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Boosting Social Entrepreneurship and Social Enterprise Creation in the Republic of Serbia

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BOOSTING SOCIAL ENTREPRENEURSHIP AND SOCIAL ENTERPRISE CREATION IN THE REPUBLIC OF SERBIA

REPORT FOR REPUBLIC OF SERBIA

This report has been prepared as part of the OECD LEED Programme “Boosting Social Entrepreneurship and Social Enterprise Creation”. A team comprising members of the OECD LEED Secretariat and an external expert visited Serbia in February/March 2012 for a study visit to examine the role, both actual and potential, of social entrepreneurship, and the support which could be given to social enterprise to boost its potential performance. This report is based significantly on the preliminary report prepared by the local experts, the available statistics and on material gathered from the study visit, as well as research conducted both prior to, and after, the study visit.

*A report prepared by the Local Economic and Employment Development (LEED) Programme of
the Organisation for Economic Co-operation and Development in collaboration with the Social
Inclusion and Poverty Reduction Unit (SIPRU), Government of Serbia*

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¹ After the conclusion of this report Laws on Social Enterprise, and on Public Procurement were proposed and adopted, and thus are not analysed in the report.

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EXECUTIVE SUMMARY

The following analysis of what is needed to support social entrepreneurship in Serbia is based on a fact-finding mission by the OECD team at the end of February 2012. The OECD team interviewed a wide range of actors, including senior government officials, representatives from the new and established social economy, representatives from the business community, academia and experts and the international donor community; the mission also extended to examine the regional context through a visit to Novi Sad. The policy analysis also draws on considerable and diverse international experience, not as a model for implementation, but as a basis for comparison to critically assess the current policy framework in relation to the current specificities of the Serbian context. The policy options and recommendations are offered as a basis for debate and discussion with key stakeholders concerned with taking forward the development of social enterprise and social entrepreneurship in Serbia.

Serbia: Economy and Society in Transition

Serbia has emerged from a turbulent period of its history and made important progress towards democracy and a market economy. Unfortunately the global economic crisis has brought new problems of stagnation, with high public and private debt. Numerous political, economic, and institutional reforms have been carried out, but further structural reforms are required, including: administrative reforms, addressing corruption in procurement, further privatisation, measures to strengthen small and medium sized enterprises (SMEs) and the agricultural sector; these include better access to bank finance, and improving the functioning of micro-finance – so that jobs can be created and entrepreneurship supported. This is important because the employment rate is low, particularly amongst young people, and there are a variety of groups facing social exclusion (including Roma, people with disabilities, refugees and internally displaced people), together with considerable regional disparities. At the same time, there is a substantial informal economy. Thus, entrepreneurship and work integration need to be more fully addressed. Visits by the International Monetary Fund, and the programme of reforms leading to EU accession, will further increase pressure for these reforms to be implemented.

The Contribution of Social Entrepreneurship

Despite some cultural barriers in Serbia, social entrepreneurship could make an important contribution to many of these areas, as it has in many other countries in Europe, through work integration for employment and social inclusion, through more socially cohesive welfare services, rural development and through its contributions to civil society by building trust and social capital. The context for social entrepreneurship has been considerably enhanced by a wide range of institutional reforms, but despite a range of legislative reforms in Serbia, the only legally recognised form of social enterprise is the company for the disabled, and each of the other legal structures relevant to social entrepreneurship (non-profits, foundations, and co-operatives), face some difficulties. So far the opportunities for social entrepreneurship have been rather limited, with some work integration initiatives and some welfare service provision, albeit within a framework of rather limited access to public procurement markets. This provides clear indications of the potential of social entrepreneurship, but in order to develop a more sustainable sector more needs to be done if that potential is to be fulfilled. The emerging networks supporting social entrepreneurship, though weak, are energetic and capable, and with some focused government support there is some optimism for the future.

Government support could most effectively target the following areas: pre-conditions, infrastructure, governance in policy, finance, skills, and access to markets.

Pre-conditions

In terms of cultural pre-conditions, one of the legacies of the Yugoslav socialist period is a public distrust of forms of social ownership (as emphasised by participants in the study visit), which has hampered both the acceptance of recognition of new forms of social entrepreneurship, and the capacity building of entrepreneurial forms of non-profit structures, as well as the reform of other existing social enterprise, in particular co-operatives. The situation is further exacerbated by a public attitude of strong dependence on the state alongside great distrust of it. Social entrepreneurship has great potential for addressing social problems within continuing severe budgetary constraints whilst strengthening trust in civil society, thereby overcoming this heritage of distrust and state dependency.

The attitudes of various institutions to social entrepreneurship could be improved. In general, banks have a conservative and risk averse approach to all forms of SMEs, including social enterprise. Despite some good practice there is considerable scope for improving the profile of social entrepreneurship in corporate social responsibility programmes of financial services and other multinationals operating in Serbia. This would include orienting the National Strategy for Development and Promotion of CSR in the Republic of Serbia 2010-2015 much more strongly to social entrepreneurship. This could include a much firmer emphasis on all larger enterprises adopting more favourable attitudes in their subcontracting relationships *both* for public procurement and in other markets.

There is also scope for greater vertical and horizontal integration of public administration policy to ensure that public services (including business support) and procurement practices operate in a fair and even-handed way towards social enterprise. This could be strengthened through, for example, communication/education about policy frameworks with local officials.

There are issues about developing an entrepreneurial and self-help culture (and linked to this, there is some evidence that the bankruptcy laws are not conducive to taking entrepreneurial risks). Despite some highly capable people associated with the emerging sector of social entrepreneurship, its support networks are still weak, and would benefit from strengthening relationships with other key institutions such as universities, research institutes, and the media. Similarly, while international donors have been important in supporting the climate for social entrepreneurship, there is still scope for focusing their activities, whilst EU programmes become available in Serbia's progress towards accession, and specific EU like the Social Business Initiative and the European Platform against Poverty and Social Exclusion give strong support for social entrepreneurship. In addition, the informal economy is large, particularly in certain sectors, and this hampers prospects for developing social entrepreneurship. It is important to develop measures to address this, including more effective regulation and monitoring systems.

Infrastructure

Currently the only legally recognised form of social enterprise is the company for the disabled. However, it appears that their functioning could be better incentivised and regulated, and their financing through the Budget Fund, although regulated by government, could be made more clearer. Co-operatives suffer considerably from their socialist era heritage, and their long overdue reform through new legislation (including for social co-operatives) has been continually delayed. Thus, the considerable potential for social co-operatives that has been seen in many other European countries is not institutionally supported in Serbia, and has to rely on ad hoc adaptations of existing co-operative legislation. NGOs/associations are the other most prominent legal forms for social entrepreneurship in Europe, and are limited in their potential in Serbia, due to the need to clarify the condition of "relatedness" (to purpose), and eliminate the

restrictive conditions placed on allowable economic activity, in that it should be of “small-scale”. In these circumstances foundations also appear to have some possibilities as a legal structure for social entrepreneurship, but clarification is also required about how to specify “related economic activity” to comply with the law, and the “extent of economic activity” allowable, given that it may only be a non-core activity (Group 484, 2011). Thus, both of these structures may allow further development of social entrepreneurship, provided guidance can be formulated on the implementation of policy. The limited company legal structure is open to exploitation by opportunists, but model bye-laws¹ and a strictly regulated social enterprise marque could allow some fruitful development of social entrepreneurship.

Social entrepreneurship typically links with policy via a variety of government bodies and ministries: including the Ministry of Finance and Economy, which is responsible for entrepreneurship in general. The Ministry of Labour, Employment and Social Policy is responsible for companies for the disabled, and for the administration of the Budget Fund. These, and the National Employment Service and the Public Works Programme², are important for work integration. Also, this Ministry provides support for NGOs from the administration of the Lottery Fund; Local Governments (with administrative support from the Centres for Social Work) establish the framework for social entrepreneurship in community-based welfare services, including procurement markets for new services. The Ministry of Agriculture, Forestry and Water Management, together with the Ministry of Finance and Economy is responsible for co-operative where there is potential for combating rural deprivation through rural development, and agro-tourism, etc. Thus for the reasons outlined above, it is important to have an inter-ministerial coordinative function for social entrepreneurship – at this stage such a new function could be located in bodies such as the Social Inclusion and Poverty Reduction Unit (SIPRU) and the Office for Co-operation with Civil Society (OCCS). There are also various systems of business support for social entrepreneurship, including training programmes and access to start-up loans and subsidies. However, it is not clear to social entrepreneurs as to whether social enterprise have full access to the same system of support for SMEs (which in any case is not well developed support), or whether there is sufficient start-up and capacity building support for the social enterprise across the whole country. Frequently the tender system for different policy measures, while important, needs to be complemented with more substantial support and capacity building if sustainability is to be achieved.

International donors such as United National Development Programme, USAID, the International Labour Organisation, the International Organisation for Migration, and the British Council, as well as various national governments, and the EU, have all made important contributions to the emerging field of social entrepreneurship. The UN Global Compact has helped focus corporate social responsibility activity, where some of the banks have been prominent, but there is clearly potential for more support, whilst access to new sources of EU funding emerges and develops.

The sector has a voice through a dynamic, albeit weak, Coalition for the Development of Social Entrepreneurship, and also through a similar body: the Social Economy Network Serbia (SENS). Whilst the organisations representing the traditional social economy remain rather separate, they also have the potential to support the social enterprise sector alongside government actors. Thus, there is scope for improving structures of governance to strengthen the emerging sector and link with and capacity build the established social economy.

Governance in Policy

For social entrepreneurship policy to have a good fit with the needs of the emerging sector, there needs to be a meaningful system of consultation and policy co-development, which is a system of policy co-governance. The preconditions for this are vertically and horizontally integrated policy systems which are transparent and effectively administered. As recognised in the Needs Assessment Document to support the sustainable socio-economic development and European integration of the Republic of Serbia through

international development assistance (Government of Republic of Serbia, 2011a) strategy for EU accession, Serbia still has some progress to make in order to achieve this. SIPRU and OCCS are important institutional innovations to help improve vertical and horizontal policy integration and these need to be combined with improving the governance of the emerging sector and its links with the established social economy.

Finance

Social entrepreneurship attempts to generate a spirit of self-help amongst disadvantaged individuals and communities. By definition these are not well resourced communities, thus developing a portfolio of appropriate resources is essential. In general the banking system for SMEs (including social enterprise) is conservative and risk averse. In addition, micro-finance, which is so important for assisting the disadvantaged, is severely constrained and over-regulated by international standards, due to its over-dependence on the banks. Similarly credit unions, member-based financial co-operatives, are not allowed in Serbia. On the other hand the Budget Fund, Public Works, and the Lottery Fund are all important in providing complementary sources of funding to that of the banks; and there may be scope for improving the access, orientation, and extent of these resources. The Development Fund is also relevant. EU accession will also bring with it various EU programmes that will, to some extent, compensate for the decline in support from international donors. But there is no substitute for a comprehensive framework that supports the financial needs of social entrepreneurs during start-up, development and growth of their social enterprises.

Skills

The following range of skills is required for the development of social entrepreneurship:

- *Skills for social inclusion* (and other sector related skills – for example in community development, and welfare services). This includes life skills, social skills, and work skills to support entry into the labour market. This relies on some sources of funding and the work programmes identified above, however skills development is generally under-emphasised in Serbian labour market programmes.
- *Skills for entrepreneurship and management* (marketing and finance, business planning and development and also skills for growth and scaling). This is a key area for social entrepreneurs, since business skills are crucial for sustainability, particularly for marketing and financial control. In Serbia training provision in this area exists but not to a high level. Instead social entrepreneurs rely on: accessing the support for SMEs and the self-employed; the support of international donor organisations; and, the growing use of EU programmes. Although there has been some progress in supporting entrepreneurship training, social entrepreneurship training could be more strongly supported through the education and training system.
- *Skills for meeting regulatory and reporting requirements and negotiating with bureaucracies.* These higher-level skills are not generally seen as a high priority in Serbia until more state contracting takes place and the micro-credit regime is liberalised. Such skills provision could come from international donor organisations, although their supply of resources is declining.
- *Skills for the development of social enterprise* (development workers): this aspect of skills development is essential to achieve a sustainable and growing sector; it currently takes place through informal learning in the networks of groups supporting social entrepreneurship; greater emphasis on developing these skills will be required as the sector develops and moves towards growth and sustainability.

Access to Markets

Public procurement markets are potentially one of the most important for supporting the development of social enterprise. However, this is unlikely to take place until the distinctive contribution of social enterprise is more fully recognised, and social enterprise themselves have become more established and sustainable. There are various ways in which this “chicken and egg” situation could develop. As noted earlier, certain preconditions about establishing a better enabling framework for procurement via social enterprise needs to be developed at municipal and other levels. The tendering system for projects offers short-term service providing opportunities, but the challenge is to find better access to regular markets for public service provision. There are some encouraging developments, for example Meals on Wheels in Belgrade and the waste recycling initiatives. But an exploratory niche strategy for public service provision of social enterprise could be the most fruitful future strategy (with regard to public procurement). In addition, accessing diaspora funds as private sources of finance for welfare services may be an important complementary source of funding. Similarly the markets for donations and legacies are relatively undeveloped, but could have substantial potential. Corporate social responsibility markets could also be addressed more professionally.

The development of social entrepreneurship in other markets may be more straightforward – particularly for ethical goods and services and for environmental services – areas where the distinctive values and structures of social enterprise provide clear advantages.

Policy Recommendations

The approach adopted here is a cautious one with the aim of establishing the emerging sector on a sound foundation and gradually building its reputation as a distinctive social but entrepreneurial innovation. Thus, many of the recommendations should be seen in the perspective of gradually building an appropriate framework, alongside an emerging movement, with the development of new social enterprise law being seen as a medium term objective.

The section on legislation explores the options in more depth, but to summarise: foundations seem to have some potential, albeit with clarificatory guidance required on permissible “related economic activity”. Such guidance has been used in countries, including Turkey and the United Kingdom (UK). In Turkey, TUSEV, an advocacy organisation, following consulting with the relevant departments of the Ministry of Finance and Ministry of Development reached the conclusion that best way to create a better legal environment for social enterprises was not by new laws, but by regulating the existing framework through circulars and communications made by Ministries. Whilst in the UK, the Charity Commission provides a range of online guidance documents – which clarify the guidelines operated by officials as well as providing valuable guidance on sometimes difficult legislative conditions for social entrepreneurs (http://www.charity-commission.gov.uk/Charity_requirements_guidance/Charity_essentials/default.aspx).

A socially entrepreneurial culture could be developed by encouraging small-scale entrepreneurship by associations, and co-operatives are also clearly relevant, particularly if they could be supported and linked in a new distinctive network, with a well regulated social enterprise marquee. There may be scope for using social enterprise model constitutions with the limited company form, though there are risks in the medium term due to exploitation by opportunists.

The policy analysis and recommendations draw on considerable and diverse international experience, not as a model for implementation, but as a basis for comparison to critically assess the current policy framework in relation to the current specificities of the Serbian context. The policy options and recommendations are offered as a basis for debate and discussion with key stakeholders concerned to take forward the development of social enterprise and social entrepreneurship in Serbia.

There are some underlying principles regarding developing appropriate frameworks for social entrepreneurship. Firstly, that it is important to develop a level playing field with regard to other types of organisations in the market, particularly SMEs. Secondly, that legal frameworks should be well adapted to the distinctive needs of social enterprise, combining social and economic objectives, and it is important to recognise that in many countries legislation has followed innovation over a number of years by social entrepreneurs who have adapted existing legislation to their requirements. Thirdly, there should be a well supported institutional and policy framework that matches well with the relevant types of legal forms of social enterprise. Finally, in developing such policy frameworks, it is important that the public/social benefit dimension of social enterprise is not only properly recognised, but also financially supported – as it would be in the context of state funded benefits.

The policy recommendations follow the same thematic as above: Preconditions, Infrastructure, Governance, Finance, Skills, and Access to Markets. Taken together these comprise a strategy for social entrepreneurship, which requires a new coordinative function to be established to negotiate with relevant government and sector bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU or OCCS.

Recommendations to Improve Preconditions

Develop a public relations strategy for social entrepreneurship, which could include:

- promoting models of good practices;
- attracting public figures and celebrities to social entrepreneurship, including via corporate social responsibility;
- competitions for best social enterprise and best social entrepreneurs of the year;
- the use of online media (Group 484's electronic "Newsletter on Social Entrepreneurship": http://www.grupa484.org.rs/index.php?option=com_content&task=view&id=406&lang=english) is one such example;
- strengthening research/policy/media networking so that sympathetic journalists are properly briefed;
- raising the profile of social entrepreneurship in corporate social responsibility programmes; and,
- a few sector strategies be developed as exemplars of effective social enterprise approaches to the informal economy, for example, in recycling, homecare, childcare, local food markets.

Recommendations to Improve Infrastructure

Legal Frameworks

- Foundations:
 - examine the potential of the foundation as a model for social entrepreneurship, especially the issue around relatedness to mission – registered activity;

- clarify how to specify related economic activity in order to comply with the law, and the extent of economic activity, given it may only be a non-core activity;
- explore the extent to which Guidance Notes by registrars could be produced for public official and social entrepreneurs; and,
- allow flexibility in the choice of economic activities and potentially link the issue of mission versus non-mission relatedness to different fiscal regimes.
- NGOs/associations:
 - clarify the permissible limit of “small-scale” economic activity, such as through guidance notes, to facilitate flexible and larger scale entrepreneurial activity; and,
 - encourage them to engage in entrepreneurial activity up to this limit;
- consider inclusion of asset locks³ for both NGOs/associations and foundations;
- using company law develop model constitutions and bye-laws, but limit their access to public funds;
- develop a sector body to introduce and oversee a social enterprise marque renewable annually, with quality checks (partly to guard against opportunism by limited companies); this might best be undertaken by an independent member-based trade association.
- Co-operatives:
 - press for resolution to the social/public property issue and the adoption of new draft legislation on co-operatives and the inclusion of articles or separate law for social co-operatives;
 - consideration could be given to ensuring these articles/laws are relevant to both work integration and welfare service operatives, and that they function as non-profit organisations and that they allow multi-stakeholder structures;
 - press for a change in the law allowing a reduction in the numbers required to form a co-operative (to the same number as for associations (3) – to equalise the incentives for formation in two comparable member-based organisations; and in line with recent legislative trends: Italian social co-ops/enterprise, Finnish co-ops/social enterprise, Belgium co-ops/social enterprise, Spain, France; but not Poland/Portugal (5 minimum); and
 - press for a change in the law to allow secondary co-operatives to be formed;
 - support the development of a network assisting new socially entrepreneurial co-operative could also be provided.
- as a medium-term goal, develop legislation for social enterprise (which develops a broad inclusive definition of the field); and,
- examine increased incentivised fiscal measures linked to each legal structure as a way of improving the chances of sustainability.

Recommendations to Improve Institutional Capabilities (Governmental, Donor Community)

Gradually reshape each of the relevant government programmes, by:

- taking forward the proposals in this document with relevant local/national government and sector stakeholders to establish a strategy for social entrepreneurship;
- establishing a new social entrepreneurship coordinative function to negotiate with relevant responsible bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU or OCCS;
- developing a work integration social enterprise strategy (with appropriate models and mechanisms, and a protected budget) linked both to the National Employment Service, and to the Public Works Programme, and other relevant programmes;
- capacity building of NGOs for social enterprise activity financed by the Lottery Fund;
- developing a social enterprise strategy for welfare service provision with Local Governments, alongside developing a social clause niche/quota social enterprise in procurement contracts;
- developing a coherent framework and strategy for integrating the diversity of support measures and potential support; and,
- co-ordinating donor communities (international and private sector) in a strategy to support social entrepreneurship, and capacity building of NGOs towards social enterprise, through co-ordinated action of relevant Sector Working Groups.

