

REPORT – SERBIA

1. Institutional and legal framework

In order to understand the legal, institutional and policy framework for the Social Economy (SE) in Serbia, it is important to keep in mind that the notion of ‘social economy’ is not widely understood. On the other hand, there is a growing consensus on the importance of social entrepreneurship for inclusive growth and a shared understanding of its meaning. The concept of social entrepreneurship is becoming more popular and increasingly used by different actors, including public officials. It could be said that, following a series of awareness raising campaigns, trainings and projects of support to social enterprises, the government officials involved in the social entrepreneurship policy making (Ministry of Labour and Social Affairs, Ministry of Economy, Social Inclusion and Poverty Reduction Unit), CSOs and funders share the same understanding of the concept of social entrepreneurship. Recently, the Ministry of Labour, Employment, Veterans and Social Affairs of the Republic of Serbia established a Working Group for preparation of the Law on Social Entrepreneurship, but there is still lack of a strategy or some other policy document that will organize the strategic action for the promotion of social entrepreneurship. Despite the weakness of a solid conceptual, legal, institutional and policy framework, social entrepreneurship has been developing for years in diverse legal forms: companies for the disabled, cooperatives, associations of citizens or non-governmental organizations (NGOs), foundations and limited liability companies (LLCs).

The existing legislation is more limiting than supportive to the development of social entrepreneurship. The key obstacles are the lack of start-up support and disadvantaged access to public tenders (a more detailed analysis in Group 484, 2011; European Movement in Serbia, 2011).

Different forms of social economy actors are still regulated and supported by different laws, institutions and policies and therefore the presentation of these heterogeneous and fragmented frameworks provided here is very condensed.

The Law on Professional Rehabilitation and Employment of PWDs¹ is the only law that uses the term ‘social enterprise’. In Article 34 the Law stipulates that special forms of employment and recruitment of PWDs aimed at employment, i.e. recruitment and improvement of the quality of life of PWDs may be organized as:

- a. enterprises for professional rehabilitation and employment of PWDs,
- b. job centres,
- c. social enterprises and organizations.

The Law regulates enterprises for professional rehabilitation and employment of PWDs in detail while social enterprises and organizations are only introduced in the context of enhancing the position of PWDs, not to mention the overall concept of the SE.

The Law on Cooperatives² dates from the mid-1990s and was last amended in 2006. A draft proposal of a new Law was prepared in 2010, the first wave of consultation process was completed in 2011 and revoked in 2015, but the Law has still not been adopted. According to the present Law, 10 persons is the minimum required to found a cooperative. The tax regime is the same as for associations and for-profit companies (10% of the corporation tax).

¹ Official Gazette of RS, No. 36/09 and 32/13

² Official Gazette of FRY, No. 41/96, 13/98, Official Gazette of RS, No. 1012/2005, 34/2006

The Law on Associations³ is relatively new and was adopted following significant pressure from the civil society. Only after the new Law was adopted did the associations attain the right to perform income-generating activities in commercial terms, thus creating possibilities to develop social entrepreneurship. The Law bans the distribution of profit. The associations are allowed to establish their own companies to undertake commercial activities, but the relations between the founding association and the spin-off company are not precisely defined (Group 484, 2011).

The Law on Endowments and Foundations⁴ stipulates much tighter control that the founders may exercise over assets of this type of organization. The type is not presently seen as a model for social enterprises in Serbia, but they can be founders and sponsors of social enterprises.

The Company Law⁵ is not adjusted to the establishment of social enterprises; it generally regulates the registration and activities of companies in different legal forms. In practice social enterprises often take the form of a LLC, which is also the most common form of a profit-making company. This type can be suitable for social enterprises when statutory restrictions on profit distribution are included. There are just a few social enterprises in Serbia in this form and they have been mostly established by NGOs.

According to the Law on Churches and Religious Communities⁶ voluntary organizations with a religious affiliation can establish certain institutions and organizations within the framework of social and charitable activities, undertaking production and/or service activities. The Law also stipulates that, in performing activities and securing income, churches and religious communities can be fully or partially exempt from taxes or other obligations in accordance with the laws regulating particular public revenues.

In addition to these key laws that enable the establishment of social enterprises in various legal forms, there are several other important laws such as the Law on Social Protection⁷ which enables the establishment of institutions for social protection by the state, private persons or legal entities, creating space for the development of social enterprises within this sector, and the Law on Volunteering⁸ which regulates volunteering work and stipulates that this kind of work can be organized by non-profit legal entities (associations, foundations) or the state at central, provincial or local level.

