and target groups reflect social problems which society faces and that have not been addressed adequately by the state or municipal institutions. People most frequently vote for supporting children with health problems, sport activities and cultural events for children.

The data show that the number of social projects supported by the "Otra Elpa" is decreasing recent years; however, the financial support for a single project becomes bigger (Table 4). This is intentional strategic decision of the organization.

For the transparency purpose and in order to get feedback as well as work for a future cooperation, it is important to communicate with benefactors about social projects supported by the fund. There is an information desk in the shops informing people about their contributions and supported projects (Figure 3).



Source: author's photo

Fig. 3. Information desk in the shop for benefactors and customers about their supported activities in 2016

Table 4

Amount of resources allocated for social initiatives in 2009 - January 2017, EUR

Year	Allocated resources for all initiatives in total, EUR	Average resources for one initiative, EUR
2009 -2011	1974	123
2012	11511	640
2013	15285	510
2014	7705	550
2015	8096	1012
2016	15369	1708
2017 Jan	5000	2500
2009 -2017 Jan	64940	669

Source: author's calculations based on data available at <http://www.otraelpa.lv/>

As the fund "Otra Elpa" was a pioneer organization establishing charity shops in Latvia, it was involved in the work group under the Ministry of Welfare, which aimed to elaborate a national law on social entrepreneurship. During the interviews, it was acknowledged that the process was long, members of the working group often changed and social entrepreneurs as well as other social partners put much effort in explaining characteristics of their business. The law is almost elaborated; the Ministry of Welfare leads the pilot project testing intending legal norms during 2017. The fund suggests that social entrepreneurs should be released paying 21 % of VAT because they invest in social issues

addressing problems, which actually should be solved by the state or municipal institutions.

Conclusions

- 1) Social economy has development potential in Latvia. Unfortunately, there is no common understanding about this economy sector in wider society. However, policy initiatives and discussions in recent years have improved the situation.
- 2) Elaboration of normative regulations has been long and time-consuming process; therefore, businesses comprising elements of social entrepreneurship are temporizing towards future development and are not confident in tax policy and criteria endowing them legal rights of social entrepreneurship.
- 3) The aim of social enterprise such as charity shop is to be involved in solving social problems by creating invaluable contribution; however, there are difficulties in Latvia to recognize social enterprises and to measure

their contributions, as there is no appropriate statistics. This leads to necessity for auditing potential businesses which meet criteria of social enterprise.

- 4) The profit of social enterprise always is reinvested in order to reach social aims. The Ministry of Welfare emphasizes the fund "Otra Elpa" as a case of good practice where flow of financial and material donations is well documented and transparent; the organization informs wider society about their achievements and aims.
- 5) Social entrepreneurship in Latvia currently is regulated by the traditional business rules, which often makes difficulties to adapt, for example, to bookkeeping requirements and system of annual reporting to the state authorities. It is expected that new coming law will solve a number challenges; however, there is a risk that the final version of the law will be still burdensome.

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