Recommendations to Improve the Institutionalisation of the New Social Enterprise Sector

- for the emerging networks of social entrepreneurship, help develop governance structures that give a prominent place to new social enterprise; and,
- strengthen the relationship between the new and the established social enterprise sectors, for example through a chamber of commerce type model.

Recommendations to Improve the Development of the Institutions of the Established Social Enterprise Sector

- develop the capacity of NGOs, particularly of medium and large NGOs, to generate income streams and engage in welfare service provision and procurement contracts (such as the UK Futurebuilders programme mentioned below);
- explore the extent to which foundations could be a useful interim structure for social enterprise, and, support medium and large foundations to develop brands and donation potential – possibly through partnership with international charitable organisations;
- build the entrepreneurial capacity of new co-operatives, such as through development bodies; and federal structures (also to promote good practices in governance, etc.); and,

- with regard to companies for the disabled, address the issue of delayed payments and, at the same time, undertake a review of their performance with regard to the effective integration of disabled people into work.

Recommendations to Improve Business Support Infrastructure

- ensure that social enterprises have full access to SME programmes of support at national and local levels;
- develop the capacity for “braided”⁴ support of social enterprise, for example by developing a network of social enterprise trainers; and,
- make full use of available EU funding streams to establish projects for the development of social enterprise (including training/education at various levels).

Recommendations to Improve Governance

- develop good practice partnership projects between municipalities and social enterprise, such as with EU funding for developing good practice in the use of social clauses for social entrepreneurship in welfare provision;
- consider support for the development of a social economy coalition that brings together NGOs, foundations and co-operatives, initially at the municipal level through the development of horizontal networks across these pillars of the social economy with EU programme funding; and,
- improve vertical and horizontal policy integration for social entrepreneurship through briefing documents and administrative guidelines;
- capacity building, communication, education and training of relevant administrative officials about relevant policy frameworks; and,
- gradually develop a system of co-governance with municipal and regional bodies together with social economy organisations.

Recommendations to Improve Finance

Design a comprehensive framework of financial institutions and instruments to support the different phases of social enterprise development, including:

- link activities/support from Budget and Lottery Funds enabling access for NGOs, social enterprises and companies for the disabled;
- measures to address the conservative attitude of banks, possibly through government-sponsored loan guarantee systems;
- promote legislation to establish a comprehensive framework for micro-finance, so that it does not need to be channelled through the banks and is appropriately regulated in line with international experience;
- develop a comprehensive framework to support the financial needs of social entrepreneurs during start-up, development and growth of social enterprise;

- design a system of grants for feasibility studies and the development of business plans, low cost rents in incubators for the first 18 months of business development, loan guarantee systems, and specialist financial institutions to act in a venture capitalist type role supporting growth of the social enterprise;
- consider programmes to support social entrepreneurs, such as funding through a foundation; (with a possible endowment through international donor/CSR partnership);
- consider the development of community development finance initiatives (supported through fiscal measures); and,
- examine asset transfer policies by municipalities and other public bodies to provide buildings for low rent incubators.

Recommendations to Improve Skills

- ensure that social entrepreneurs have full access to SME training and mentoring programmes;
- ensure that SME related legislation and policy is inclusive of social enterprise;
- explore the development of specialist training programmes specifically for social enterprise needs;
- examine the policy of picking winners, that is of identifying high growth social enterprise “gazelles”;
- develop capacity building agreements between public bodies and social enterprise for medium sized social enterprise;
- examine the potential to develop scaling models such as social franchising;
- explore project funding for skills aimed at meeting regulatory, reporting requirements, advocacy, and negotiating with bureaucracy – such as through available EU programmes; and,
- explore project funding for skills aimed at social enterprise development workers, for example through available EU funding.

Recommendations to Improve Access to Markets

- examining the potential of using the 2008 *Law on Public Procurement* (the new draft law discussed in 2012 could enhance this possibility) as a framework for designing social clauses in public procurement markets, by initiating some pilot projects in key areas such as homecare or eldercare (for example, meals on wheels)
- build partnerships with international organisations operating in ethical markets;
- build capacity of large NGOs for acquisition of donations and legacies;
- consider increasing tax breaks for donations;
- consider give-as-you-earn charitable donation systems through payroll deductions; and,

- strengthen relationships between social enterprise and corporate social responsibility institutions.

INTRODUCTION

This report initially provides a summary of the context for social entrepreneurship in Serbia, before examining the institutional framework and policies for social entrepreneurship. It is structured thematically drawing on extensive experience of the OECD LEED Programme which has identified six key themes: preconditions, infrastructure including legal frameworks, governance policy, finance, skills, and access to markets. A SWOT analysis completes this section of the report. There follow policy recommendations and an action plan to provide a staged approach of recommended actions concerned with promoting and developing an appropriate framework for social entrepreneurship in Serbia.

The focus of the study is on policy and institutional frameworks for supporting the development of social entrepreneurship and social enterprise. Social entrepreneurship refers to the creation of social enterprise, which is both the more socially oriented and the more entrepreneurial part of the social economy – that sector of society operating between the private market led business operating in the market and the state – comprising co-operatives, mutuals and associations (not-for-profit or voluntary organisations) and foundations.

A significant feature of this study is that it draws extensively on a wide range of international experiences as a comparator for critical analysis of the current policy framework and experiences. However, this international experience should in no way be considered as providing models for implementation, rather they are an inspiration for policy solutions that are uniquely adapted to the Serbian context, and which are developed through appropriate consultation processes with a diverse range of stakeholders.

The key challenges addressed in this study relate to the how social entrepreneurship can help address some of the issues it faces as it comes out of a turbulent period of its history, and moves forward with democratic and market reforms towards EU membership.

The recent of history in Serbia has been rather difficult – the break-up of the former Yugoslavia, and ensuing conflicts, UN sanctions, and the end of the Milosevic regime in October 2000, followed by the lifting of EU/US economic sanctions; and then further political adjustment as Montenegro became independent in 2006. The war and international isolation led to an extended current economic crisis (with hyperinflation during the 1990s) all of which posed considerable challenges to Serbian government policy, but the country enjoyed a period of high growth during the first few years after sanctions ended (with GDP growth averaging just over 6% p.a. from 2000-2008). However, the world economic crisis has had a major impact, with a gradual process of recovery underway as the country, and its people, move towards full membership of the European Union.

The report firstly analyses the current context in Serbia relevant to major issues of social inclusion, employment, and the development of civil society; secondly, it highlights the distinctive contribution that may be made by social entrepreneurship and social enterprise alongside classic measures for reinvigorating the market and reconstructing the role of the state; and, thirdly it reviews the policy framework in order to specify ways in which this could be made more conducive to vigorous development of social entrepreneurship. International experience confirms that appropriate policies to stimulate the social economy, can play an important role not only in providing a diverse ecosystem of organisations and actors, but also in improving the performance of the other main pillars of policy: the state and the market.

The authors of this report are grateful for the contribution of the most useful background report provided to the OECD team prior to their study visit to Serbia (in February/March 2012). The report also builds on the extensive information provided at meetings with relevant public representatives, and with a diverse range of stakeholders, thanks to the organisational assistance of SIPRU.

The OECD team is fully responsible for any errors of fact in this document. The views expressed herein and the recommendations provided at the end of this report are based solely on the opinion of the OECD team. They do not necessarily reflect all of the documents provided in preparation for the study visits, nor all of the subsequent information provided, nor all the views of colleagues who the OECD team met in Serbia.

CHAPTER 1: CONTEXT

This Chapter briefly reviews historical and current perspectives on the socio-economic situation in Serbia, the current landscape of social entrepreneurship, and its benefits, so that the thematic analysis of the main part of the report can be contextualised.

Historical and Current Perspective

In the recent transitional phase of development during the last decade, Serbia has made important steps towards democracy and the market economy, in terms of economic political and institutional reforms. Prior to the recent economic crisis growth was good, but GDP declined by just under five per cent in the two years after the 2008 crisis. Government expenditure is high and debt (both public and private) is a concern, although Serbia's credit rating improved during this period. These factors conspired to bring about a visit from the International Monetary Fund in early February 2012. With growth in 2012 anticipated to be only half a percent, and with rising unemployment (22.4% in October, 2012, LFS), there is concern about the fiscal deficit being higher than the target of a 2012 budget; particularly when public debt is projected to be above 45% of GDP by the end of 2012. A return visit by the IMF is scheduled to discuss a supplementary budget for fiscal consolidation and growth enhancing structural reforms (Economist Intelligence Unit, 2012).

Government is structured as follows: National, Provincial, County, and Municipal or local self-government levels. One important public administration reform is programme budgeting – in 2005, five ministries began the pilot process of moving towards programme budgeting (which will be fully adopted for the 2015 Budget process), as a way of improving policy analysis and strategic input into the budgeting process, as well as improving non-financial performance information.

The service sector has grown substantially, particularly in the financial services sector. However, there has been stagnation in the manufacturing sector; although foreign direct investment in manufacturing has picked up more recently a key issue is that of raising quality standards, particularly for the export markets. The agricultural sector is important in Serbia (around 20% of GDP), but it is weak and not very competitive. Nevertheless, the World Bank (2006) regards it as having considerable potential as an engine of growth in Serbia.

The privatisation programme has been extensive, particularly through foreign direct investment in finance, transport, storage, communication, and manufacturing (EUR 12 billion between 2001 and 2009) (Government of the Republic of Serbia European Integration Office, 2011). But according to the National Programme for Integration of Serbia into the EU, further privatisation needs to be carried out, including that of state and socially owned organisations (Government of the Republic of Serbia European Integration Office, 2011). This might include state-owned tourist offices and most companies with socially owned capital.

SME Policy

Serbia has made major improvements to its SME environment, and in the last decade has seen substantial growth in the sector (OECD, 2011). However, this was based on excessive public and personal consumption, with increasing differences in regional development evident, alongside a trend to de-

industrialisation, and there has been a decline in jobs in the sector after the 2008 crisis. There are also still some competition issues to be addressed, particularly where powerful companies dominate markets. It is argued that future growth and policy needs to be more strategic, focusing on competitive and innovative SME potential for growth (Hadzic and Pavlović, 2011). Moreover, the development of the sector also relies on further improvements to its institutional environment: in the recent Global Competitiveness Report (World Economic Forum, 2011) Serbia ranks particularly low on the quality and efficiency of its institutional environment, its macroeconomic environment, goods market efficiency, and business sophistication. It ranks relatively highly on its higher education, health and primary education (with relatively high rankings on the following subsidiary items: telephone lines, internet bandwidth, and time to register a business).

Table 1. Companies by legal form

(30 September 2011)

General partnerships	2,727
Limited partnerships	434
Limited liability companies	101,407
Joint-stock companies	2,549
Sole proprietorships	219,859
Co-operatives	2,588
Civil associations	28,448
Other (public companies, state institutions, justice administration, local self-governments, political organisations, trade unions, tenants' associations etc.)	32,446
TOTAL	390,458

Source: Classification Units in the Republic of Serbia, SORS, Communication No 312, dated 15th November 2011.

The SME sector accounts for two-thirds of all employees and is skewed towards micro-enterprises. Other important issues that need addressing are excessive red tape and an excessive administrative burden, complex legislation, and a lack of enforcement of business regulation. SMEs also confront inadequate access to financial resources and the lack of appropriate financial instruments – these result in low levels of investment in innovation (Government of the Republic of Serbia European Integration Office, 2011). This is despite measures by Ministry of Finance and Economy and the National Agency for Regional Development to put in place a number of programs to strengthen SMEs.

Labour Market

Table 2. Activity, Employment and Unemployment Rates, LFS, 2000 - 2011

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Activity Rate, %, ages 15 and above											
Total	57.0	57.3	56.1	55.7	55.5	53.5	51.0	51.0	51.5	49.1	46.9
Male	65.8	67.0	65.2	66.0	64.6	63.0	60.1	59.7	60.4	57.7	55.5
Female	48.9	48.1	47.5	45.7	47.0	44.6	42.5	42.8	43.3	41.4	39.0
Employment Rate, %, ages 15 and above											
Total	50.1	50.3	48.6	47.6	45.2	42.3	40.4	41.8	44.4	41.2	37.9
Male	59.1	59.9	57.5	56.9	54.9	52.4	49.3	50.3	53.2	49.1	45.3
Female	41.8	41.1	40.3	38.7	36.3	32.9	32.0	33.8	36.5	34.0	31.1
Unemployment Rate, ages 15 and above											
Total	12.1	12.2	13.3	14.6	18.5	20.8	20.9	18.1	13.6	16.1	19.2
Male	10.1	10.5	11.8	13.8	15.1	16.8	17.9	15.8	11.9	14.8	18.4
Female	14.6	14.5	15.2	15.8	22.9	26.2	24.7	21.0	15.8	17.8	20.2

Source: Serbian Statistical Office Database 2012

Despite a good GDP growth trend until the recent crisis, this has not led to lower levels of unemployment and a better employment rate – in fact the reverse has occurred, and Serbia currently has an extremely low employment rate at below 50%. Of particular concern is youth unemployment and their employment rate. The IMF estimates that the unemployment rate (15-64) will peak at 23.9% in 2012, before declining to 21.5% in 2015 (International Monetary Fund, 2011); whilst for young people (15-24) the optimistic projection is for the estimated rate of 37.4% (2012) to decline to 31.5% by 2015 (Arandarenko, 2010). In addition long-term unemployment remained static during this recent decade, the inactivity rate of 40.3% (2012) is amongst the highest in Europe⁵, and a substantial number of people still operate within the informal sector (estimated to be about one third of the total employment). There is some evidence, in manufacturing, that this paradox of good growth but declining employment may be due to the working through of underemployment in many firms and the increased productivity of continuing employed workers in increasingly competitive national and international markets.

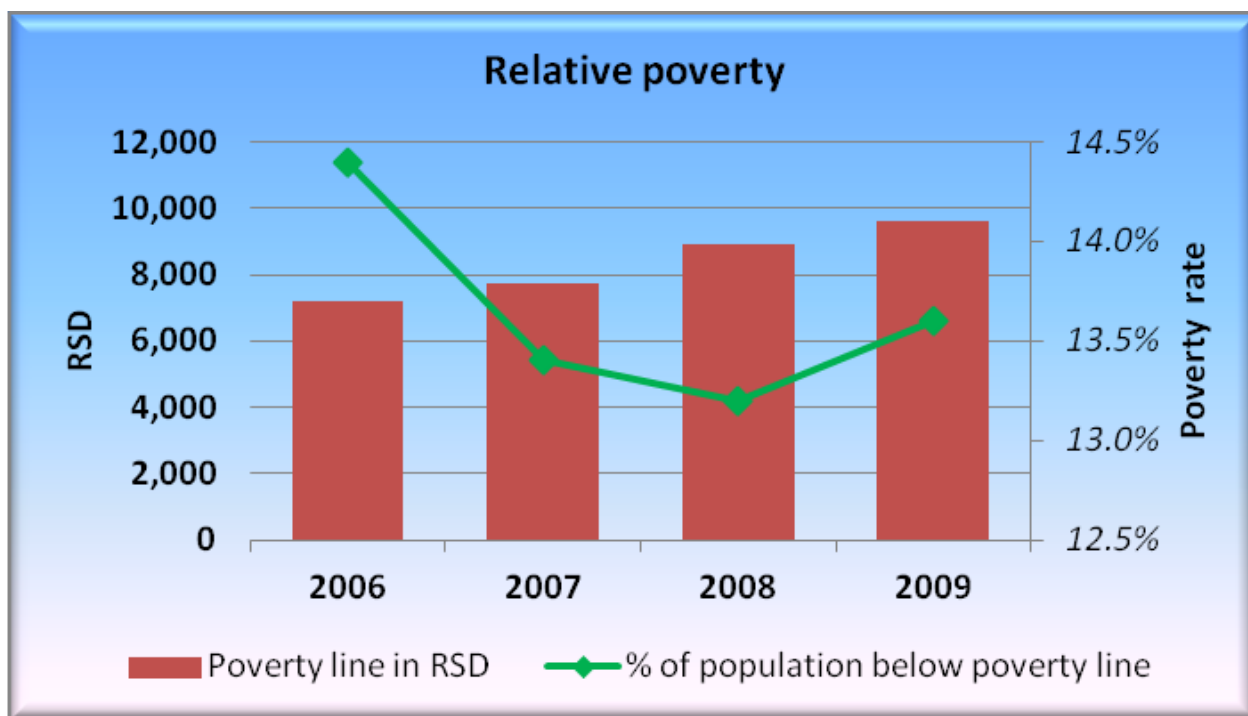
The Serbian government has attempted to reform its labour markets through various measures to improve labour market flexibility, including reducing social contributions to remove obstacles to new employment, introducing active labour market programmes (ALMPs – which form only a minority of expenditure), and providing support programmes for redundant workers. However, in a later measure intended to conform more closely to EU labour market regimes, the Government also increased substantially the level of redundancy payments and thus, to a certain extent, countered earlier measures to increase labour flexibility. It should also be noted that there have been budgetary constraints on the flexible labour market policies, thus for example the ALMP budget was only 0.110% of GDP in 2009, 0.128% in 2010, and 0.123% in 2011.

The main elements of ALMPs are job-matching, counselling, and development of entrepreneurship and employment programs (employment subsidies) – but training programmes are insufficiently developed and targeted in the National Employment Service programme (Government of the Republic of Serbia, 2011). Funds for the Public Works Programme were doubled in 2009 to help address the crisis and led to the employment of about 10,000 people.

Social Inclusion

During the growth period of the last decade, progress was made in rural and urban areas in combating poverty – thus as a result of economic growth absolute poverty declined, but this was also due to poverty reduction measures (although the Gini coefficient, a measure of inequality, typically of income distribution, increased). The poverty reduction measures comprised social welfare cash benefits (with the major ones means tested) and social welfare services. The Centres for Social Work are largely responsible for implementing the social protection measures, identifying needs, and matching them with community-based services. Over half the municipalities funded day care services for elderly homecare and/or childcare; and there are a few non-profit providers, including the Red Cross and Caritas. Social inclusion policy benefits from inter-ministerial co-ordination through the Social Inclusion and Poverty Reduction Unit and this can bring an important value in terms of the coherence of policies to reduce social exclusion. The current legislation clearly establishes a framework for a European style support system, where the state is the major player, with only the limited development of a mixed economy of provision so far.

Figure 1. Relative poverty in Serbia (2006-2009)



Source: Government of the Republic of Serbia (2011c)

Other issues relevant to social inclusion include policies for Roma, refugees and internally displaced people, and disabled people. Based on the Serbian 2011 Census, there were 147,604 Roma in Serbia, but estimates from NGOs and international organisations put the figure between 300,000 and 460,000, that is around 5% of the population (Bodewig and Sethis (2005); Report of the OSCE-ODHIR Roundtable

(2010)). There are substantial numbers of refugees (70,707), and around 228,215 internally displaced people in Serbia (UNHCR, January 2012 <http://www.unhcr.org/pages/49e48d9f6.html>); many of these face problems of housing and employment. The example of RISE in the UK (Box 1) highlights the potential of the social economy in addressing such issues.

Box 1. RISE: UnLtd's Refugee Initiative for Social Entrepreneurs

UnLtd is a UK based charity which funds social entrepreneurs with small grants and various support measures. A few years ago it gained EU funding through the European Refugee Fund Phase III, and with the support of the UK Border Agency it established RISE, the Refugee Initiative for Social Entrepreneurs. This operated similarly to UnLtd's other small grants/support programme, but it also channelled access to other financial support, such as Comic Relief which is a national event-based charity with various target groups, including an emphasis on assisting women – such as refugee and asylum seeking women. The overall aim of UnLtd's RISE programme was to move from project funding to more sustainable economic initiatives through social entrepreneurship and to “this programme aims to unleash and encourage the potential of refugees as social entrepreneurs”. RISE is no longer taking applications, but refugees can access UnLtd's regular awards system.