There are several national strategies that consider the significance of the social economy (mostly in the form of social enterprises) for improvements in the respective sectors. These are: the Strategy for Support to Development of Small and Medium Enterprises, Entrepreneurship and Competition, the National Strategy for Employment and the National Strategy for Making of Stimulating Environment for Development of Civil Society. The issue of social entrepreneurship has been most notably emphasized in the Strategy for Support to Development of Small and Medium Enterprises, Entrepreneurship and Competition. The strategy and the respective action plan set social entrepreneurship as one of the pillars of development of entrepreneurship in general and clearly define the political, institutional and financial framework and measures needed for support to the sector. The National Strategy for Employment emphasizes the long-term importance of the establishment and strengthening of the network of social enterprises as flexible and innovative business models that make Serbia a society of equal opportunities. The National Strategy for Making of Stimulating Environment for Development of Civil Society elaborates on the role of CSOs in social and economic development in a brief chapter on social

³ Official Gazette of RS, No. 51/09

⁴ Official Gazette of RS, No. 88/10

⁵ Official Gazette of RS, No. 125/04

⁶ Official Gazette of RS, No. 36/06

⁷ Official Gazette of RS, No. 24/11

⁸ Official Gazette of RS, No. 36/10

enterprises, in which the role of social enterprises and the obstacles to its development in Serbia are described.

There are no government or state bodies which have a clear and primary mandate to deal with the SE or social enterprises, although the new policy of the Ministry of Labour, Employment, Veterans and Social Affairs envisages the establishment of a unit responsible for managing the social enterprises sector. As in the case of laws, responsibilities are scattered and this is one of the main reasons for the uncoordinated action in the promotion of the SE in Serbia.

Several ministries are relevant for the SE sector such as the Ministry of Finance which regulates taxation policies, custom rules, the national lottery, etc.; the Ministry of Economy which is responsible for entrepreneurship in general and the development of the SME sector within which many social enterprises operate; the Ministry of Agriculture and Environmental Protection which is responsible for agriculture, rural development and environmental protection, important sectors for cooperatives and other social enterprises; and the Ministry of Labour, Employment, Veterans and Social Affairs which is responsible for employment in general, companies for the disabled, the administration of the Budget Fund, social services and PWDs, support to other vulnerable groups, and the administration of the Lottery Fund. According to Article 17 of the Law on Ministries (OG of RS, No. 72/12), the Ministry for Labour, Employment, Veterans and Social Affairs is also responsible for the development of social employment and social entrepreneurship.

There are several important national level institutions supporting the SE. The National Employment Service is an important national institution which defines and implements programmes for active employment at central and local level, supporting the employment of vulnerable groups, providing training and financial support to start-ups, including social enterprises, and supporting the implementation of public works. The Social Inclusion and Poverty Reduction Unit (SIPRU) and the Office for Cooperation with Civil Society (OCCS) are two more central level institutions that are supportive of social enterprises.

Mutual cooperation between the governmental bodies with regard to SE issues is almost non-existent. It is SIPRU that usually brings together different actors in this regard. The coordination of donor communities and corporate actors to support social entrepreneurship and capacity building of CSOs towards social enterprise could possibly be achieved through the Sector Working Group.

2. Analysis of financial incentives and support mechanisms

The Budget Fund, Public Works, and the Lottery Fund could be important state instruments for financing the social economy. The Budget Fund draws income from penalty payments levied on employers who do not comply with the obligation to employ a certain proportion of PWDs. Since its establishment, this Fund has collected app. 35 million EUR (Spear at al, 2013). The Fund financially supports primarily companies for the disabled (refunds of salaries and improvement of working conditions, process, etc.). Financial resources are partly distributed directly and in other cases through the National Employment Service. The Lottery Fund was established by the Law on Games of Chance⁹ and it has been used to finance various social projects within five areas: disability, youth and sport, the Red Cross, social protection at local level through municipalities, and rare diseases. This has been distributed to social enterprises (for disabled persons), but also to many NGOs delivering services in the social policy area. Social enterprises can also be financially supported through the Development Fund, which is the main source of state-funded credit for businesses, including SMEs. Besides its own funds which operate in line

⁹ Official Gazette of RS, No. 88/11

with the budgetary constraints, it channels funds from certain ministries and cooperates with the National Agency for Regional Development and regional development agencies in supporting business start-ups. One of the financial instruments available for financial support to social economy initiatives was the Social Innovation Fund which was functional during 2003-2010 and supported almost 300 projects in over 100 municipalities to the tune of or roughly 7 million EUR. There is an initiative to establish a similar fund – the Social Inclusion Fund which would be similar to the ESF, focusing on beneficiaries and managed by the relevant inter-ministerial body (SIPRU, 2013).