Source : <http://www.unltd.org.uk/template.php?ID=55>

As with other countries in the region there is a favourable framework supporting the employment of people with disabilities. The law on professional rehabilitation and employment of persons with disabilities obliges employers (with greater than 20 employees) to employ one person with a disability, and another for every 50 employees (that is, two percent of employees). Those employers who do not comply with this obligation, are required to contract with disability companies for products or services, or pay into a fund, the Budget Fund, which may then be used for integration measures supporting people with disabilities.

Regional and urban/rural disparities are substantial, with Belgrade and the Vojvodina province being most developed, whilst south and east Serbia suffer considerable underdevelopment. Rural areas have much higher poverty rates than urban areas (twice the level in 2010, with 13.6% being below the absolute poverty line in rural areas, compared to 5.7% in urban areas).

Serbia became a candidate country for EU accession in March 2012 ,and this has been a major driver of the reform process. EU membership requires: the stability of institutions guaranteeing democracy, the rule of law and human rights; the development of a functioning market economy; and, the ability to adhere to the aims of political, economic and monetary union. Clearly the European Commission is satisfied with the general trajectory of Serbia's programme for integration, but in a recent publication (European Commission, 2011a) they noted a number of areas that need to be addressed including the following that seem particularly relevant to social entrepreneurship: more consultation with the stakeholders in the legislative process; ensuring that central government policy is implemented at local levels; addressing issues of bias/corruption in public procurement; continued concern about refugees, Roma, and internally displaced persons; and, economically, greater effort in addressing process issues, like removing red tape.

The Current Landscape of Social Entrepreneurship

This brief section gives an overview of the current landscape of social entrepreneurship. It focuses on the state of traditional social economy sectors (non-governmental organisations – NGOs (civil associations, civil society organisations), foundations and charitable trusts, co-operatives, companies for the disabled, etc.), as well as emerging trends (quasi-social enterprise using company structures), and the development of a new sector and networks. It goes on to examine the Serbian experience in this field.

The “social economy” has its roots in France, and may be seen both as a set of types of organisations between private business in the market, and the state – these being as already mentioned: co-operatives, mutuals, associations (non-profits), and foundations. The social economy may be seen as a sector with a distinctive set of values both in its purpose and the way it operates, and so supporting democracy, equality, and solidarity. This perspective has achieved high level recognition in the European Union, with high level representation through “Social Economy Europe” the representative institution for the social economy which promotes its policy interests at the EU level (European Commission: http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/index_en.htm).

The US perspective on the term “social entrepreneurship” has been strongly influenced by US philanthropic organisations and networks and has been applied to a wide range of phenomenon from non-profit and non-governmental organisation activities, to social innovation, and businesses with a social purpose and it embraces business practices.

But in Europe it is more often seen as an entrepreneurial process that results in the creation of social enterprise. The OECD refers to social entrepreneurship as entrepreneurship that “aims to provide innovative solutions to unsolved social problems [...]. It often goes hand in hand with social innovation processes” (OECD, 2010). Social entrepreneurs link themselves to a wide spectrum of organisations that have an entrepreneurial approach and whose overall primary mission is to tackle social problems (OECD, 2010). Non-governmental organisations are, as the name suggests, non-governmental, private organisations which are not profit oriented, and whose activities are often developmental (as in third world development), or concerned with advocacy, or service providing; but in many countries the term is used interchangeably with non-profit organisation.

Social enterprise is defined by OECD LEED as follows: social enterprises are all private activities conducted in the public interest, organised within the framework of an entrepreneurial strategy the key objective of which is not maximisation of profits but fulfilment of certain economic and social objectives and which has the ability to put forward innovative solutions to the problem of social exclusion and unemployment (OECD, 1999).

The EMES European Research Network (www.emes.net) has developed a similar definition of social enterprises which is an empirically grounded European approach and sees the development of social enterprise as being a new social entrepreneurship dynamic within the social economy (Borzaga and Defourny, 2001). The main reason of existence for a social enterprise is the continuous activity of producing goods and/or selling services and they face a significant level of economic risk. Although they can use volunteers an amount of paid work is required. Their explicit aim is to benefit the community, they are often launched by a group of citizens and the distribution of the profits (which are called surplus) is limited because the majority of the surplus is reinvested in the mission of the social enterprise.

More recently, the European Commission has defined social enterprise (equivalent to “social business”) as being “an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities”. (European Commission, 2011b)

In this study, social enterprise is understood within the framework provided by the OECD LEED definition and also incorporates elements of the EMES approach. However, it is recognised that there are certain difficulties in locating traditional and new forms of “social entrepreneurship” in relation to international terminologies, concepts and experiences. The “socially owned” enterprises of the socialist era have been largely discredited, with the result that well regarded international experiences of social

enterprise, social entrepreneurship, and the social economy, face considerable difficulties in establishing their hard-won credentials in the mind's eye of many Serbs. The OECD research team heard that it was a common Serbian view that they had done the "social economy" unsuccessfully, and consequently there was a fear about returning to the past; that the social economy could be confused with passive social support and active labour market programmes; and that old social enterprises, such as agricultural co-operatives, are regarded as informally privatised. But it was also recognised that a clear definition of social enterprise would help re-establish the value of the social entrepreneurship approach.

In this context it is worth mentioning that this is not unique to Serbia, but is a common issue in many formerly socialist countries. However, this should not detract from the internationally recognised contribution of social economy organisations.

Note that a wide variety of legal forms are used by social enterprises in Serbia; these will be placed within the traditional typology of the social economy – CMAF (co-operatives, mutuals, associations, foundations) – or related to other boundary categories. This report continues by examining how this framework of social entrepreneurship/social economy can be applied to the Serbian context, using terminology that seems most relevant to the Serbian situation – as background, it may be interesting to review the work of the EMES Network in a study for UNDP which included an extensive case study on Serbia (EMES, 2008).

Companies for the Disabled

These are the only officially recognised legal form of social enterprise in Serbia; they comprise about 40 companies for vocational rehabilitation and employment of people with disabilities. They employ 1700 people and are supported through the Budget Fund. About half of these are majority state owned, and half privately owned. At least 50% of employees should have disabilities, including 10% with severe disabilities. During the study visits it was reported to the OECD team that there were some issues about late payments for disabled people working in these companies; this appears to be due to a clause in the law which refers to refunds rather than subsidies; this has the effect of inhibiting employment, as well as creating ambiguities about eligibility for refunds for those that have been employed. However there could also be issues about establishing a framework for monitoring and rewarding progress to sustainability.

Non-Profit Organisations/Associations/NGOs

The term NGO is the term most commonly encountered by the OECD team to describe different forms of non-profit organisations, such as associations and civil society organisations. Associations are documented in the statistics and comprise a diverse range of more than 15,000 organisations (registered under the new law by August 2011), with a further 2000 in the process of registering (although originally there were 28,500 in the statistics), including a large number of sports clubs, and others covering humanitarian issues, community development, culture and arts, education and research, environment, and religious organisations, etc.⁶

A survey of NGOs in Serbia in 2005 (Civic Initiatives, 2005) noted a number of problems, including: a lack of state support and the withdrawal of international donors, but also inadequate co-operation with the business community, barriers in the legal regulations, and insufficient co-operation with local authorities, etc. More recently public trust was cited as an issue, with a call for: "More transparent work, including a clearer presentation of goals and activities, but also of financing and the way NGOs 'earn' and spend their money would certainly help improve their relations to the public" (Bertelsmann Stiftung, 2011).

The recent *Law on Associations* (adopted in 2009) has improved some of the issues, by establishing a legislative framework closer to international standards and regional best practices, and this may lead to a more accurate and up-to-date record of their activities, but it seems only a small proportion of these are engaged in social entrepreneurial activities. A recent survey (Civil Initiatives in conjunction with Office for Co-operation with Civil Society of the Government of Serbia, 2011) of “civil society organisations” (based on the Register of Citizens Associations, which was established by the *Law on Associations* in 2009) used a different classification of activity and found over a quarter in the field of social services – many of which are likely to be older associations of disadvantaged groups. Most of the organisations surveyed are small with low levels of income mainly from donations and membership/service fees.

NGOs already have a presence in welfare provision, particularly in the field of children and youth with disabilities – the Lottery Fund plays an important funding role. Despite the small size and weak capacity, NGOs are developing further in welfare service provision (a field currently dominated by state providers), albeit partly through the enthusiasm of international donors; however capacity building measures would be required to increase the trust and confidence of municipalities to the point where they are ready to contract with them. Donor project funding, and previously the use of the Social Innovation Fund⁷ are assisting this process of capacity building. Larger non-profit organisations, such as Caritas and the Ecumenical Humanitarian Organisation, are also active in the field of welfare service provision, whilst as yet the private sector appears limited to nursing homes for the elderly.

Similarly new integrated policies for these groups combining labour market measures with social protection measures, currently through pilot programmes and project funding (from international donors, and within the framework of the National Action Plan for Employment for 2012), are opening the field for innovative NGO activity (e.g. the YEM project mentioned below) – particularly in recycling and waste management.

Foundations and Charitable Trusts

This type of organisation has also benefited from the wave of legislative reforms recently enacted to modernise civil society, and open some options for social entrepreneurship. The *Law on Charitable Trusts and Foundations* was passed in 2010 and appropriately registered. Prior to this there were only about 50 active charitable trusts, and currently there are around 90 foundations (active, registering, or adapting to the new law).

Thus, this form of organisation has not proved so popular as a vehicle for social entrepreneurship in Serbia. It remains to be seen whether the new legislation will herald increased use of this form, a trend apparent in some Eastern European countries – for example in Poland, where they form about one quarter of potential social enterprise, as “this status is more convenient for commercially oriented organisations” (EMES, 2008); this includes the renowned Barka Foundation.

Co-operatives

Data from Satellite Accounts for Co-operative Economy in Serbia (2009) indicates that there was a total of 2126 co-operatives, and 18 co-operative unions, and that there has been a general decline in numbers of co-operatives, members and employees over a number of years prior to that. Co-operatives (and co-operative unions) declined from 2337 in 2007 to 2140 in 2009 and the number of co-operative members declined from 125551 in 2007 to 122192 in 2009. Most of these were agricultural co-operatives, followed by youth and student co-operatives, followed by housing.

Co-operatives suffer from a poor reputation for a number of reasons. During the post-socialist period many have lost or have been unable to re-establish active membership, and in the process ownership has

fallen into the hands of a few members and directors – with the result that they operate like conventional for-profit business, and thus may be ambiguously seen as pseudo-co-operatives. It was suggested during the study visit, that this appears to have happened in the more established agricultural co-operatives, yet it has not prevented substantial numbers of new co-operatives being formed, partly as a result of donor support, but these suffer the problems of being in a developmental phase, being small with a lack of capital. The youth and student co-operatives, which in effect are a job matching service which benefits from tax advantages, seem to have suffered a similar fate, with young people more interested in getting casual/short term work rather than regaining their membership rights. The third largest segment of the co-operative sector, housing co-operatives, seem to have also been exploited by managers and building companies to the detriment of members. On the other hand there are some positive signs which could be built on – in their survey of 239 co-operatives, Simmons et al. (2009) report that two thirds of the co-operatives in their sample thought themselves very democratic; and other indicators of member involvement were reported – indeed in 60% of co-operatives, members felt the co-operative had helped raise their incomes. But there are a number of barriers to improving their capacity – credit co-operatives are illegal (being in a similar position to micro-finance), co-operative unions are not fully controlled by member co-operatives, and secondary co-operatives are not allowed – so limiting the potential for co-operatives moving up the value chain – a development which might also increase competition in food processing, where high price hikes by a “processed food oligopoly” have been reported (EBRD, 2011).

Unlike other parts of the social economy, co-operatives have not enjoyed modernisation of their legal framework. This is largely due to the lack of resolution of problems associated with the restitution of socially owned assets to members, co-operatives, or the state. This is blocking acceptance of the proposed new law on co-operatives which would allow the development of social co-operatives. Also with reforms and better organisation, they could contribute much more to rural development in deprived areas, and Serbian agricultural output (currently only 20% is produced for the market, compared to 80% for subsistence).

Quasi-social enterprise using company structures

In many countries it is not unusual for the dominant business form (limited company) to be used also for social entrepreneurship. This is particularly the case where the concept of social enterprise and social entrepreneurship is not generally recognised or institutionalised. The privatisation law reinforced this tendency by insisting that privatisations were required to transform into joint stock companies, even if their social mission would be better adapted to some form of social enterprise – for example Rudo, a manufacturer of orthopaedic appliances. Ambiguities and uncertainties about the choice of business form were seen by the OECD team in interviews with social entrepreneurs relating to “Green and Clean”, a commercial cleaning company established by two social economy organisations, which seems to be a social enterprise. Such hybrid structures appear to be common where foundations or NGOs wholly owned a trading subsidiary, thereby combining social mission with economic activity.

Emerging social enterprise (informal sector)

Social enterprises often play a role in moving informal sector workers into the formal economy. In some cases this may involve enterprises that act as agencies for people who are self-employed and who may or may not pay taxes (that is, they may in effect remain part of the informal sector). But this mixed mode of operation seems more common in the conventional business sector, where for example an SME may employ its cleaners from the informal sector, in effect employing them illegally. Thus, emerging social enterprise attempting to operate by formally employing people may face this kind of unfair competition – as reported to the OECD team with regard to “Green and Clean” social enterprise. Similarly social enterprise could employ disadvantaged workers illegally or as self-employed workers, but choosing

to employ them legal, may result in losing a competitive advantage – unless the illegal informal employment is addressed (see Box 2).

Box 2. Social Entrepreneurship for the informal sector

It is clear that in many countries there is a lot of entrepreneurship in the informal sector. The challenge for policy-makers is to regulate this, to recognise such activity can generate essential income in disadvantaged communities, but also to channel its dynamism towards the formal sector where it can be more easily supported. There are a number of social entrepreneurship initiatives which have facilitated such developments: Local Exchange Trading Systems (LETS) allow people to build up entrepreneurial activity by trading informally before they go formal. See: http://en.wikipedia.org/wiki/Local_exchange_trading_system. Other initiatives led by trade unions help provide services to support self-employed workers such as health insurance schemes.

In Serbia, the project SWIFT (Sustainable Waste Management Initiative for a Healthier Tomorrow) illustrates an innovative path for assisting disadvantaged Roma in the informal sector. It has received substantial international and national support to develop a recycling centre and co-operative (at the end of 2010) to provide work and training for disadvantaged workers, through recycling and waste management; and it is also linked with the Belgrade waste management system. SWIFT's overall objective is to convert current informal waste "scavenging" into an effective source of income; a secondary objective is to increase access of their workers from vulnerable populations and communities to health, education and social services; and indirectly enable better access to public services and integration in civil society in general. It has yet to achieve sustainability, but indicates the kind of innovation which is needed to improve the position of disadvantaged informal sector workers.

Source : <http://www.swift.rs/eng>

Benefits of Social Entrepreneurship

This section emphasises the benefits of pursuing policies to support social entrepreneurship, such as the way in which it builds on a self-help dynamic for jobs/services, develops social capital, helps strengthen civil society, is an essential part of an inclusion strategy; and contributes to local economic development, etc.

Social enterprises are considered to operate more flexibly than the public sector, and have a trust advantage over for-profits (Spear, 2004); this is because their structure means they are not designed to make private profit from addressing social problems, and they typically provide various externalities that add social value to an economic exchange. These added values are due to their typical operating characteristics: participative structures giving users and staff greater involvement (as well as supporting active citizenship), multi-stakeholder structures providing more social cohesion, and proximity services (locally based, close to users and the community).

The benefits of social entrepreneurship can also be seen in policy, where several policy themes emphasise the value of social enterprise and social entrepreneurship:

- *Employment and economic competitiveness* – social enterprises contribute to help build an enterprise society in which small firms of all kinds thrive and reduce the persistent gap in growth rates between regions. They are an important source of entrepreneurship and jobs, particularly for more disadvantaged individuals and communities, where they help to develop a self-help dynamic.
- *Social inclusion and social cohesion* – social enterprises, through multi-stakeholder structures and user involvement, help build social cohesion and provide a strong basis for self-help, assisting both economic and social development of disadvantaged communities in urban and rural areas.

- *Social capital* – social economy organisations build trust relations and civic engagement leading to a more involved and active citizenship – this is because they are typically membership organisations linking people together in democratic structures; and they often have multi-stakeholder governance systems which help strengthen inter-group relations. It is widely recognised that building trust makes the whole economy and society function better.
- *Service provision* – social economy organisations improve the quality and efficiency of (public/welfare) service delivery, through greater trust, proximity to users, and through their social mission.

And there are two market rationales that recognise the benefits of social enterprise:

- *Service provision* – social enterprise fill a gap in the market (addressing market failures) to meet community needs or to add value to existing public service delivery.
- Social enterprise combine social and economic dimensions and are thereby uniquely placed to support the rise of new *ethical markets*; in fair trade and environmentally friendly goods and services.

In terms of European policy debate, it is also recognised that social economy makes key contributions to major policy themes: public services, general interest, social cohesion, and employment (e.g. Ciriec, 2007); and that it is central to certain values in welfare/health services that need to be preserved: values of equality, solidarity, respect for human dignity, and the principles of accessibility, universal service, continuity, proximity to service users (user involvement). Further emphasis on some of these themes was seen in the EU Social Business Initiative, launched in October 2011. Three themes were emphasised: encouraging responsible business through better corporate social responsibility, including more transparency and accountability, and facilitating social entrepreneurship, particularly through social investment; and cutting red tape for SMEs. The Social Business Initiative was launched because it was argued that social business would contribute to EU2020 strategy, by developing inclusive growth (through sustainable jobs, work integration, better quality of social and healthcare services), moving towards sustainable growth (by reducing emissions and waste, and using natural resources and energy more efficiently), and developing smart growth (through innovation and participatory internet use). See Annex 1 for more details.

It is also important to locate policy for social enterprise within meta-narratives of policy discourse, which locate their benefits in a wider framework. Thus for example in the UK, the Labour Government under Tony Blair (1997-2007) pursued the so-called “Third Way” had a broad societal agenda aimed at the renewal of social democracy, with an emphasis on social justice, but strongly emphasising the market; it also provided legitimacy and laid the foundations for subsequent policy on social enterprise.

In Europe, social enterprises operate in a number of fields, and legislation has been used in a number of countries to give recognition and support development of this emerging field: Work Integration Social Enterprise (WISE) have become increasingly recognised in legislation as an area of social enterprise effectiveness. However, social enterprises have also gained recognition in legislation in service provision: proximity/community services, health/social services, and in recent Italian legislation, even more broadly in social utility: which includes environmental/ecological activities, culture, heritage, social tourism, research, and education. With regard to model legislation, the Italian social co-operatives have been a model in many countries. These are classified as two types: type A for social services and type B for labour market or work integration services; and the 2006 legislation for social enterprise is a model for a broader range of services (aiming for social utility).

However, it is clear that there is varying effectiveness of different legislations – with widely varying numbers of registrations. The reasons appear to be: overly restrictive requirements or the new legislation does not provide sufficient advantage compared to relevant existing legislation. Thus, for example, relatively few have been formed in each of the following countries: Greece, France, Finland, and Sweden (where the “Firm with Limited Profit Distribution” (2006) has attracted little interest). The most popular structures are in Italy and the UK. In many countries it is still the case that most social enterprise use the most flexible legal form available – for example: in Belgium, the non-profit (*association sans but lucratif*, a.s.b.l.), and in Sweden, the co-operative.

Accordingly, when considering the need for new legislation for social enterprise it is important to consider: fields of activities, its adaptability/flexibility, effectiveness of current legislation, regulatory framework; and it is noteworthy that one rationale for legislation is to gain an increased recognition of social enterprises as a “brand”.

Brief Summary

Serbia has emerged from a turbulent period of its history and made important progress towards democracy and a market economy. Unfortunately the global economic crisis has brought new problems of stagnation with high public and private debt and increasing unemployment. Numerous political, economic, and institutional reforms have been carried out, but further structural reforms are required, including: administrative reforms, addressing corruption in procurement, further privatisation, measures to strengthen SMEs and the agricultural sector, which include better access to bank finance, and improving the functioning of micro-finance - so that jobs can be created and entrepreneurship supported. This is particularly important because the employment rate is low amongst young people, and there are a variety of groups facing social exclusion (including Roma, people with disabilities, and refugees and internally displaced people), together with considerable regional disparities; and there is a substantial informal economy. Thus, entrepreneurship and work integration need to be more fully addressed. A return visit by the IMF, and the programme of reforms leading to EU accession, will both increase pressure for these reforms.

Despite some cultural barriers in Serbia, social entrepreneurship could make an important contribution to many of these areas, as it has in many other countries in Europe – through work integration for employment and social inclusion, through more socially cohesive welfare services, and through its contributions to civil society by building trust and social capital. The context for social entrepreneurship has been considerably enhanced through a wide range of institutional reforms, but despite legislative reforms, each of the legal structures relevant to social entrepreneurship face some difficulties. So far the opportunities for social entrepreneurship have been rather limited with some work integration initiatives and some welfare service provision, albeit within a framework of rather limited access to public procurement markets. This provides clear indications of the potential of social entrepreneurship, but in order to develop a more sustainable sector more needs to be done if that potential is to be fulfilled. The emerging networks supporting social entrepreneurship, though weak, are energetic and capable, and with some focused government support there is some optimism for the future.

CHAPTER 2: INSTITUTIONAL FRAMEWORK AND POLICIES: PRE-CONDITIONS, INFRASTRUCTURE AND GOVERNANCE

The next two chapters in this analysis are structured around six themes. This chapter addresses: Preconditions, Infrastructure and Governance; whilst the following chapter addresses: Finance, Access to Markets, and Skills. This chapter begins with an overall assessment of existing measures and policies and their effectiveness, challenges, barriers, and issues for development before moving into the first three themes: Pre-conditions, Infrastructure, and Governance.

The opening section of this report provided a brief overview of the main policy contexts relevant to the development of social entrepreneurship in Serbia. The major policy areas which link with social enterprise are: labour market policy, social inclusion policy, and welfare service policy. However, social enterprise can make important contributions in other areas of the economy and society; in Serbia these include agriculture, rural development and the environment. In addition, appropriate policy for social enterprise needs to integrate with SME policy and as a result touches on financial services policy.

In general terms, Serbia has taken an impressive number of measures to establish a modern framework for the development of social entrepreneurship. This applies particularly to laying the foundations of that development through appropriate legislative measures, such as new laws for foundations and associations. It has also made important strides in developing national institutions which can co-ordinate policy and the development of the sector. However, the sector is still weak and emerging in an environment which, if not hostile, is not particularly supportive. At the same time, the institutional framework while quite well developed at the national level still needs to be fully integrated so that it is visible and operational for social enterprise on the ground. Policy and institutions also need to be developed strategically and operationally to support the start-up of new social enterprise and capacity building of existing social enterprise, nationally. Given this picture, and the considerable progress made in overcoming the challenges of a recent difficult past, it would be surprising if there were not a number of policy gaps and barriers to development that remain to be addressed. These will be discussed in more depth below.

Pre-conditions

As noted in the introduction, the post-war era of Yugoslav socialism has left some unfavourable legacies in the form of public distrust of forms of social ownership⁸, with the result that new initiatives of social entrepreneurship, social enterprise and the social economy which are so highly valued in other parts of Europe and the world, are either misunderstood or distrusted at the current time in Serbia; and this applies even more so to co-operatives. Changing the cultural dimension of social enterprise and social entrepreneurship is a key challenge.

Another heritage of the Yugoslav era is a strong dependency on the state alongside strong distrust of the state. Thus, there remains a strong belief among many people, including some met during the OECD study visit, that when a social need has been articulated the next step is advocacy, persuasion, and networking to get the state to provide. Indeed, the OECD team met in Novi Sad one potential social entrepreneur with great drive and innovation who had established a project which transported people with disabilities (to school, etc.), who vigorously proposed that the state should take this on as a regular service, and equally vigorously rejected any thoughts that generating income from the project might facilitate that development.

In the context of recovering from the economic crisis all over Europe, and the forthcoming visit of the IMF, budgetary constraints are likely to continue for several years and these aspirations for better welfare

services, labour market programmes, and social inclusion programmes will not be met without new thinking about other strategies such as social entrepreneurship. Shifting this pattern of thinking towards social entrepreneurship is clearly one challenge.

Developing an entrepreneurial culture has been an important theme in many countries since it was recognised that growth, in particular job growth, relies strongly on the formation and development of small and medium enterprises. Thus, entrepreneurship is an important theme in policy including through education and training programmes (also in business schools), and through support measures for new entrepreneurs.

The scale of the informal sector, currently over 30% of the economy (Bertelsmann Stiftung, 2011) and apparently significantly higher in recent years, indicates that something entrepreneurial is happening. At the same time, the skewing of SME activity towards micro-enterprise also reinforces the idea that the challenge is firstly to support the formalisation of initiatives (bringing them into the formal economy), and secondly in a parallel measure to support the strengthening of the micro-enterprises; identifying winners or “gazelles” is also regarded as an important policy challenge.

The Global Entrepreneurship Monitor (GEM) studies provide a useful international comparative perspective on the level of entrepreneurship in Serbia. As Radojevich-Kelley (2011) reports:

“a recent GEM report (2009) indicates that Serbia is highly necessity driven as far as entrepreneurship and relies heavily on established business ownership rather than on early stage, nascent entrepreneurial activities (Bosma and Levie, 2009). Over the past several years, Serbia has seen a decline in the nascent entrepreneurship rate, new business ownership rates, early stage entrepreneurship rates compared to other similar efficiency driven economies (Bosma and Levie, 2009).”

This is clearly a concern, although Radojevich-Kelley (2011) later in the same article argues that the tide has turned and entrepreneurship is gaining ground in Serbia in the belief that it leads to a better life.

Nonetheless, this climate is also likely to influence approaches to social entrepreneurship, and the challenge is to change culture and attitudes both towards conventional entrepreneurship as well as to social entrepreneurship. It is also important to recognise the importance of social entrepreneurship in addressing socio-economic development, through different kinds of policy measures from start-up, from the informal sector, and for growth. Arguments for developing policy for social entrepreneurship were recognised, for example, by the British government at the time of the 2008 economic crisis when it awarded approximately EUR 600 000 to the School for Social Entrepreneurs in order for it to build its capacity for training social entrepreneurs (although the *scale* of this intervention may not be so relevant to the currently constrained public budgets in Serbia).

Despite some impressive examples of social entrepreneurship, the OECD team encountered social entrepreneurs who were not positive about their potential for development. This appeared to be partly due to issues addressed in this chapter and the next (unfair competition with the informal sector, poor access to procurement markets, etc.) but possibly also due to the need to establish realistic expectations of social entrepreneurship in this time of economic crisis and budgetary restraint.

There are other cultural issues that appear more linked to fundamental views about trust and fairness in society. In other words the extent to which success and achievement can be seen as the result of hard work, knowledge and skill, or the result of preferential treatment and good connections.

Attitudes of Institutions to Social Entrepreneurship

It is well documented that there are general issues about the banks' relationship with SMEs in Serbia. The situation is likely to be even more difficult for social enterprise, and it was stated to the OECD team that legal recognition would help banks understand social enterprises better. There has been a large amount of foreign direct investment into the financial services in the last decade, and the sector is now dominated by international banks. It is notable that international banks can, through their corporate social responsibility (CSR) programmes, be very supportive of social enterprise – as the example of Erste Bank in Serbia demonstrates.

It was reported to the OECD team that multi-nationals operating in Serbia do not show the same level of CSR generosity as in their headquarter country. This notwithstanding, there is some evidence of good practices developing: the Global Compact Network in Serbia had 57 signatories (including 32 companies and 17 NGOs) in 2010, with six working groups including one on CSR in banking and finance. Its current focus appears rather limited: on financial education, and developing new products for the Serbian market (green projects, charity donation savings scheme, affinity cards) and the working group for social inclusion and persons with disabilities has developed partnerships between private sector and organisations for people with disabilities. However, in a broad survey in 2006 (World Bank), financial services companies (in Serbia and Montenegro) were the only ones that thought correcting social inequalities was a part of CSR (and this was only supported by about 5% of the sample); nonetheless 83% had carried out social projects in the previous three years, and about half of these were in partnership with NGOs. There are some exemplary practices amongst international banks in Serbia: UniCredit Bank Serbia (third largest bank in Serbia) and UniCredit Foundation support Group 484 and the social enterprise financing project "Financial and Technical Assistance for Sustainable Social Economy of Serbia". Crédit Agricole Serbia has CSR projects supporting children's rights. But the shining example is Erste Bank which has a wide range of projects supporting social entrepreneurship. The government strategy for taking CSR forward has been established in the National Strategy on CSR 2010-2015, however its implementation is still in the early phase, and it could be more closely oriented to social entrepreneurship, which is only mentioned once in the draft document in relation to procurement supply chains (Working Group, 2010).

As the above examples of exemplary practices demonstrate the procurement supply chain strategy, while important, is not the only one of relevance to social entrepreneurship. At the same time, the supply chain opportunity refers more generally to relations between SMEs and large companies not just in procurement, but in the overall economy. Here it appears that there are insufficient linkages which make use of the capabilities of SMEs in sub-contracting supply chains. This reduces the potential of SMEs to develop a stronger position in the economy. This is also likely to limit the potential social enterprise contract with larger companies (e.g. "Green and Clean" for cleaning services), and may influence CSR related contracting too.

As far as the attitude of public institutions, especially at local level, such as in relation to policies related to procurement, two issues were reported to the OECD team. Firstly, although there may be a national policy framework relevant to social entrepreneurial activity, local officials did not necessarily know about it or know how it should be implemented. Secondly, if they did know about it they might not be disposed to adopting and implementing the policy for various reasons which might be budgetary or political; as one group interviewed stated "politics is important for public procurement". This issue seems partly to do with communication and integration of policy at all levels of government, and partly to do with the fragmented nature of government in Serbia.

It is important also to develop the role of other institutions in creating a climate favourable to social entrepreneurship. This applies particularly to the intellectual sphere of society: universities, research institutes, and think tanks. The OECD team was impressed by the high calibre of many young people

attracted to developing the social entrepreneurship sector; we also met some very well-informed academics and consultants, and subsequent research has shown a significant amount of research on social entrepreneurship in Serbia also taking place outside the country. These diverse actors in some cases are networked but in others they are less integrated; thus, the potential for building and exploiting a knowledge base for social entrepreneurship in Serbia could be improved, and thereby play a role in strengthening the climate for social entrepreneurship. Developing good links with the media is another important area, where international experience confirms that investment of time and effort has clearly paid off.

International donors also play an important role in shaping agendas and creating a climate for social entrepreneurship. Several of these appear to have developed an impressive focus of activity around the social enterprise/social entrepreneurship theme – including British Council, UNDP and USAID. Through project funding, this has created a number of model social enterprises which have proved important in raising the profile of the field. While there appears to be a downward trend in international donor support, the roadmap towards EU accession clearly needs to emphasise the importance of social enterprise, the social economy, and social entrepreneurship.

Informal Economy

The OECD team on a number of occasions encountered the view that the informal economy frequently hampered the legitimate activities of social enterprise. This appears to be a theme which is also relevant to the performance of SMEs, and continues to be an important concern for policymakers. Recent research finds that the informal economy is most prominent in the following sectors: trade in goods and services, building and construction, small-scale subcontracting services, household services, and agriculture (Andrić and Mijović, 2010). Reforms on labour taxes and social security contributions in 2007 may contribute to a reduction in the size of the informal sector – but exploitation of inadequate monitoring systems by SMEs and larger enterprises may need firmer measures; similarly the apparent ease in “gaining access to a range of social benefits through the simple act of registering as unemployed with the unemployment service, while actually working in the informal economy” (Krstić and Sanfey, 2010) remains an important issue to be addressed. The following case study (Box 3) shows how local municipalities can create a framework for supporting the transition from exclusion in the informal sector, to employment and access to services.

Box 3. Capacity Building Informal Economy and Transitioning to Social Enterprise: ASMARE (Associação dos Catadores de Papel, Papelão e Material Reaproveitável or the Association of Paper, Carton and Recyclable Material Pickers)

ASMARE, in the city of Belo Horizonte (Brazil), originated in 1990 as an organised group of waste pickers, although they had gained recognition in earlier years when they resisted official harassment with some support from church based organisations especially the *Pastoral de Rua*. Waste pickers, mainly men, sort and scavenge urban waste for re-useable material which they can sell or re-use. They came together initially to demand legal right to work as waste pickers in the city and to have secure places to store materials.

ASMARE is now governed by a statute agreed with the city authority which sets out membership criteria and some rules to govern its operation. A monthly membership fee gives pickers access to certain entitlements such as use of public transport, access to childcare, and health insurance. They can also participate in regular meetings of the organisation to discuss accounts, profit sharing and there are different committees which tackle various aspects of the work. It has over time taken on additional programmes such as literacy, adult education, health, and childcare. It has retained partnerships with church groups and expanded its network of connections over a 20 year period and developed its organisational expertise (with assistance from *Pastoral de Rua* and others who provided technical assistance). Nevertheless for some pickers this degree of formalisation has been too much and not all have joined ASMARE (Carrasco, 2009). Estimates suggest that ASMARE has up to 380 members and collects about 450 tons of waste each month including paper, cardboard, aluminium and plastics. ASMARE, is categorised in some reports as a non-government organisation (WISER) although it shares more traits with a social enterprise which distributes profits and elects its own leaders.

Source: C.Carrasco: www.bestpractices-healthpromotion.com/attachments/File/best-practices/Exemplary%20students%20papers/Christine_Carrasco_Assignment_1_resubmission_feedback.pdf and Wiser – the social network for Sustainability: <http://www.wiser.org/organization/view/d51f446923ebb86f0ece5f9433c917f5>

Infrastructure

This section examines legal frameworks, reviewing the current possibilities and assessing the rationale for new legislation, it goes on to review institutional capabilities at different levels (government departments, regions, municipalities), and it examines institutions for the social economy, including social enterprises, as well as considering issues of representation and advocacy and the role of existing social entrepreneurship coalitions and networks. Finally, it discusses business support structures relevant to the SME and social entrepreneurship sectors.

Legal Frameworks

Currently social enterprises are formed using a variety of legal frameworks with varying strengths and weaknesses. The section begins by briefly reviewing the relevant legislation:

Companies for the disabled

The *Law on Professional Rehabilitation and Employment of Persons with Disabilities* specifies the term social enterprise as a separate subcategory and links it to addressing the needs of people with disabilities. The implication of this is that a social enterprise provides services for people disabilities, and should employ at least one person with a disability. At the same time, the law requires that at least five people with disabilities should be employed and the proportion of employees with disabilities should be at least 50% including 10% with special employment needs. However, the law as it relates to social enterprise does not specify the proportion of income that should be allocated for the integration of people with disabilities (nor whether wage subsidy is standard irrespective of degree of disability) and there appears to be some need for clarity about precisely how the tax exemptions should apply (Group 484, 2011).

The system is self funding through the Budget Fund (which supports companies for disabled directly and through funds transferred and implemented by the National Employment Service) but there appears to

be a lack of clarity over the extent of any surplus, and policy over what it might be used for. Any surplus might provide some potential for extending the model beyond disabled people to disadvantaged groups. Furthermore, the functioning of the Lottery Fund provides a useful model for managing this fund to ensure it is closer to target organisations, and more openly responsive through the competitive system of open calls.

Co-operatives

The law on co-operatives dates from 1996 and was last modified in 2006. A draft proposal for a new law was prepared in 2010, and a public consultation undertaken. This draft legislation included provision for social co-operatives, however little progress has been made since public consultation, possibly due to the issue of restitution of social property. Currently ten people are required to form a co-operative, but this is likely to be reduced to five if the new legislation is passed. Co-operatives enjoy the same tax regime as associations (10% corporation tax), which is the same as that for private business. Information provided in English about the proposed new legislation on social co-operatives (article 11 in the draft law on co-operatives) (Group 484, 2011) does not seem to specify that social co-operatives should be non-profit or have limited distribution constraints and although it specifies that there should be a proportion of profits be used for social purposes, the draft law currently does not seem to specify what proportion (such as 5% or 50% or 75%). Nor is there an asset lock. These features would be more consistent with legislation adopted in other countries, such as the Italian law. Indeed, it is worth noting that internationally the co-operative form has been frequently used or adapted for social enterprise, as in the case of Italy or Sweden with their well-established social co-operative forms, which has been a model for legislation in a number of other countries in Europe.

Associations/NGOs

These are democratic member-based structures. The new *Law on Associations* was passed in 2009. One of the changes was to make registration easier, since associations no longer had to register with ministries but with the Serbian Business Registers Agency. The law requires that a minimum of three people are required to form an association. It specifies the goals of the association should be general interest and not for profit. However, it does allow associations to engage in economic activity as an additional activity provided it is related to the purpose of the organisation, and that it is “small-scale” and limited to the extent necessary for the achievement of the purposes of the association (which is in fact an ambiguous requirement). The law allows for associations to establish and own companies to undertake commercial activities. There may need to be some clarification with regard to the condition of “relatedness” (to purpose), and the condition of “small-scale”, since there are significant fines (EUR 500-5000 for the Association, and EUR 50-500 for directors) where the boundary with regard to the above conditions is overstepped. The law allows any profit to be used for the general interest specified in the constitution of the organisation. Questions have been raised about the suitability of this structure to engage in economic activity (Group 484, 2011): firstly because of access to bank funding (possibly due to banks unfamiliarity with this form); and, secondly, with regard to scale of economic activity (relatedness seems less of an issue), and the extent to which it can engage in tender procedures due to these economic activity considerations.

Two recent developments are likely to strengthen the NGO sector: the new *Law on Associations* (many existing active associations have re-registered under this law); and the establishment of an institutional framework for co-operation with civil society through the Office for Co-operation with Civil Society which was established in 2010, their early work involves developing a Strategy for Civil Society Development.

Foundations

These are non-profit NGOs and compared to associations this legal structure allows a much tighter control by the founding members. The new *Law on Endowments and Foundations* became operational in 2011; with regard to economic activity, it may undertake this provided it is related to the goals of the foundation, and that it is a non-core activity – but it needs to be a registered activity. A foundation may establish and own a company that conducts economic activities; and, as with associations, there are significant fines (EUR 3000 to EUR 6000) if the economic activity is not related to its goals, and it is not specified in the register of activities. A crucial issue is how specific a statement of registered activities needs to be (relief of poverty, for example, would allow a wide scope of entrepreneurial activities). It appears that in comparison to associations, the condition of small-scale of economic activity does not apply in the legislation and so it appears that foundations have some advantages over associations in engaging in economic activities. In some other countries foundations are favoured by individual or a few social entrepreneurs since they are not accountable to a wider membership, but this is a disadvantage for building social enterprises strongly rooted in civil society. Although not currently seen as a model for social enterprise in Serbia, in some other European countries, such as Poland (EMES, 2008), they are seen as very relevant and useful, with well-established exemplary cases, such as the Barka Foundation.