State funds for support to the SE are available at the local level in some cities and municipalities: Belgrade, Nis, Novi Sad and Zrenjanin. However, these incentives are still in an early stage of development.

The banking system in Serbia is dominated by international banks, it is conservative and risk averse. In addition, microfinance is severely constrained and overregulated, due to its overdependence on commercial banks. Credit unions and member-based financial cooperatives are not permitted in Serbia. Therefore, SE organizations face serious obstacles in accessing financial resources.

As an OECD study reveals, the CSR practices of foreign banks are less developed than in their home countries. However, there have been good examples of banks supporting the SE during the last several years: Erste bank with a well-developed CSR strategy and UniCredit Bank with the project ‘Financial and Technical Assistance for Sustainable SE of Serbia’. It is difficult to estimate the contribution of these initiatives to the development of the SE as there is no information on either the amount of support or its effects.

Supply chain opportunities are not well developed and linkages between the SE and big profit companies are rather weak, which prevents social enterprises from taking a stronger position in the economy (Spear et al., 2013). Business angels, individuals with funds and know-how who wish to invest in early-stage businesses, are not very common in the SE. The Serbian Business Angels Network was established in 2009 with a web portal for matching businesses with investors, but this initiative is still not well developed.

International donors play an important role in supporting the SE, particularly UNDP, USAID, ILO, IOM, the British Council and the EU. The Global Compact Network in Serbia brings together 57 signatories (including 32 companies and 17 CSOs), with six working groups on different aspects of the CSR supporting the SE in various ways. A particularly important role is played by the EU which represents the largest single source of funding to SE initiatives through different instruments.

There are different support mechanisms and initiatives for the SE that are not financial in nature. They are more focused on skill development (for entrepreneurship, management, handling regulations, etc.), the protection of joint interests (such as providing a better environment for social enterprises, etc.), the introduction of legal and institutional changes, etc. Skill development services are delivered by the National Employment Service, the National Agency for Regional Development and CSOs on a project basis. There are no estimations on how many beneficiaries from the SE sector participated in these programmes.

There are also a number of entities representing traditional parts of the SE such as the Association of Charitable Trusts and Foundations, 18 Cooperative Unions, the Cooperative Alliance of Serbia, the Association of Disability Companies, etc. New coalitions and networks do not cooperate with the traditional ones, and, as will be shown below, this bifurcation to traditional and more modern segments of the SE is something that marks the sector and is the consequence of transformation processes.

Recently the Belgrade Declaration on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey was signed by representatives from Albania, BiH, Montenegro, Kosovo*, FYR Macedonia, Serbia and Turkey. The Declaration stresses the importance of social entrepreneurship for socially sustainable development in the region, as well as the readiness of social enterprises and related actors in the region to cooperate in this regard.

The key actors in cross-border networking and cooperation related to the social economy come from the non-profit sector (the CoSED and its individual members), and SIPRU is very active in this regard as well.

3. Analysis of the current situation within the sector

The SE is not a common term in Serbia. Organizations of different types that operate in the sphere of the SE are hardly recognized as economic actors, but rather as humanitarian organizations (associations and foundations) or social protection providers (enterprises for PWDs). It is only cooperatives that have a more recognizable business image, but they are ineffective and stigmatized as a result of the socialist heritage. However, much has been done in the last 5-6 years on the promotion of social entrepreneurship, and this is a concept that most of the actors in the field recognize.

Data has been regularly collected on all legal forms of SE subjects in Serbia. They have all been registered with the Agency for Business Registry and their annual financial reports are collected by the SORS. Consequently, there is a way to learn about the number of the different types of organizations in the SE, the number of employees they engage, their turnover and other fiscal aspects of their business.

However, the reliability of the collected data depends on the accuracy of the information provided by the organizations themselves, and occasional research has shown that annual reports are not always 100% accurate. Nonetheless, this data offers a solid basis for monitoring the development of the SE. There is no regular reporting on trends in the SE. Several studies of associations have been made so far (CRNPS, 2006; Lazic, 2011), Mapping of Social Enterprises (SeConS, 2008), Satellite Accounts of Cooperatives (SORS, 2010) and Economic Impact of Social Enterprises in the Republic of Serbia (SORS, 2014).

This part of the report is built on the findings presented in the publication – Economic Impact of Social Enterprises in the Republic of Serbia, developed by the Serbian Statistical Office and SeCons and Group 484 as a part of an EU-funded project, and some previous surveys by leading organizations in this field. According to this research, there were 1,196 social enterprises of various legal types in 2012 in Serbia and they employed 10,326 persons, which accounted for 0.60% of all employed persons in Serbia.

Table 19: Social enterprises in Serbia according to legal type, in 2012

Type of social enterprise	Number	Share in %
Cooperatives	785	65.6
Associations	283	23.7
Companies of PWDs	45	3.8
Development agencies	32	2.7
Foundations	23	1.9
Business incubators	18	1.5
Spin-off enterprises	8	0.6
Other	2	0.2
Total	1,196	100

Source: SORS, 2014

Almost 2/3 of the social enterprises are cooperatives and this research excluded cooperatives that are quasi-social enterprises such as cooperatives for youth employment, students' cooperatives, housing, health, and others. Basically, only agricultural, craft and certain other organizations that conducted at least some form of income generating activity and pursued social objectives have been identified as social enterprises. The research on Satellite Accounts for Cooperative Economy in Serbia in 2009 included all types of cooperatives and found that there were 2,124 cooperatives and 16 cooperative unions (SORS, 2011). In both cases, the cooperative sector appeared as the most sizable part of the SE sector, with the highest share of agricultural cooperatives. These findings were also in line with the first Mapping of Social Enterprises, conducted by the UNDP and SeConS in 2007 (Cvejic, Babovic, Nusic, Vukovic, 2008). Although cooperatives are the most numerous social enterprises, they are often the most troublesome ones. Research on agricultural cooperatives in South-East Serbia indicates severe problems with cooperative transformation due to the lack of an adequate legal framework, land and other encumbered assets in the form of social/public ownership and insufficient support (Babovic, 2013).

Cooperatives also employ the greatest number of people working in the SE – 58.6%, while companies employing the disabled account for 20.2%, associations 14.0% and other types together 7.2%. The majority of those employed in the social enterprise sector as a whole are men (62.3%) and half of them are from age groups that are difficult to employ (35.7% older than 51 and 14.3% younger than 30) (SORS, 2014). Half the employees in the SE sector have secondary education, but the qualification structure of employees varies across different types of social enterprises.

In addition to the category of employees, the social economy sector engaged 23,836 volunteers. The largest number of volunteers (91.1%) was engaged in associations, while foundations engaged 7.4%, cooperatives 1.3% and companies for the disabled only 0.2%. Men and women were almost equally represented among the volunteers (50.7% women and 49.3% men) (SORS, 2014).

The whole sector performs poorly in the economic sphere and their contribution to the overall GDP in Serbia is only at the level of 0.2% (SORS, 2014). The main income generating activities for associations and foundations are education and retraining (31%), tourism and restaurants (18%), culture and art (12%); for cooperatives: trade in agricultural products (62%), production of agricultural products (37%) and retail trade (34%), while the key activities of companies for the disabled are printing and copying (29%), production of garments and footwear (20%) and furniture manufacturing (18%) (SORS, 2014).

The key problems perceived by representatives of the SE sector are insufficient funds, the low prices of their products (mostly agricultural products) and inefficient payments for their products/services (SORS, 2014).

Social enterprises are generally governed by democratic principles. However, their democratic and independent nature is sometimes blurred by the dominant role of managing boards in the associations and foundations, and the very poor participation of employees in decision-making in companies for the disabled (SORS, 2014).

The dominance of donations in the financing of civic associations develops short-lived entrepreneurship and does not create good conditions for the sustainability of the sector. This is why social and humanitarian goals in social enterprises have almost equal weight as the goals of economic empowerment and employment, which are the key pro-active strategies for the development of the sector.

Finally, although the available data does not allow for a precise observation of trends due to the differences in methodologies, a comparative estimation based on data from 2007 and 2012 surveys indicates a clear growth of the social enterprise sector of 22%.

4. Summary with recommendations

Incentives aimed at fostering the development of the SE are evident in Serbia, despite an unfavourable legal framework, a scattered institutional framework and a lack of financial and non-financial support. The following are identified as the key incentives:

- Incentives from the state can be summarized in 5 key areas:
 - the Ministry of Labour, Employment, Veterans and Social Affairs has initiated the drafting of the Law on Social Entrepreneurship through the establishment of a Working Group that incorporates representatives of other relevant ministries and public bodies, as well as representatives of the civil sector and social enterprises;
 - Several mechanisms that are available for financial support to the SE: the Budget Fund, Public Works, the Lottery Fund.
 - Employment programmes, retraining, laws and strategies that support the employment of PWDs and other vulnerable groups.
 - Incentives to foster entrepreneurship through programmes for start-ups, the development of entrepreneurial skills, simplifying or adjusting rules in order to provide a more favourable environment for entrepreneurship in general;
 - Emerging incentives at local levels to support the SE.
- International donors and some distinguished representatives of the banking/profit sector have been supporting the SE sector in line with their CSR strategies. This can serve as a good example to others and a replication of similar actions could be implemented.
- International donors and particularly the availability of EU funds are important drivers of the development of the SE sector.
- The SE sector is organizing itself through national and even cross-border networks.