However, neither associations nor foundations are without difficulties in operating flexibly as a social enterprise. The co-operative structure is more favourable and flexible, but the requirement to have ten founding members in Serbia limits its attractiveness as a start-up legal form, since many social entrepreneurs would be likely to start with fewer numbers. Whilst the idea of sleeping partners (members) may be one way around this, it hardly contributes to creating a democratic culture.

Limited liability company

The remaining alternative is the limited liability company form (d.o.o in Serbian), which is flexible and well recognised; but it is neither member-based, nor non-profit (or profit limited). It may, however, be possible to write model constitutions and bye-laws which approximate to these conditions. As noted above there may be quasi-social enterprise that make use of company structures.

Institutional Capabilities

Governmental capabilities

There are different institutional capabilities at different levels: government departments, regions, municipalities. Although there is no single governmental body representing the social economy, there are a number of bodies and structures of representation. Thus, responsibilities for the co-operatives (and SMEs and company policies) lie with the Ministry of Finance and Economy. Also, the Ministry Labour, Employment and Social Policy is responsible for companies for the disabled, administration of the Budget Fund, social services and people with disabilities, as well as support for NGOs and the administration of the Lottery Fund. The Office for Co-operation with Civil Society was established in 2010 with the aim of establishing the institutional framework for organised co-operation with the civil sector and providing a communication channel between the government and the civil society. SIPRU, which was established in 2009, plays an essential policy co-ordinating role in the field of social inclusion and poverty reduction. However, social enterprise typically cuts across a number of ministerial responsibilities.

Some of the policy measures relevant for the social economy are as follows:

- the National Action Employment Plan, includes a training programme for social entrepreneurs, and is implemented through National Employment Service measures for vulnerable groups;

- Budget Fund and support to people with disabilities;
- Ministry of Finance and Economy programmes for SMEs and co-operatives;
- Training held by National Agency for Regional Development and regional development agencies;
- Also, The Ministry of Labour, Employment and Social Policy uses the Lottery Fund for a support programme for more than 500 NGOs supporting people with disabilities; priorities are jointly set with the Serbian National Organisation of People with Disabilities; they fund at three levels:
 - 34 national umbrella organisations with 526 local branches that receive money for their activities;
 - various associations receive funding annually based on previous year's performance; and,
 - funding for *ad hoc* projects (via monthly calls/tenders).

The lottery money has five funding areas: disability, youth and sport, the Red Cross, local municipalities for social protection (receiving 19% each), and rare diseases (5%).

Other key areas of funding for social entrepreneurship are: the Public Works programme, various active labour market programmes, local government which influences the commissioning of welfare services, and calls by different ministries through the system of project based tenders.

Many of these support measures are temporary, and are best suited to support a start up activity to explore if it can achieve viability through subsequent income generating strategies.

International donor community capabilities

Although a declining force, a number of international donors have been quite influential in supporting and shaping the social entrepreneurship agenda, and may continue to be an important alternative source of inspiration and resources. In principle their activities are linked through co-ordination agreements (the Serbian EU Integration Office plays a major role; and there are other government bodies negotiating co-ordination, including through Sector Working Groups) (Government of the Republic of Serbia European Integration Office, 2011b), and they often operate through partnerships. However, donor agencies have their own agenda, so the extent of co-ordination has limits. The following are some examples of international bodies and their projects: the British Council, with a focus on skills and capacity building currently engaged in training and development of social enterprise business plans – “Think Social, Act Business” Programme; UNDP, which has had a focus on social entrepreneurship, especially co-operatives, and gender equality issues; USAID, with its interest in micro-finance; EU funded pilot project on Satellite Accounts for Co-operatives and Mutuals in Serbia; and, the Canadian Embassy, with a project advocating social co-operatives. Several other major international bodies, including the International Labour Organisation and the International Organisation for Migration are also involved in various ways with projects relevant to social enterprise, including the YEM project, and many others through the work of the European Movement in Serbia. The now completed YEM project (a UN joint programme for Youth, Employment and Migrants); provides an interesting model led locally by the Ministry of Labor, Employment and Social Policy, with several other ministries and government bodies involved. It focused on youth employment and migrants, and included support for social entrepreneurship. As the OECD team heard this led to capacity building of 12 social enterprise.

Corporate and associated bodies

In addition, there are donors from the private sector: Erste bank with a well developed three year CSR strategy; Foundation Ana and Vlade Divac (a successful basketball player's foundation supporting various projects), UniCredit bank (with the project *Financial and Technical Assistance for a Sustainable Social Economy of Serbia*) and with Consorzio Gino Mattarelli it also supported the implementation of the project "Forum of Social Enterprises"; the National Alliance for Local Economic Development (NALED - <http://www.naled-serbia.org/index.php?lang=english>) with its "Civil Society Sector Organisation for Competitiveness" programme and CSR certification developed with its partners – Smart Kolektiv and Balkan Community Initiative Fund; as well as Global Compact Serbia which brings together a range of CSR organisations and actions. With appropriate strategic engagement, such bodies could prove to be a growing source of support for social entrepreneurship in Serbia. This could most effectively take place by more strongly emphasising social entrepreneurship in the National Strategy on Corporate Social Responsibility, and fully implementing it.

Bodies representing/developing the social enterprise sector

A number of NGOs are founding members of the Coalition for the Development of Social Entrepreneurship; this informal network consists of a number of development organisations that tend to rely on donor funding. They include:

- Group 484 (focus on migrants, social services and social enterprise);
- European Movement in Serbia (research and advocacy; support for social entrepreneurship; and capacity building civil society);
- Smart Kolektiv (CSR and socially responsible companies);
- Balkan Community Initiative Fund (supports development of local organisations); and,
- Initiative for Development and Co-operation (migrants and vulnerable groups);

The goals of the Coalition are to contribute to:

- create an enabling environment for social entrepreneurship;
- define the legal framework for the successful operation of social enterprises;
- strengthen the capacity of existing "social enterprises"; and,
- raise awareness of key stakeholders about the potential and social importance of social enterprises.

Another body with some members in common also supports the development of social enterprise: the Social Economy Network Serbia (SENS) was set up in February 2011 at a meeting of social enterprises, gathered together by Group 484. The network has 27 members who agreed to co-operate to improve existing social enterprises, form a small internal market, and promote social entrepreneurship as an innovative solution for the problems of poverty and social exclusion. Networks are also forming around

particular areas of activity, for example the Green Initiative Network (involving 22 associations involved with waste collection).

Although these bodies represent an energetic and dynamic face of the new emerging social enterprise sector, they are also rather weak, and dependent on donor funding and support for their work and approach. Currently, they are more concerned with advocacy to improve the framework for social entrepreneurship and civil society. But in time they may also face questions of legitimacy, and to what extent their voice represents this new emerging sector. That is: how accountable and representative are they? As the sector grows there will also be issues of how to integrate the new social enterprises within the bodies representing the established social economy, parts of which are being reconfigured in a new dynamic of social entrepreneurship, largely through market relations. In other words, an important issue will be how to bring together these new bodies with those representing the more established sectors of associations, foundations, and co-operatives (as they face the challenge of being reformed).

Support bodies for traditional social economy

There are a number of bodies representing traditional parts of the social economy, these include:

- NGO umbrella/support bodies such as:
 - Federation of NGOs in Serbia (FENS);
 - The Center for the Development of Non-profit Sector: this is a non-governmental, independent, non-profit institution supporting the non-profit sector, by providing information and documentation, communication, counselling, and education and research;
- The Association of Charitable Trusts and Foundations;
- 18 Co-operative Unions (The Center for the Development of the Non-Profit Sector, 2001; Ševarlić et al. 2010), including regional federations of co-operatives, and the Co-operative Alliance of Serbia. (Note that the Co-operative Union of Serbia is the national association of agricultural co-operatives in Serbia.); and,
- Association of Disability Companies (UIPS).

In Serbia, the general picture is one of an emerging sector of new social entrepreneurship, which also has emerging development and representative structures. This new sector has some links, although not particularly strong links with the traditional structures of the social economy. This may be contrasted with some international experiences where social enterprise leadership structures try to build a broader base in civil society with the traditional social economy (see Box 4). Creating a national body that integrates old and new parts of the social economy will allow a system of co-governance of policy with the diverse state ministries and agencies concerned with policy development. It will also allow capacity building at the national level for support, self-regulation, and developing best practices.

Box 4. Co-governance: The Standing Conference on the Social Economy (SKES)

The Standing Conference on the Social Economy (SKES) was an idea that arose from representatives of Polish practitioner organisations taking part in the 2nd European Social Economy Conference held in Kraków in 2004. Its aim was to establish a national forum in Poland to connect the various social economy organisations in a still emerging network. A secretariat was provided by a foundation, FISE, to co-ordinate meetings.

SKES has two main aims. First, it aimed to open discussion and exchange between the variety of social economy organisations (these included social enterprises, foundations and associations, co-operatives and mutual societies). These had emerged since the fall of communism and the entry into the European Union in 2004. In some cases these new organisations built on a thriving co-operative structure from the interwar years. Second, it aimed to come to agreements about issues affecting the social economy in Poland.

In pursuit of these aims it has organised regular national meetings amongst its members, developed proposals and collaborated with other actors including government bodies, and economic and research institutions such as the Institute of Public Affairs. A notable achievement of SKES was to contribute to the development of the Polish Social Economy Manifesto which was presented at the “Solidarity Economy Conference” in Gdańsk in June 2008. Developing legal structures for social economy organisations and a support structure for practitioners have remained central activities. Today, with the growing importance of the social economy in the public sphere SKES has identified emerging challenges in relation to legislation and regulation; strategy and planning; support mechanisms; and the role in public policy. Hence SKES is now working to develop a “Pact for Social Economy” to set out agreed roles and obligations between the government and social economy organisations.

Source : <http://www.bezrobocie.org.pl/x/428146> and <http://www.undp.org.pl/eng/News/Polish-model-of-social-economy>

Another international example provides an illustration of how the governance system of a representative body for social entrepreneurship might be structured: in the UK, the Social Enterprise Coalition (SEC) was formed in 2003, and aims to promote, develop and lobby for the social enterprise sector. It is a member based organisation, and helps develop policy with government as well as networking, and co-ordinating development activities. The governance of the Coalition is based on different categories of members electing a small Board of 12 members alongside an elected Council of 46 members that provides a forum for shaping policy. The Board comprises the chair (a social enterprise practitioner), six members elected from the council (three of which should be practitioners), three members selected through open advert (two of whom should be social enterprise practitioners), and two executive directors (chief executive and finance director of the Coalition). The Council comprises 46 elected members, including the Chair of the Board drawn from the 4 different categories of membership: 23 members from social enterprises, 12 members from regional and national networks, 6 members from social enterprise umbrella organisations, and 4 members from partner organisations.

Looking more broadly at international experience of the development of social enterprise, in the early phase when there were relatively few social enterprises to exercise leadership in the sector, it is important to bring together the major actors (network and umbrella organisations) in the social economy to ensure coherence, influence and legitimacy – these included the co-operative sector (workers, consumers, housing, etc.) and various strands of the voluntary or non-profit sector. As the sector develops the relevance of small local umbrella bodies (like *consorzi*) grows – as in the following example (Box 5).

Box 5. Italian Consorzi: Co and So Firenze – Member of the CGM Network of Social Enterprises

The Co and So Firenze (Consortium for Co-operation and Solidarity) is based in Florence (Italy). It was formed in 1998 and is now the largest consortium of social enterprises in the Province of Florence; it comprises 40 organisations which in total employ more than 1,500 people. It was established, under the Florence legal statute Article 5, with the general goal of advancing the common interests of citizens in the town and to support social integration. In effect the Consortium provides support, training, research, development, knowledge transfer, innovation, contracting, communication and advocacy functions for, and with, its members as well as being able to co-design policy to some extent with the public sector. However it has broader social roles as well which include: promoting co-operation between co-operatives within Florence and also nationally; building the internal democracy of the organisation; and encouraging moral values and social co-operation in society generally. Indeed, the National Law 381 passed in 1991, recognises at a legislative level the role of social co-operatives in promoting the general interest of the community.

To remain flexible and close to the interests of the territory, in 2002 it adopted an enterprise organisational model focused on specialisation. Since then, the Consortium offers its members a variety of services including assistance with contract bidding and management, organisational development support, brand development, quality assurance and social responsibility processes. The membership comprises nine type A co-operatives (which undertake educational outreach and social services) seven type B co-operatives (which aim to integrate unemployed people back into work) and two producer co-operatives. Co and So is well connected: it maintains close relations with trade unions, associations and foundations, public authorities, religious organisations, universities and banks. It is governed by a board of a dozen people; however there is an important internal democratic structure.

Because of the volume of work, the Consortium can help integrate members' work across sectoral boundaries. In this sense, a type B co-operative could gain employment opportunities for disadvantaged workers by providing entry level work such as laundry cleaning services to a type A co-operative engaged in educational projects. The member organisations contribute to the Consortium's budget, in recognition of the bargaining strength and services it provides them.

The Co and So Florence is itself one member amongst 79 other networks, which together form a national umbrella known as Consorzio Gino Mattarelli (CGM). This was founded in 1987 and now lays claim to being the largest network of social enterprises in Italy. Its member organisations provide services across the country's regions, provinces and communes. Over 700,000 families benefit from services CGM members provide either directly – or indirectly in conjunction with local authorities. These services might include educational services, health care, rehabilitation, social, educational or cultural activities. In view of its size and importance CGM has devised a sophisticated democratic decision making structure which, from 2009, involved various layers including a participative assembly, special group assemblies, special group committees as well as territorial groups.

Source : Co and So Firenze: <http://www.coeso.org/index.html> and CGM: <http://www.consorziocgm.org/>

Business Support Structures Relevant to be SME and Social Entrepreneurship Sectors

In Serbia the main system of support for entrepreneurship in SMEs consists of the following elements:

- financial support through start-up loans from the Serbian Development Fund, and subsidies from the National Employment Service for self-employment or job creation;
- training programmes administered by the National Agency for Regional Development with a network of regional agencies and centres. There are various training programmes, including some for three days, and a five day programme for young people, and there has been a pilot mentoring programme;
- the same agency also supports a schools programme for entrepreneurship; and,

- the National Employment Service also provides the largest training programme on starting a business for over 13,000 unemployed people in their Business Centres.

It is not clear whether social enterprises have easy access to the same system of support as SMEs, although there is access to financial support from the National Employment Service. As noted above, there is a small ecology of donor-sponsored training and project funding which has undoubtedly contributed to the development of some good examples of social enterprise. There are also various government funds, such as the Budget Fund and Lottery Fund, which are generally used to support different types of social entrepreneurship. The tender system associated with different policy measures to initiate support for various projects has also been important for the development of social enterprise. However, if social enterprise is not to be disadvantaged in relation to SME support for entrepreneurship, there needs to be a similar level of training and mentoring for start-up social enterprise. Thus, opening the SME system provision to social enterprise is an important step, but it may also be worthwhile to develop “braided” support which recognises that social enterprises have some distinctive training requirements which demand specialist support; combining access to state SME services with specialist social enterprise support services may ensure a good geographical coverage of support. In addition, it should be noted that in some countries specialist social enterprise development agencies have proved effective at regional and local levels, such as in Brazil (Box 6).

Box 6. Business Support for Social Entrepreneurship in Brazil

Artemisia (São Paulo, Brazil) is a social business founded in 2003 by Potencia Ventures – an organisation backed by entrepreneurs with interests in the US and developing economies. It aims to support the most promising start-up social businesses. Social businesses are seen as organisations which combine a dual logic – operating a for-profit core business which seeks both to tackle the social needs of the low income population and reduce poverty.

Artemisia supports initiatives which are seeking to help low income groups in any of three ways: offering job opportunities; providing products or services which can help low income people (including housing, health, water); and, delivering services which can help them progress economically (such as appropriate credit or technology). Artemisia does this by offering a staged series of training programmes which focus in turn on aspects important for entrepreneurship. It also offers a social business accelerator to those who have already engaged with previous training and now want to tackle strategic challenges in their existing social business. At present Artemisia does not offer loans or finance although it can provide links to partners who can do this.

Artemisia has a tight group of local partners in Brazil engaged in different fields including: an organisation which can source risk capital; a hub where creative and professional people gather; private/public organisation interested in developing entrepreneurs; research, education, training and consultancy agencies. It also has links with international organisations interested in entrepreneurship such as Ashoka. Artemisia has 13 staff, including interns, as well as a team of business network experts.

Source : Artemisia: <http://www.artemisia.org.br/eng/artemisia.php>

Governance in Policy

The report produced by Serbia’s European Integration Office (2011a) on the *Needs of Serbia for International Assistance 2011-2013*, identified four mid-term priorities:

- enhance professional development and institutional capacity of civil service at all levels;
- improve development and implementation of efficient public policies;
- ensure the transparent and accountable functioning of public administration; and,

- re-engineer administrative processes through introduction of new IT solutions.

The first three of these were mentioned to the OECD study team, on several occasions, as issues which hampered the development of social enterprise. Thus, local civil servants did not know about national policy and how it applied, nor were budgets there to support the policy. It was reported to the OECD team that local level capacity is weak, that communication and co-operation could be strengthened, and that the role of regional development agencies remains unclear. In other words, there are issues around vertical and horizontal policy integration. Furthermore, it was not clear that the implementation of policy was always fair and above board. Horizontally, the establishment of SIPRU in 2009, and the Office for Co-operation with Civil Society in 2010, are major steps in co-ordinating policy and channels of communication for social entrepreneurship which typically faces considerable problems of “silo” thinking and resource allocation from different ministries associated with the field. Some of these problems have also been emphasised in other reports:

The role of the General Secretariat of the Government, however, is still essentially limited to administrative rather than policy co-ordination. It does not have an independent capacity to review policies and monitor the implementation of cabinet decisions. Ministries do not sufficiently consult their draft bills with other ministries, which shifts co-ordination tasks to the political level, overburdens cabinet meetings with essentially administrative work and contributes to the production of low quality legislation (Bertelsmann Stiftung, 2009).

In Serbia, horizontally, this is exacerbated by difficulties in relation to different political parties controlling different ministries (Pesic, 2007). However, a process of depoliticisation has been underway for some years, and it is an important part of public administration reform leading up to EU accession. (Government of the Republic of Serbia European Integration Office, 2011b)

Despite these difficulties, and the rather limited development of structures and networks representing new social enterprise, the OECD team did note good linkages and a good level of understanding between networks for new social enterprise and relevant government bodies. This can also be seen in documents produced by the sector reviewing legislation for social entrepreneurship, and documents produced by networks and conferences (Group 484, 2010) as inputs to sector strategy. There also appeared to be good consultation practices with relevant networks of the new social enterprise sector.

This appeared to be less obvious with regard to parts of the traditional social economy. Thus, representatives from the co-operatives met by the OECD team had long-standing grievances about the lack of progress of the new law, whilst the companies for the disabled raised issues about delays and ambiguities in payments for the employment of disabled people.

However, the representative bodies of new sector for social entrepreneurship are still very young and small, and do not appear to have governance structures that would give them legitimacy within the whole new sector. SIPRU currently plays an important role in linking with these emerging networks for the social entrepreneurship field. But at some point, as the sector grows, it would be important to move to a governance structure for the new sector that can be seen to be legitimately representative. Similarly, at some point it would seem important to try to bring in new and traditional parts of the social economy closer together in partnership or joint governance structures, so that a process of co-governance of policy can be more broadly based.

Summary

In terms of cultural pre-conditions, there has been a heritage of distrust and state dependency, with continuing emphasis on state provision at a time of severe budgetary constraints. There are also issues

about developing an entrepreneurial and self-help culture and linked to this there was some evidence that the bankruptcy laws are not conducive to taking entrepreneurial risks. There are continuing issues of addressing corruption and lack of transparency; some relevant policy measures have been developed (albeit some temporary and/or competitive), but not in sufficient scale, and as social enterprise typically cut across different ministerial responsibilities, vertical and horizontal policy integration also is problematic – requiring for example communication and education about policy frameworks to local officials. Some business support may be available via SME programmes, but it is generally not adapted to the specific needs of social enterprise. Research, policy and media networking could be enhanced. The profile of social entrepreneurship in CSR programmes could be improved and relations strengthened in order improve large firm contracting/CSR relations between SMEs and social enterprise. For social entrepreneurship to achieve sustainability more effort is also required for building on donor project initiatives. It will also be important to develop measures to address the size of the informal economy. Each of the potentially useable legal structures relevant to social entrepreneurship have some difficulties of use, particularly regarding economic activity in the non-profit sector. While overall policy governance is good for an emerging sector, it requires considerable development to move social entrepreneurship to the next stage – both in terms of representation by relevant civil society bodies, and in terms of a new coordinative inter-ministerial function in government.

CHAPTER 3: INSTITUTIONAL FRAMEWORK AND POLICIES: FINANCE, SKILLS AND ACCESS TO MARKETS

This Chapter continues with an examination of the three remaining themes: Finance, Skills, and Access to Markets.

Finance

Finance for conventional business development is a central issue, but it is even more so for social enterprise which face barriers in conventional financial markets, and face declining alternative sources with the trend towards the withdrawal of international donors, until EU funding takes their place (and there could be more than EUR 100 million to support social entrepreneurship through such programmes). Finance for social entrepreneurship may be differentiated according to the source of funding, whether it is from conventional sources in the private sector, from the state, or from social economy institutions. It may also be differentiated according to what aspect or stage of entrepreneurship it is linked with: start-up, consolidation, or growth/scaling. The classic sources of finance are: family and friends (and fools). Social enterprises often arise in more deprived communities or where private sources of funding are not so plentiful. This means that it is often important to have “soft” funding available to overcome this disadvantage. Typically this involves grants and subsidies in the early stages of start-up, including for business planning, feasibility studies, and subsidies during the first period to break even (18 months).

Banks

During the last decade international banks have taken a prominent position in Serbian financial services. However, they are generally regarded as conservative and risk averse; to quote a recent government report regarding the main development problems of SMEs:

unfavourable conditions for financing and inappropriate types and scope of financial support – banks with expensive loan offer and short loan period are dominating. At the national and regional level there is a lack of better developed micro-credit institutions as well as of other financial instruments which serve real financial needs of SMEs and their economic strength (Ministry of Finance and Economy, 2011).

This accords with views expressed to the OECD team, that social enterprises suffer additional barriers due to banks unfamiliarity with the legal forms used by social enterprise (particularly that of civil society organisations). Some banks are well oriented towards the needs of social enterprise, and the OECD team met Erste Bank which has a good portfolio of activities oriented towards the sector, as does UniCredit bank. However, it is not clear even with these banks where their corporate social responsibility activity ends, and where their business banking begins. That is, although they are undoubtedly doing well, they have also identified market failures.

Micro-finance

Another important issue linked to the banks, is that of micro-finance, which in Serbia suffers from an inferior position in the financial services sector. Micro-finance is legally required to be conducted through conventional banks, rather than directly with the client base. This leads to higher costs and greater numbers

of transactions – bank charges mean that about half the micro-finance institutions interest income goes to the bank. Micro-finance is particularly important for poorer people who are generally financially excluded from the banking system, and so rely on alternative systems of credit, like micro-finance, to get themselves out of poverty and become more entrepreneurial. According to a survey in the south of Serbia (Gies, 2010) 250,000 households would benefit from a micro-loan of about EUR 1000. This compares with the current situation where only three micro-finance institutions operate (under the constrained circumstances described above) with only 19 000 borrowers (Microfinance Working Group, 2011). Estimates indicate that about three times that amount could be supplied through micro-finance investors. Several efforts to change the situation (with international support) have failed due to the national banks fear of “financial sector instability”. International experience indicates that established micro-finance institutions could meet appropriate standards of transparency, liquidity, capital and governance. The Microfinance Working Group for Serbia has drafted a law on micro-credit companies based on best practices, and has found expressed interest from current and potential micro-finance investors in placing about EUR 50 million in Serbia if an appropriate law is in place (Microfinance Working Group, 2011).

Measures to improve microcredit should be in-line with the EU Code of Good Conduct for microcredit provision (http://ec.europa.eu/enterprise/newsroom/cf/getdocument.cfm?doc_id=6978)

Credit Unions and of Community Development Finance Initiatives

One alternative to micro-finance would be through credit unions, which are member-based financial co-operatives. They have a sound record of assisting the financial needs of poor people in rural and urban areas. At the moment they suffer from the same constraints as outlined above for micro-finance, but there is considerable successful experience of establishing them in Eastern Europe with the assistance of international credit union bodies – for example SKOK credit unions in Poland were successfully developed with assistance from USAID, and donations from the US credit union associations, and the World Council of Credit Unions (WOCCU). A development strategy which is available in many countries is for agricultural co-operatives to be able to offer credit to their members, since they are particularly well placed to make financial judgements about their members. Currently this is not allowed in Serbia.

Another option is of community development finance initiatives; these are organisations providing credit and financial services for the purpose of supporting local community development (typically in disadvantaged communities to overcome market failures in financial provision). They are inspired by the US experience of community banks, and are usually centrally funded through various government programmes. But they are structured as independent entities (NGOs), controlled by community stakeholders; in the UK they lend mainly to micro-enterprise, small business and social enterprise (<http://www.cdfa.org.uk/>). While government funding is the main source of finance for CDFIs, in the UK almost EUR 100 million has been raised from private funding, through the Community Investment Tax Relief (CITR) scheme which gives tax breaks to investors who invest in accredited CDFIs; the tax relief is available to individuals and companies reducing their tax liability by up to five percent of the amount invested per year, for up to five years.

Box 7. Micro-Finance and Credit Unions:

Since 1976 when Mohammad Yunus founded the Grameen Bank to lend to the poor, microfinance has proved a highly effective model for socio-economic development. (Yunus subsequently won the Nobel Prize for his work). Grameen operates by lending mainly to groups of poor women who take responsibility for assisting each of their group to meet repayments – leading to very good debt repayment ratios. Since then micro-finance has become a world-wide tool for combating social and economic exclusion, in many countries all over the world.

Inicjatywa Mikro (IM) is a medium-size micro-finance institution providing loans to micro-entrepreneurs in Southern Poland with the objective of enterprise job creation. Evaluation of its effectiveness showed: higher growth in enterprise employment, sales and revenue.

Source: Manroth (2001)

Poland had traditional credit unions, these were effectively closed from the Second World War, until with the assistance of the World Council of Credit Unions, they re-emerged when the rise of the Solidarity movement led to a new government. The Polish credit union system – known as SKOK, is one of the fastest-growing and successful in the world with 59 credit unions, assets of USD 4.8 billion, and with 2.2 million members, served through 1870 branches. It now assists development in other countries, such as Belarus, Moldova and Ukraine.

Source: http://www.cuinsight.com/media/community/lessons_learned_from_polandandrsquo_credit_unions.html

Budget Fund

As noted above the Budget Fund draws its income from penalty payments by employers who do not comply with the obligation to employ a certain proportion of people with disabilities. Since being established this fund has acquired about EUR 35 million, which may be used in a variety of ways to support the employment and vocational rehabilitation of people with disabilities: priorities are companies for the disabled – refunds of their salaries and improving working process; finance for improving working conditions of people with disabilities and production process are distributed according to calls for proposals for assisting unemployed people with disabilities, improving working conditions, workplace modifications, etc. In some cases this involves direct funding, in other cases transfers to other bodies like the National Employment Service for them to conduct activities in support of people with disabilities. There has been some criticism of the performance of vocational rehabilitation companies for the disabled, and it would appear that this fund could be used in new and innovative ways – either to upgrade the performance of the established vocational rehabilitation companies, or to explore whether other forms of work integration social enterprise might innovatively address the employment and rehabilitation needs of people with disabilities (e.g. WISEs).

Public Works Programme

These are a labour market measures providing employment subsidies to employers who take on unemployed, disadvantaged people for short periods of time. They are available from the National Employment Service on the basis of public tenders in order to carry out social, humanitarian, cultural and other activities, maintenance and rehabilitation of public infrastructure, and maintenance and protection of environment and nature. Approximately 6000 people took part in public works in 2011. Public works (with funding typically for six months) represents an opportunity for social enterprise to gain finance for work integration.

Lottery Fund

The *Law on Games of Chance* (2004) has resulted in funds being raised for various social projects, with (as noted above) five funding areas: disability, youth and sport, Red Cross, local municipalities (social protection), and rare diseases. Since 2009 State Lottery of Serbia has been implementing the model of engaging a non-profit organisation (Balkan Community Initiatives Fund – BCIF) for administration of its funds devoted to supporting civil society initiatives. This model of co-operation ensures transparent and accountable distribution of funds since it is done through open calls for proposals – in the last reported open call (for Dobrota program) about 3.3 million dinars (EUR 28 000) was administered to nine projects. This has also drawn on the lessons and practices of the Social Innovation Fund.

Lotteries can be a very important source of funding for good causes, and although dependent on economic conditions, they are a growing market: revenue from gaming licences in Serbia for 2008 was EUR 50 million, which was EUR 500 000 more than the previous year. There are different lottery models (Hadzi-Miceva Evans, 2010) for generating and distributing funds for social purposes – one typology is based on who decides how the funds are allocated: state distributed, distribution by another entity (including non-profit organisations), by lottery operators, and distribution specified by law. In some countries charities may use lotteries as fund-raising tools. The proportions going to good causes is variable (for example, in the Czech Republic it varies between 6% and 20% of profits; in the UK it is 28%; whilst in the Irish lottery it amounts to 32% – in 2011 it raised EUR 231.9 million (in the UK and Ireland the lottery is operated under state licence by limited companies). An asset based model, based on the endowment of a very large sum for social purposes, is outlined in the Box below.

Box 8. The National Foundation for Civil Society Development, Croatia

The National Foundation for Civil Society Development (NFCSD) in Croatia was founded in 2003 with proceeds from the Croatian lottery (founding assets were: HRK 2m (EUR 275 000) and by 2008 assets had reached HRK 46m (EUR 6.3m), of which HRK 43m (EUR 5.9m) had come from games of chance).

Each year a governmental decree is issued which sets out the criteria for programmes to which 50% of the process from games of chance are allocated. Of that 50%, 14.1% is allocated for the development of civil society with the remainder distributed by ministries in areas including sport; social and humanitarian activities; meeting the needs of people with disabilities; and, culture.

The NFCSD receives over 96% of the total funding allocated for the development of civil society and implements activities as well as making grants. Multi-year institutional funding is also available. Associations, foundations, institutions, local government units, and other organisations, in the areas of human rights, rule of law, non-institutional education, environmental protection, and youth have all received funding.

A management body, appointed by the government and composed of members of the state administration, local/regional government units, and organisations and experts in civil society, is responsible for the decision-making processes.

Source : Hadzi-Miceva Evans (2010)

Development Fund

This is the main source of state funded credit for businesses and new business start-ups, including small entrepreneurs and crafts shops. Besides its own funds which operate within budgetary constraints, it also acts as a channel for funds from particular ministries; and works with National Agency for Regional Development and regional development agencies supporting start-ups. It provides credit over a range of periods at attractive interest rates; it also supports less-developed areas through for example credits for the unemployed and micro-credits. Social enterprises can also apply for these programmes.

Social Innovation Fund

With joint financing from donors and the Republic of Serbia budget, the Social Innovation Fund was established in 2003. It was based within the Ministry of Labour, Employment and Social Policy, but many donors were also actively involved in various forms of assistance. During its life, the Social Innovation Fund supported just under 300 projects in over 100 municipalities, from its accumulated funds of EUR 7 million. Its main innovation was developing a funding mechanism (via tenders) to encourage a plurality of service providers, with the aim of welfare service reform - reduce disadvantage and broadening choices for service users. The aim was also use this project funding to help develop sustainable social services funded by municipalities (Golicin and Ognjanov, 2010). The Social Innovation Fund has provided some inspiration for the functioning of the Lottery Fund. There are some suggestions that it could be a model for a new Social Inclusion Fund – rather like a national version of the European Social Fund – focusing on beneficiaries, and governed by an inter-ministerial body.

The development of innovative forms of social finance is a key area in supporting social entrepreneurship; and there is great potential for rethinking existing models in a particular country, by drawing on international best practices. The discussion above about different lottery models reveals a wide range of possibilities, and there follows another interesting example of social finance.

Box 9. Innovative Funding Arrangements for Social Enterprises

Big Society Capital: a social investment bank.

This was established with government funding of GBP 400 million together with GBP 200 million from several of the big banks in the UK. The government funding came from unclaimed assets – basically bank accounts that had become dormant. It was only launched in 2012, so the range of products and services it offers is still under development, but it aims to help develop the social investment market by providing finance in the form of loans, equity and quasi-equity. It will not lend directly to social enterprise, rather through “social investment financial intermediaries” which may be social banks, non-bank social investors, or support providing organisations.

Bridges Ventures: a commercial model with social mission

Bridges Ventures began its operation as a private sector company, but received 50% of its GBP 50million starting capital coming from UK government. This support was due to Bridges social and environmental mission, which is based on the idea that there are market failures in various aspects of conventional finance, for example in less developed regions, and with less conventional enterprises, like social enterprise. It operates as a venture capital fund, thus if it wants to grow its portfolio of investments it has to continue to raise finance from capital markets – it has subsequently raised an additional GBP 75m for a second fund, and has invested GBP 55m in 36 companies across both funds. It also has to exit from its investments after they have achieved sustainable growth. This philosophy of attempting to use capital markets to support the development of social enterprises is more prominent in Anglo-Saxon countries, and it is relatively new, so needs further evaluation, but Bridges appears to have achieved some real social and economic successes:

For example SimplySwitch which promoted switching to renewable energy (subsequently sold to The Daily Mail and General Trust plc) proved a very successful social and economic investment. It provided 80 jobs, the majority being women and ethnic minorities, and 60% of these had been unemployed; the company has raised over GBP 0.5m for charity partners.

Source : http://www.open.ac.uk/oubs/socialinvestmentseminars/p5_4.shtml

Potential Growth of EU Funding

With the path to EU accession by Serbia now approved, more finance should become available from different EU funding streams, these include:

Instrument for Pre-Accession – IPA assistance has five themes: support for transition and institution building, cross-border co-operation, regional development, human resource development, and rural development. EU financial support under this instrument was around EUR 198 million for 2010, EUR 202 million for 2011, EUR 202 million for 2012, rising to EUR 215million for 2013 (European Commission, 2012).

European Investment Bank – the EIB is the long-term lending bank of the EU, with these priorities: cohesion and convergence; support for SMEs; environmental sustainability; implementation of innovation 2010 initiative; development of trans-European networks in transport and energy; and, sustainable competitive and secure energy. Part of their programme of support includes (jointly with the European Commission) JEREMIE which targets micro to medium-sized enterprises particularly financial support, for start-ups, technology and innovation, microcredit, etc. The EIB operates in the Western Balkans, especially through the Western Balkans Investment Framework.

European Bank for Reconstruction and Development – the EBRD aims at developing transitions to an open democratic market economy, primarily focused on the private sector, aiming to fill gaps in the market for finance; it is open to social enterprise projects. Similarly the *Council of Europe Development Bank* (CEB:

<http://www.coebank.org/index.asp?ChangeLanguage=>) lends within the 40 member states of Europe for social integration, environmental, and infrastructural projects which have included the third sector e.g. supporting social infrastructure for elder care in France.

Progress Programme – this has five themes: employment; social inclusion and social protection; working conditions; anti-discrimination; and gender equality; this programme is well suited to non-profits, and social enterprise. This programme is open to candidate countries and Serbia has very good record in using this programme. [Note that only intermediaries in EU-27 Member States are eligible to apply for support under the European Progress Microfinance Facility.]

Lifelong learning – this includes Comenius for schools, Erasmus for higher education, Leonardo da Vinci for vocational training, and Grundtvig for adult education; partnerships should be across several countries and involve co-operation, networks, information exchange, and training; this has proved an important source of funding for social economy organisations in the past, particularly Leonardo for development of training programmes. The main programme for accession countries to access is the TEMPUS programme which is specifically for modernising higher education in countries outside the EU including the Western Balkans. But there are elements of the other programmes (such as Erasmus Mundus for example to develop joint masters courses). These programmes could be basis for developing a range of educational and training provision, for example a Slovenia business school developed a training course for social entrepreneurs through Leonardo.

Competitiveness and Innovation Framework programme (CIP) – this is available for innovation in enterprises, IT and energy; there are three sub programmes: entrepreneurship and innovation (including access to finance, innovation and entrepreneurship culture); ICT support; and sustainable development regarding energy. Projects should involve several partner countries, and social enterprises can apply, although there appears to be a strong emphasis on science and technology rather than broader conceptualisations of innovation. Serbia is already participating in the Entrepreneurship and Innovation Programme (EIP), as well as the ICT Policy Support Programme (ICT-PSP).

European Regional Development Fund (ERDF) – this is a large programme aimed at improving entrepreneurship, innovation and competitiveness of SMEs, and reduced regional disparities; it should be available to social enterprise, but is currently only available to EU27. *The Rural Development Fund* – this is aimed at improving competitiveness for farming and forestry, improving the environment, and diversification of the rural economy; it also includes LEADER programme which can provide small-scale grants to farmers and rural businesses and community organisations – thus should be readily accessible to rural social enterprise. Not currently available to accession countries.

The European Social Fund – the ESF is well known as a source of funds for social economy aimed at developing a skilled and adaptable workforce. But the EQUAL Community Initiative (funded by ESF and Member States) could serve as a useful model since it supported innovative, transnational projects aimed at tackling discrimination and disadvantage in the labour market, including a theme on “inclusive entrepreneurship”, for an evaluation, see: http://ec.europa.eu/employment_social/equal_consolidated/about/evaluation.html. Not currently available to candidate countries.

Business Angels

These are individuals with funds and know-how who wish to invest in early-stage businesses to support their growth. In Serbia, they may not be well developed since a recent government report on SMEs found no evidence of them. However, a network was set up in 2009, the Serbian Business Angels Network, with a web portal for matching businesses with investors. Web-based systems for social

investment have been developed elsewhere, for example MyC4 in Denmark for investment in African projects and SMEs. In a similar vein, some countries have engaged celebrities both in promoting social enterprise, but also investing in the sector – one example is the UK chef, Jamie Oliver, and his group of “15” restaurants for training disadvantaged people in the catering business.

There is no surprise in noting that the Serbian financial framework of SME and social enterprise development is lacking in a number of important respects. This includes addressing the conservative attitude of the banks and the fact that only banks can lend money and improving the possibilities for micro-finance; a number of government funds could be reoriented toward social enterprise. The trend towards the withdrawal of international donors is compensated, to a certain extent, with EU funds gradually being opened up; but both these are oriented towards project funding, which valuable though it is, is no substitute for a comprehensive framework that supports the financial needs of social entrepreneurs (and SME entrepreneurs) during start-up development and growth of their social enterprises.