The following have been identified as the main impediments that limit and slow down progress in the development of the SE:

- An underdeveloped and inconsistent legal framework which creates problems in the establishment and performance of certain types of social enterprise (cooperatives, companies for the disabled, associations).
- An inadequate institutional framework – there is no institution or a body responsible for the SE sector which can provide more coordinated action in the improvement of the environment for the SE or the performance of SE organizations.
- Restricted access to certain resources, particularly financial markets and appropriate loans.
- A weak entrepreneurial orientation and economic performance which are a consequence of the socialist legacy and the underdeveloped entrepreneurial skills of managers and other people employed in the sector.
- Difficulties in monitoring the sector due to the limits of statistical surveys and limited methodology.
- Cooperation between third sector entities, including self-help groups, and the business sector is not well-developed, and procurement chains do not provide good opportunities for social enterprises to strengthen their economic position.
- Insufficiently promoted opportunities to develop more SE organizations in the field of social services delivery.

The analysis of the SE sector resulted in several recommendations for the improvement of the current situation and fostering the creation of an enabling environment for SE development. Here is the list of recommendations followed by the proposition of indicators for the monitoring of progress.

- The legal framework should be improved in several aspects:
 - A new Law on Cooperatives and the legal resolution of the issue of social property should enable the transformation of many cooperatives;

- More elaborated legal propositions should be made for regulating the economic activity of associations, striving to stimulate their economic activity on a larger scale and secure greater entrepreneurial performance;
- Clarification is required in the regulations related to the connection between the mission and the economic activity of foundations;
- The drafting of a new proposal of the Law on Social Entrepreneurship that will make the legal framework more consistent.
- Monitoring:
 - the number of initiatives for changing the respective laws aimed at the improvement of the social economy delivered to parliamentary or governmental bodies
 - the number of changes introduced
- The institutional framework should be improved by:
 - Establishing a single body which will be responsible for the improvement of the SE sector and coordinating various stakeholders at central and local levels (as planned by the Ministry of Labour, Employment, Veterans and Social Affairs);
 - Developing further support mechanisms through the establishment of a Social Inclusion Fund;
 - Providing a more favorable taxation environment.
- Monitoring:
 - the establishment of a public administration body or management mechanism that coordinates the actors and activities in the SE
 - the establishment of a fund intended for support to economic activities entirely oriented towards social goals
 - changes in the taxation of employment and added value of SE organizations
- Coherent policies for the development of the SE should be provided by adopting a strategy for its development with clear objectives, targets, means and indicators for monitoring progress.
 - Monitoring:
 - the strategy for the development of the social economy drafted and adopted
 - the action plan for the development of the social economy adopted
- Good practices of support to the SE and good examples of social enterprises should be promoted
 - Monitoring:
 - the number of promotions (festivals, campaigns, fairs, etc.) of the social economy (real and virtual)
 - the number of participants in the promotions of the social economy
 - the number of awards provided
 - the share of the population capable of mentioning the name of one social economy organization
- The entrepreneurial capacities of managers and persons employed in the SE sector need to be improved.
 - Monitoring:
 - the number of licensed training providers
 - the number of trainings held
 - the number of attendees
 - the number of successful applications to project funding
 - the number of successful competitions at public tenders
- Networks of representatives of the SE sector and regional cooperation should be encouraged and strengthened.

- Monitoring:
 - the number of SE networks
 - the number of network member organizations
 - the number of SE network initiatives/actions
 - the share of regional SE networks in the total number of networks
 - the number of regional SE initiatives/actions
- Regional dialogue and cross-border initiatives should be further encouraged by introducing some coordination mechanisms that will enable the establishment of regular communication and exchange practices. Also, a database on social enterprises and networks in the region should be established.
 - Monitoring:
 - the establishment of the coordination mechanism
 - an inventory of social enterprises in the region
- The establishment of a regional web portal will make it possible to exchange information on the social economy sector, the forms of support, available funds, and where calls to join initiatives, invitations to join partnerships, or plan joint activities will be published and be accessible to networks of social enterprises and individual social enterprises.
 - Monitoring:
 - the web portal established
 - the web portal continuously functional with contributions from all countries of the region
 - the different SE actors contributing to the portal (public administration, SE organizations, academia, for-profit businesses)