Skills

Skills development was mentioned on many occasions to the OECD team as a key issue for the development of social entrepreneurship in Serbia. In this respect the social enterprise sector shares many common features with the SME sector, since it is also recognised that lack of skills is a key problem in the SME sector in Serbia. A recent report states the main development problems of SMEs include:

insufficient knowledge and skills of entrepreneurs and employees – lack of human resources of certain skills, as well as insufficient management skills for solving strategic and operational problems in order to maintain continuity in business [and] insufficient promotion of skills development in companies – management skills, R&D skills, and skills related to export through appropriate training (Ministry of Finance and Economy and National Agency for Regional Development, 2011).

It is important to differentiate between the different categories of skills required in relation to aspects of social entrepreneurship:

- skills for social inclusion (and other sector related skills – for example in community development, and welfare services);
- skills for entrepreneurship and management (marketing and finance in particular, and business planning and development); these include skills for growth and scaling (capacity building);
- skills for meeting regulatory, reporting requirements and negotiating with bureaucracies; and,
- skills for the development of social enterprise (development workers).

Note that skills development includes building capacity of administrative officials through communication, education, and training, which is discussed under the infrastructure theme.

Box 10. Capacity Building for Emerging Social Enterprise Networks: ESENSEE (Eco Social Economy Network South and East Europe)

The ESENSEE project was launched at the start of 2011 with financial support from the European Union and a project base in Croatia. It is a network consisting of organisations and networks in East Europe, as well as in southern European countries, including Italy. Members of the network share a common aim of encouraging creative, enterprising and responsible action towards sustainable development. The network is committed to the “eco-social economy” and to developing the capacity of the civic sector in society. The working method entails co-operation and exchange at local, national and European levels and it welcomes partnership with public, private and civic organisations to further its work.

ESENSEE's focus includes: reducing employment and poverty, developing social entrepreneurship and eco businesses, encouraging social enterprises and co-operatives, and fostering education on eco issues. It undertakes its work mainly through networking and capacity building. These activities target civil society organisations and individual entrepreneurs. In particular it is seeking the formation of co-operative clusters and pilot projects as well as the establishment of a creative academy to train and develop future generations of social entrepreneurs.

The steering committee members include representatives from those working in areas concerned with: civil society development, art and eco-social economy (Croatia), training and sustainable development (Macedonia), dignity of disabled people (Kosovo), social entrepreneurship, creative design and development (Croatia), migrants and youth (Serbia), European co-operatives (Italy). A Healthy City Initiative (Croatia) is also a partner in addition to one associate (United Nations Development Programme).

Source : <http://www.esensee.org/project.php?l=fr>

Social Inclusion Skills

Skills development for disadvantaged people to gain social inclusion has to address a number of areas: from life skills and social skills to work skills, including skills to support entry into the labour market (CVs, job applications, interview practice, job searching, etc.) The OECD team visited a women's centre in Novi Sad and heard about the project *Iz Kruga* (Out of Circle) to support women with disabilities; the programme covered employment, health, legal rights, awareness/confidence and work skills and involved individual and group work, as well as mentor support. A visit by the OECD team to the Milan Petrovic School provided a highly impressive example of good practices for skills development amongst wide range of age groups of people with disabilities, from very young to adult. It would be wonderful to imagine that such provision could be replicated across Serbia, but given the budgetary constraints this is likely to remain an aspirational example for many.

But social inclusion is just one of the areas of social enterprise operates within, and there are many ways that need to be employed in order to address social inclusion. Thus, a large area of social inclusion activity is associated with working with individuals on employability and integration into the labour market. However, social inclusion also involves working with disadvantaged communities and here there is a need for skill sets for community work and community development. Similarly, in welfare services there are a specific skill sets associated with providing services to disabled, children, and elderly clients. There are important quality standards that have to be met in welfare services. For specific sectors where social enterprise have a strong current or potential presence, there is scope for skills development and training programs.

In Serbia, training provision in this area relies to a large extent on current labour market policy for people with disabilities where there is a regular level of provision; but for people with disadvantages training provision relies on National Employment Service funding, and project-based funding via the Public Works Programme. The new, 2011 *Law on Social Protection* has a training element for activation

and independent living (to help people get supportive housing; personal assistance, and training for independent life); and the Lottery Fund supports training activities in this area, again on a project basis.

Box 11. Elder Services by Social Enterprise: Sunderland Homecare Care Associates Ltd and the Sister Organisation: CASA Ltd Social Franchise

Sunderland Homecare Care Associates (Sunderland, UK) began in its current form in 1994 but has roots in a previous not-for-profit organisation, The Little Women Co-op, founded in 1976. It is an employee-owned social enterprise which offers care services to elderly, disabled or mental health sufferers in their own home. The service strives to deliver high quality support which respects the independence of individuals receiving care. It can help with shopping, washing and bathing, preparing meals and household jobs. Students with disabilities at a local university who need support can also use the service. It delivers contract to local authorities and can provide packages of support through the Direct Payments and Individual Budgets provisions available to local councils as part of current UK policy relating to people with care needs.

It had a turnover in 2011 of over GBP 3.5 million, and is owned by over 300 staff employed in the company. The democratic ownership structure means the employees, who co-own the company, can vote for the managing board of directors

Sunderland Homecare Care Associates is a sister organisation to the social franchise, Care and Share Associates Ltd (CASA), a limited company formed in 2004 and based in Stanley, Durham (UK) which oversees a group of six employee owned health and social care organisations around the north of England. CASA is built on the Sunderland model and aims to deliver high quality care with fully trained staff. It seeks to work in close collaboration with the public sector while competing strongly with the private sector for contracts to deliver care services. CASA is managed by a six person board highly experienced in the care and health field. It works closely with the six franchise organisations, has at least one person on each of their boards and owns 26% of the shares in each of them. The remaining proportion of the shares is held in Employee Benefit Trusts. CASA, like Sunderland Care Homes and the six franchises are all employee-owned businesses – the employees jointly own the business and there are no external shareholders. CASA is backed financially by Bridges Ventures – a private investment firm owned by its directors and the Bridges Charitable Trust – which has specialised in investments and advice to social and environmental organisations for over 10 years.

Source: Sunderland Homecare Care Associates: <http://www.sunderlandhomecare.co.uk/about.html>

Care and Share Associates (franchise): <http://www.casaltd.com/>

Lidija Mavra (2011) *Growing social franchising*, London, Social Enterprise UK:
http://www.socialenterprise.org.uk/uploads/files/2011/12/growing_social_enterprise_report1.pdf

Skills for Entrepreneurship and Management

It was frequently reported to the OECD team that there was a managerial skills deficit among social enterprise and that marketing, financial, and management skills (training) were particularly important for social enterprise. In relation to those organisations funded through the Lottery Fund the issue of skills development to improve performance was emphasised. Many international donors also focused on skills development, both in the above areas as well as skills for entrepreneurship, which is for starting a social business. As one person commented “poor business planning skills on the part of social entrepreneurs is the key issue”. An orientation to business may not come naturally to people who strongly want to address social change and it is interesting that successful social enterprise often emphasise the crucial feature of developing professional management e.g. by employing a business manager.

In the difficult context of raising finance for social enterprise, skills for business planning and fund-raising are particularly important. Capacity building is required for business skills to achieve sustainable social enterprise; as well as skills for growth and scaling. As someone commented to the OECD team:

“business skills, and lack thereof, marketing, budgeting are the main problems for social enterprise” with another comment, from an international donor organisation noting that: “‘skills for social entrepreneurship’ is a very important area of activity – and one with real impact potential.” Skills for quality control are also important, particularly in public contracting, and where the engagement of local people in the delivery of municipal services is required.

There are also attitudinal problems to do with a lack of entrepreneurship spirit or culture which could be addressed partly through training. It is noteworthy that in the SME sector human resource development includes policies for lifelong entrepreneurial education – involving primary and secondary and vocational schools, and universities, and this continues with support for associations of entrepreneurs.

It is also important to recognise that social enterprise need skills associated with the social dimension of the operation. This includes understanding governance often in a multi-stakeholder context and strategic skills for social/community and economic performance. But it also useful to remember that these skills set should be distributed among key actors in the social enterprise.

In Serbia the provision in this area has three main strands of support: firstly the access of social entrepreneurs to the support for SMEs and the self-employed, as noted above (in the section on institutional capabilities); secondly, an important area of provision is that of international donor organisations; and, thirdly, a growing use of EU programmes could also play an important and growing role here. In addition, a parallel development of social entrepreneurship training could find a place at several levels within the education and training system. Finally, one well established approach to supporting skills development is through business incubators, as in the Box 12.

Box 12. Incubators: Urban N.O.S.E (Network of Social Enterprises)

URBAN N.O.S.E (the URBAN Network of Social Enterprises) was funded as part of the URBACT II European Union learning and exchange programme aimed at sustainable urban development. The URBAN N.O.S.E project involved co-operation between social enterprises and their partners in nine European cities in order to exchange good practices in relation to developing economic sustainability. A particular feature was to understand models of best practice for incubators – tools, structures or institutional processes - which could support social enterprise development in different country contexts. URBAN N.O.S.E was a two year project which produced its conclusions – drawn from Cyprus, Finland, France, Greece, Italy, Portugal, Spain and the UK – in a report published in May 2011.

Some examples of social enterprise incubators discussed in depth include MCAE (Grenoble, France), an association financed primarily from a mixture of public bodies which offers advice, diagnosis, training and start-up loans to social enterprises – particularly those seeking to offer jobs to disadvantaged people. D.Y.E.K.O. (Koropi, Greece) provides a virtual service and represents the first specialist incubator of social enterprise in Greece, where the idea is not well known there. Its work with women social entrepreneurs has been positive although the target group (unemployed people) may not always have access to suitable computers. A “More than Profit” network of social enterprises (Brighton and Hove, UK) provides another model where a partnership between the public, private, and the social economy sectors seeks to provide practical advice, training, networking and to develop supportive local policy aimed at developing social enterprises. A “House of Voluntary Service” called CESVOP (Gela, Italy) provides a physical location for social economy organisations linked to advice and consultancy.

The cross-networking of case studies and experiences and knowledge transfer about incubator structures across nations was itself an important part of the project. The conclusions suggests that there are lessons for cities engaging in setting up social enterprise incubators (for example, on governance, partners, promoting advice and financing structures, and involving all sectors) as well as for decision makers (such as on creating a legal framework for incubators, decentralised funding support, investment in local ‘micro’ finance packages, and supporting both start-up as well as spin-off enterprises).

Source: Urban N.O.S.E.: programme overview:

<http://urbact.eu/en/projects/human-capital-entrepreneurship/urban-nose/our-project/>
http://urbact.eu/fileadmin/Projects/Urban_N_O_S_E_/outputs_media/Case_Studies_Compendium_Urban_N.O.S.E..pdf

Skills for Meeting Regulatory, Reporting Requirements and Negotiating with Bureaucracy

Clearly business skills and capacity building are vital for social enterprise. But since social enterprise often have to operate simultaneously in a number of fields (product/service market, financial market, soft money market), and negotiate some state support they often need the skills and capacity to deal with bureaucracy and with reporting requirements. Social enterprises are often called on to assess the impact and value of work done and report on it to stakeholders and the public, including triple bottom line reporting. In discussions with the OECD team about the area of micro-credit, it was mentioned that compliance with the law would require skills training to meet the standards. It is noteworthy that, as in the SME sector, developing a quality approach and meeting quality standards is an important area that needs addressing, and there are substantial regional disparities.

At the moment in Serbia this is not a high priority area until more state contracting takes place and the micro-credit regime is liberalised; provision could come from international donor organisations, although their supply of resources is declining.

Skills for the development of social enterprise (development workers)

When it comes to developing appropriate business support for social enterprise, building the competencies of a network of trainers and development workers is just as important as developing skills

within the social enterprise. Much of this currently takes place through informal learning in the networks of groups supporting social entrepreneurship.

And if training social enterprise is to be accessed via the SME system of business support, then consideration needs to be given to programmes for training these potential trainers.

Access to Markets

This section is focused largely on public procurement markets and the level of access by social enterprise to projects in the tendering system, as well as more regular formal contracts for delivery of public/welfare services. It also considers the extent of use of social clauses in procurement in Serbia and internationally. Finally, it considers other relevant markets such as ethical consumer markets, markets for donations and legacies, and the CSR market.

In relation to complying with EU guidelines⁹ it is vital that public bodies carefully specify the criteria for awarding a contract in the tender specification, in order to measure the social or public benefit which the contract requires (BEST Procurement Development Partnership, 2007).

The European Commission's *Buying Social: A Guide to Taking Account of Social Considerations in Public Procurement* provides guidelines on how public procurement can be used to meet social goals. Whilst in general "reserving" public procurement contracts for specific organisational forms, such as social enterprises, is not allowed, so securing a protected market for sheltered workshops employing disabled or disadvantaged people would not be possible. However, it is possible to specify conditions like "employment of 30% disadvantaged" and avoid conditions which act as impediments to social enterprise, such as capital requirements, so that social enterprise have a good chance of demonstrating their ability to win public procurement contracts. In Sweden, the Swedish Social Insurance Agency, has involved social economy organisations, voluntary organisations and SMEs in their initial studies for procurement, and in this way they have both helped orient social enterprise to this public market and facilitated the identification of specific problems/hindrances they may face in preparing tender documents (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/105>).

At the same time, public procurement which specifically seeks to meet local social and economic goals, such as integration and inclusion, quality employment, etc. can also benefit social enterprises who are working with disadvantaged and vulnerable groups, such as through work integration activities.

Box 13. Social Clauses in Public Procurement: France

In France, there are some 250,000 public tenders with around two-thirds of them, worth EUR 115 billion, by local authorities. In 2003 the French "public markets code" was amended, in line with EU requirements, in order to enhance transparency and enable all firms to participate equally in tendering for contracts. Article 14 of the code focuses on integration and employment issues: the code makes it possible for contracts to detail a process of integration, rather than a specific type of enterprise. Authorities can decide on a percentage of disadvantage people who should be employed by a contractor (although this should not be at a point where competition is not possible). For service contracts, a figure of 40% would allow work integration social enterprises to participate. Furthermore, there is the potential to use such percentages as a way of encouraging closer relationships between social enterprises and the private sector. For example, a figure of 10% appears reasonable for works contracts and this could come from a partnership between a conventional firm and a work integration social enterprise.

Source: Getting Best Value – An EU Colloquium On Social Enterprise and Public Procurement. January 2006, EQUAL Programme. http://ec.europa.eu/employment_social/equal/data/document/etq2-med-093-procurement.pdf

Some general contextual factors were noted above in relation to this issue: for example governance (vertical integration of policy at the local level), and communication/education about policy frameworks to local officials; with the result that opportunities may be varied in different municipalities. Similarly, the emerging mixed economy of welfare provision is currently dominated by state providers, with only a few opportunities for social enterprise. The tendering system for projects generally offers opportunities for short-term service provision, whereas the challenge is to find alternative sources for sustainable provision – one option is protected markets, such as that used in Taiwan (Box 14).

Box 14. Use of Protected Markets (Taiwan)

An important model for social enterprise has been developed in Taiwan, where the government grants NPOs (non-profit organisations) the right to operate in protected markets, by providing the space and facilities.

NPOs engage in commercial activities by means of outsourcing contracts such as, for instance, the coffee shop of the Taipei and Kaohsiung government. Taipei government's Enjoy Coffee was formerly run by the Children Are Us Foundation and subsequently by the Taipei Victory Centre for Enhancing the Potential of the Disabled People. The Kaohsiung government's Smile Coffee is now operated by the Children Are Us Foundation. As well, the government also periodically allocates public space to NPOs for their commercial undertakings. The best examples in this case are the gasoline stations entrusted to NPOs by the Taipei government. The land was formerly controlled by the Labour Bureau of Taipei and the gasoline stations were operated by China National Petroleum. With the aim to increase employment opportunities for disabled people, China National Petroleum donated the facilities and the government opened these to public bidding in 2002. Seven NPO welfare agencies submitted 11 working plans. In the end, it was the Sunshine Social Welfare Foundation and the Syinlu Social Welfare Foundation that acquired rights to the gasoline stations for three years. Eighty percent of the entire staff must be disabled. In the past, disabled people had to engage in physical labour with low added-value jobs including cleaning, washing cars, transporting heavy loads, etc."

Source: Kuan and Wang (2009)

The 2008² *Law on Public Procurement* provides a framework for considering competitive bids in public procurement markets; and it gives some priority to local providers in competition with foreign providers. Article 8 opens the possibility for the public body to define additional conditions relating to social and environmental criteria, but it seems this has not yet been explored, although it could offer some priority to social enterprises (and the new draft law could enhance this possibility). It should be noted that this should not privilege an organisational form, but rather it needs to recognise the qualities and experience in delivering social/environmental performance and thus provide a procurement niche/quota for social enterprises. Internationally, there is some experience of how to specify such social clauses to make them readily accessible to social enterprises.

² Note that a draft public procurement law was being discussed during 2012, which hopefully would address these deficiencies in the 2008 law.

Box 15. Niche Strategies in Public Procurement: Brisbane City Council Procurement Process

The public procurement policies of Brisbane City Council in Queensland, Australia, have given high priority to developing social procurement clauses. This was consistent with its stated aspirations to build the local economy by actively seeking service providers from the community and social enterprise sector. The policy also sought to increase the Council's knowledge and database of information about local groups and to build social enterprises' capacity to improve their performance. Overall, the policy recognised the need to prioritise and support the sector to enable it to realise its potential.

The Annual Procurement Policy and Contracting Plan for 2011/12 emphasised in the first of six overall objectives for procurement "a commitment to advancing the social needs and requirements of Brisbane communities to advance the quality of life for all." This was followed up in detail in schedule (D) where "social procurement objectives" were set out. This entailed a commitment to: (a) maintaining the existing size of council spend with social enterprises; (b) increasing the number of social enterprise suppliers to the council; and, (c) working to increase the awareness of other public and private sector organisations about contracting with social enterprises. A target was set whereby certain services would be reserved purely for social enterprise contractors by conducting a "social enterprise only procurement exercise in which social enterprises compete to provide services".

In addition, the Council has taken steps to separate out some components of larger contracts so that there is scope for smaller elements to be offered, by means of a special "memorandum of understanding" to social enterprises which employ people disadvantaged in the labour market. Once established in this way these organisations can bid for the contracts reserved for social enterprises. This offers a development ladder which, it is anticipated, could enable social enterprises to gradually bid for larger contracts for the benefit of the local economy and disadvantaged groups.

Brisbane is a city with an estimated population of just under 1 080 000 people in 2011, the Council has had a Community Engagement Policy since 2008 seeking high levels of public participation. It is governed by 27 elected councillors and an elected mayor and had an annual budget of AUD 2.92 billion in 2011/12.

Source:

http://www.brisbane.qld.gov.au/2010%20Library/2009%20PDF%20and%20Docs/8.Payments%20and%20eServices/Pauments_eServices_Annual_Procurement_Policy_and_Contracting_Plan_2011_12.pdf

<http://www.socialtraders.com.au/social-procurement-case-study-brisbane-city-council-social-procurement-policy>

Australian Bureau of Statistics, Cat. No. 3218.0 - Regional Population Growth, Australia, 2009.

http://www.brisbane.qld.gov.au/2010%20Library/2009%20PDF%20and%20Docs/1.About%20Council/1.10%20News%20and%20publications/Budget%202011-12/budget_11-12_budget_summary.pdf

The OECD team were informed about several experiences in this field of contracting for public services; several people indicated that this is a key area for social enterprise however so far developments are rather small-scale. But at least two interesting experiences were reported to the OECD team: the elderly-focused service of Meals on Wheels in Belgrade, and the innovative waste recycling co-operative SWIFT (using Roma employees) which has yet to achieve full sustainability. However, some risks associated with a procurement regime with social clauses were also indicated: "this is Serbia ... the likelihood of misuse of law is high, legal frameworks can be great, implementation is a different thing..!".

Some current Serbian social enterprises are operating in ethical consumer markets, for example Eco-Bag. These markets depend on middle-class consumers, and thus are not subject to the difficulties outlined above with regard to procurement markets. However, they have their own challenges; quality and design are particularly important, as well as links with ethical and environmental movements which can assist communication and distribution issues (as was the case in the early days of fair trade). Nonetheless this segment of the market is potentially growing and social enterprises are uniquely well-suited to compete in it.

In many countries non-profit organisations, and social enterprise, are highly active in markets for donations and legacies. In some cases this is facilitated through a sympathetic fiscal regime. In Serbia the law gives certain exemptions on the payment of income tax for expenditures on health care, education, science, humanitarian purposes, religious, environmental protection and sports: the amounts exempted is 3.5%. In addition value added tax is not payable on donated goods imported for humanitarian assistance. Donations and legacies could be a substantial source of income for larger charities and social enterprise – particularly those able to promote a brand. Systems of web based donations have proved very effective for smaller and medium-sized charities.

Other Private Markets

Funds from diaspora Serbs are a potential source of income for SMEs and could be the basis for funding welfare services for elderly family members. More generally the repatriation of diaspora funds to family and own business interests has been an important driver of economic development, and social entrepreneurship can play an important role in enhancing the possibilities for this (Box 16).

Box 16. Diaspora Involvement Through NGOs and Social Enterprises

With globalisation, there has been an increasing recognition of the importance of engaging with, and supporting, the contribution of diasporas to their country of origin. In Africa for example in 2010 migrants sent home an estimated USD 40 billion in remittances. Such remittances might go to purchase of agricultural equipment, enhancing a domestic property or investing in entrepreneurship or education. These remittances may be stable and even countercyclical – with more finance being returned at difficult times.

Policy makers used to focus on the loss of skills, but now regard it as providing opportunities for developing trade and investment projects and acquiring new knowledge.

Most contributions of a diaspora are financial – in the form of remittances, donations, bonds (appealing to a sense of patriotism), and various forms of business investments (including venture capital). But knowledge networks are also important, and so are international educational exchanges - note that a major spin-off of Asian students studying business and technology in California has been new east-west patterns of entrepreneurship, leading in some cases to the development of major international multi-nationals.

In Israel much of this activity is supported by NGOs (in home country and overseas), but the government facilitates developments by approving and validating programmes. There have even been Israeli venture capital funds set up for high-tech entrepreneurship, which have proved very successful.

Another NGO example is Afford-UK (Africa Foundation for Development) which is based in London, United Kingdom, with a mission to support and promote the capacity of the African diaspora to contribute to development in that continent. It was established in 1994 by Africans living in the UK and has a particular focus on the creation of small, micro and medium sized enterprises to create employment for young people in central African states. Part of their programme has included projects to support remittances for employment creation.

Source : <http://www.remitplus.org/>; <http://www.afford-uk.org/index.php>; Aikins et al. (2009).

Another relevant market is that for corporate social responsibility, either through the development of projects or of social enterprise (see the earlier mention of the *National Strategy for Development and Promotion on Corporate Social Responsibility 2010-2015*). This is an opportunity that social entrepreneurs already recognise, but one where there is scope for influencing multinationals in local markets to take their social responsibilities more seriously. Corporate social responsibility generally represents a market worth targeting for social enterprise, with substantial evidence of successes internationally. For example the Royal Bank of Scotland Group established and invested GBP 5 million into the RBSG Micro-finance Fund, an independent charity, which has launched a GBP 5 million Community Business Loan Fund for

social enterprises and community organisations, because such organisations often have difficulty accessing business finance.

Summary

Sustainable social entrepreneurship requires good access to adequate financial resources adapted to the needs of social enterprise both at start up and for growth. In Serbia conventional funds (banks) are conservative and risk averse for SME funding, and more so for social enterprise. There are some government funds available but generally they are limited, sometimes specific (such as to companies for the disabled), and temporary (based on competitive calls). A key area for assisting disadvantaged individuals and communities is micro-finance and credit unions both of which face considerable problems in Serbia currently. Development of social entrepreneurial skills is recognized as a key problem in Serbia; there is some provision but it is insufficient and not properly tailored to the needs of social entrepreneurship, for example through “braided” provision; EU funding will be a major resource in this area, taking over from international donors who are already withdrawing. Finally, due to their values and added value social enterprise could play an increasingly useful role in public service delivery. Currently their access to public procurement markets is ad-hoc, temporary and partial. Social clauses could be used to support a niche strategy which would give possibilities of sustainability and growth of social enterprise public service providers.

SWOT ANALYSIS OF SERBIAN SITUATION

Acknowledging the challenges which exist in Serbia with regard to the significant presence of an informal economy, low levels of employment and high levels of long-term unemployment and youth unemployment, the difficulties which disadvantaged groups, including Roma, people with disabilities, refugees and internally displaced persons and the need for greater transparency and accountability, the following provides an overview of the strengths and weaknesses, opportunities and threats relevant to the development of social entrepreneurship in Serbia.

Strengths	Weaknesses
<ul style="list-style-type: none"> • favourable framework supporting the employment of people with disabilities; • EU accession recently approved, thereby opening access to various programmes for financial support; • donor strategies firmly supporting social entrepreneurship; • EU policy firmly supporting social enterprise and the social economy; • capable and energetic new groups/networks supporting social entrepreneurship (albeit emerging); • recent modernisation of legislation and policy relevant to social entrepreneurship (associations, foundations, etc). • various government bodies supportive of social entrepreneurship; • some government funds accessible to social enterprise; • some innovative and successful social enterprise models 	<ul style="list-style-type: none"> • conservative attitude of the banks, and barriers to micro-finance; • lack of comprehensive framework for financial and support needs of social entrepreneurs during start-up, development, and growth of their social enterprises; • heritage of distrust and state dependency; • continuing emphasis on state provision at a time of severe budgetary constraints; that is, it is difficult to progress towards a mixed economy of public service provision and thus there are limited opportunities for procurement; • some evidence that the bankruptcy laws are not conducive to taking entrepreneurial risks; • vertical integration policy and local officials not always well informed about policy frameworks; • some negative attitudes to social enterprise, social entrepreneurship and the social economy; • new social entrepreneurship network is not well linked to traditional social enterprise sectors; • access to SME support structures not well developed • business/management skills deficit in new social enterprises; • tenders and projects as main development path for social entrepreneurs, which bring with it issues around sustainability; • lack of a wider law on social entrepreneurship (although this could soon be addressed with a proposed law before parliament). • social/public property issue hampering reform of co-operatives; and the approval of new co-operative law, including that for social co-operatives (unless it becomes a separate law); • performance and funding issues of disability companies; and, • weak, although dynamic, NGO sector

Opportunities	Threats
<ul style="list-style-type: none"> • donations and legacies as a potential source of income – e.g. for large socially entrepreneurial charities/foundations; • diaspora relations and services (especially for elderly); • CSR relations and improving large firm contracting; • improving the possibilities for micro-finance; • government funds could be reoriented toward social enterprise; • EU funds gradually opening up (oriented to project funding); • raising profile of social entrepreneurship in CSR programmes; • strengthening research/policy/media networking; • building on donor project initiatives for sustainability; • social entrepreneurship role in addressing the size of the informal economy; and, • niche/quota strategy for procurement could use social clauses in current legislation; 	<ul style="list-style-type: none"> • new measures open to /opportunistic exploitation; and consequent reputation risks; • trends towards withdrawal of international donors; • continuing budgetary constraints limiting opportunities; and, • sustainability risks for new social enterprises.

The SWOT analysis provides a useful way of briefly summarising the current situation, some of the ways forward, and some of the issues. In this way it provides a useful point of reflection prior to policy recommendations in the next chapter.

CHAPTER 4: POLICY RECOMMENDATIONS

Given the concerns about the misuse of status and funds raised during the OECD visit, and given also the need to clearly carve a space for social enterprises, we propose a cautious approach with the aim of establishing the emerging sector on a sound foundation, and gradually building its reputation as a distinctive social but entrepreneurial innovation. This means that many of the recommendations should also be seen in this perspective: that of gradually building a framework, alongside an emerging movement – keeping in mind the development of new social enterprise law being seen as a medium term objective.

The section on legislation explores the options in more depth, but to summarise: foundations seem to have considerable potential (but clarificatory Guidance Notes by registrars would be needed), co-operatives are clearly relevant, particularly if they could be supported and linked in a new distinctive network; and there may be scope for using social enterprise model constitutions with the limited company form, though there are risks in the medium term here.

There are some underlying principles regarding developing appropriate frameworks for social entrepreneurship. Firstly, that it is important to develop a level playing field with regard to other types of organisations in the market, particularly SMEs. Secondly, legal frameworks should be well adapted to the distinctive needs of social enterprise, combining social and economic objectives – and it is important to recognise that in many countries legislation has followed innovation over a number of years by social entrepreneurs who have adapted existing legislation to their requirements; and, thirdly, there should be a well supported institutional and policy framework that matches well with the relevant types of legal forms of social enterprise. Finally, in developing such policy frameworks, it is important that the public/social benefit dimension of social enterprise is not only properly recognised, but also financially supported – as it would be in the context of state funded benefits.

POLICY OPTIONS AND RECOMMENDATIONS

The policy options and recommendations follow the same thematic structure as in Chapters 2 and 3: Preconditions, Infrastructure, Governance, Finance, Skills, and Access to Markets. Taken together these comprise a *strategy for social entrepreneurship, which requires a new co-ordinative function* to be established to negotiate with relevant government and sector bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU or OCCS.

The rationale for the policy options arises from the detailed analysis in the previous chapters. The feasibility and desirability of policy options is considered as a basis for formulating recommendations, which are specified at the end of each section. A key underlying theme in these policy recommendations is that they should be integral with other relevant policy measures, rather than separate, for example whenever policy for SMEs is developed, policy documents should be adapted to: “SMEs and Social Enterprises”.

Recommendations to Improve Preconditions

Many of the issues discussed under this theme in an earlier section relates to generic issues across many fields of policy. The EU accession process has a clear focus on addressing many of these issues (Government of the Republic of Serbia European Integration Office, 2011a). However, some measures specific to social entrepreneurship may also help improve the wider environment for social enterprises to develop in. These include developing a public relations strategy for social entrepreneurship, which applies as much to governments, at all levels, as to the general public. Such a strategy could include:

- promoting models of good practices;
- attracting public figures and celebrities to social entrepreneurship, including via corporate social responsibility;
- competitions for best social enterprise and best social entrepreneurs of the year;
- the use of online media (Group 484’s electronic Newsletter on Social Entrepreneurship, http://www.grupa484.org.rs/index.php?option=com_content&task=view&id=406&lang=english is one such example);
- strengthening research/policy/media networking so that sympathetic journalists are properly briefed; and,
- raising the profile of social entrepreneurship in corporate social responsibility programmes.

Other measures related to improving preconditions include the important issue of the boundary between social enterprise and the informal economy and whether social enterprise can provide a pathway to the formal economy. This might be linked to specific sector strategies for developing social enterprise; and this could be complemented with a strategy that offers additional benefits (including accessing health and welfare services) thereby provide greater incentives for people to move out of the informal economy.

Accordingly, it is recommended that:

- a few sector strategies be developed as exemplars of effective social enterprise approaches to the informal economy, for example, in waste recycling, homecare, childcare, local food markets.

Recommendations to Improve Infrastructure

Legal frameworks

The first issue to address is the suitability of current frameworks to social entrepreneurship whilst the development of new legislation for social enterprise should be a medium-term goal. In Europe social enterprise generally use (social) co-operative structures or non-profit structures (usually associations but sometimes foundations) depending on the flexibility of each form and different traditions in each country – so Belgium generally uses non-profit forms while Italy and Sweden generally use (social) co-operative structures. As noted previously, each of the currently available legal structures has some problems: the co-operative structure is generally highly suitable except that it requires ten members for formation, and their reputation is poor¹⁰; the association form has issues around scale of operation and relatedness to mission with penalties if these are not complied with; and the foundation has an issue around relatedness to its mission or registered activity, although how tightly this needs to be specified could be examined, but it is not so suitable for developing firm roots in civil society. Nonetheless, of these three legal structures currently available the foundation appears more suitable for social entrepreneurship. The alternative is to develop model constitutions and bye-laws using company law (see endnote 2), which might be supported by a sector body and a badging system to develop a social enterprise marque; this might best be undertaken by an independent, member-based trade association. This approach has risks since there may be potential for opportunists to get social enterprise support and then change to a for-profit when the support ends. Given these risks, company social enterprises should not receive public funds, but legally there would be no barrier to them engaging in public contracts (as SMEs)

The final issue to address in relation to legislative frameworks for social enterprise is whether, having developed legal structures that are non-profit or have limited profit distribution constraints so that they are relatively unattractive for corrupt/opportunistic exploitation, these legal structures can be incentivised through fiscal measures without attracting opportunistic entrepreneurs. The current tax break is low and could be revised to make the structures not so much financially attractive as improving the chances of sustainability.

Recommendations to improve the legal framework infrastructure are:

- Foundations:
 - examine the potential of the foundation as a model for social entrepreneurship, especially the issue around relatedness to mission – registered activity;
 - clarification is also required about how to specify related economic activity to comply with the law, and extent of economic activity, given it may only be a non-core activity;
 - explore the extent to which Guidance Notes by registrars could be produced for public official and social entrepreneurs; and,
 - allow flexibility in the choice of economic activities and potentially link the issue of mission versus non-mission relatedness to different fiscal regimes.

- NGOs/associations:
 - clarify the permissible limit of “small-scale” economic activity, such as through Guidance Notes, to facilitate flexible and larger scale entrepreneurial activity; and,
 - encourage them to engage in entrepreneurial activity up to this limit;
- consider inclusion of asset locks for both NGOs/associations and foundations;
- using limited company law develop model constitutions and bye-laws, but limit their access to public funds;
- develop a sector body to introduce and oversee a social enterprise marque renewable annually, with quality checks (partly to guard against opportunism by limited companies); this might best be undertaken by an independent member-based trade association.
- Co-operatives:
 - press for resolution to the social/public property issue and the adoption of new draft legislation on co-operatives and the inclusion of articles or separate law for social co-operatives;
 - consideration could be given to ensuring these articles/law are relevant to both work integration and welfare service operatives, and that they function as non-profit organisations and that they allow multi-stakeholder structures;
 - press for a change in the law allowing a reduction in the numbers required to form a co-operative (to the same number as for associations, that is. three people), to equalise the incentives for formation in two comparable member-based organisations; and in line with recent legislative trends: Italian social co-operatives/social enterprises, Finnish co-operatives/social enterprises, Belgium co-operatives/social enterprises, Spain and France; but not Poland/Portugal (five minimum); and,
 - press for a change in the law to allow secondary co-operatives to be formed;
 - support the development of a network assisting new socially entrepreneurial co-operatives could also be provided.
- as a medium-term goal, develop legislation for social enterprise; (which develops a broad inclusive definition of the field); and,
- examine increased incentivised fiscal measures linked to each legal structure as a way of improving the chances of sustainability.

Institutional Capabilities (Governmental, Donor Community)

There are a number of useful policy measures that are currently relevant to the development of social entrepreneurship and at the national level there is a recognition of the role of social enterprise could play, although the work integration role is dominant, and the welfare service provision role could be better established. However, it appears that although there is a growing trend in developing institutional capabilities to support social enterprise, most of this is relatively small-scale. Nonetheless, it may be

difficult to develop immediately a co-ordinated strategy across several ministries and programs, it may be possible to gradually reshape each of the relevant programmes. Similarly, local government could make important contributions to the development of social entrepreneurship. Accordingly, the gradual reshaping of the relevant national/local government programmes could be done by:

- taking forward the proposals in this document with relevant local/national government and sector stakeholders to establish a strategy for social entrepreneurship;
- establishing a new social entrepreneurship coordinative function to negotiate with relevant responsible bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU or OCCS;
- developing a work integration social enterprise strategy (with appropriate models and mechanisms, with protected budget) linked both to the National Employment Service, and to the Public Works Programme;
- capacity building of NGOs for social enterprise activity financed by the Lottery Fund;
- developing a social enterprise strategy for welfare service provision with local government alongside developing a social clause niche/quota social enterprise in procurement contracts;
- developing a coherent framework and strategy for integrating the diversity of support measures and potential support; and,
- co-ordinating donor communities and corporate actors in a strategy to support social entrepreneurship, and capacity building of NGOs towards social enterprise through co-ordinated action of relevant Sector Working Groups.

Institutionalising the New Social Enterprise Sector

The emerging networks for social entrepreneurship have strengths and weaknesses: they are capable and impressive, albeit very dependent on donor support. However, as the sector grows it will be important to legitimise these networks by developing governance structures that give a prominent place to new social enterprise. Alongside this development it will be important to strengthen the relationship between the new and the established social enterprise sectors.

- for the emerging networks of social entrepreneurship, help develop governance structures that give a prominent place to new social enterprise; and,
- strengthen the relationship between the new and the established social enterprise sectors, for example through independent chamber of commerce type model.

Developing the Institutions of the Established Social Enterprise Sector

The issues associated with each of the component parts of the established social enterprise sector are different. For example, new co-operatives are being formed, with the support of international donors. These could make a substantial contribution to addressing rural/regional inequalities, as well as support the development of social co-operative type initiatives. There may be scope for capacity building such entrepreneurial activity (Ševarlić et al. 2010). This model could be adapted to social enterprise support.

The following measures could improve their capacity and orientation towards social enterprise and social entrepreneurship:

- develop the capacity of NGOs, particularly of medium and large NGOs, to generate income streams and engage in welfare service provision and procurement contracts (such as the UK Futurebuilders programme mentioned below);
- explore the extent to which foundations could be a useful interim structure for social enterprise, and, support medium and large foundations to develop brands and donation potential – possibly through partnership with international charitable organisations;
- build the entrepreneurial capacity of new co-operatives, such as through development bodies, and federal structures (also to promote good practices in governance, etc.); and,
- with regard to companies for the disabled, address the issue of delayed payments and, at the same time, undertake a review of their performance with regard to the effective integration of disabled people into work.

Improve Business Support Infrastructure

It is important to ensure that social enterprise have full access to SME programmes of support. In fact, as a principle of achieving equitable support with the SME sector, it is important to ensure that most elements of policy and legislation referring to SME support are fully and explicitly inclusive of social enterprise and their distinctive requirements. Develop the capacity for “braided” support of social enterprise, for example by developing a network of social enterprise trainers.

- ensure that social enterprises have full access to SME programmes of support at national and local levels;
- develop the capacity for “braided” support of social enterprise, for example by developing a network of social enterprise trainers; and,
- make full use of available EU funding streams to establish projects for the development of social enterprise (including training/education at various levels).

Recommendations to Improve Governance

The issue of vertical integration of policy, including the development of well functioning and well-informed public officials at the local level has been mentioned, and this clearly a generic issue, although one that is likely to affect activities that are not so mainstream such as social enterprise and social entrepreneurship. Serbia is not unique in this respect, and in many countries strategies to develop recognition and legitimacy for social enterprise are necessary. Effective strategies have included developing local examples of good practices through partnership projects between municipalities and social enterprise. For example, one such project was EU funded for developing good practice in the use of social clauses for social entrepreneurship in welfare provision.

Another important governance issue is strengthening the relationship with the social enterprise sector and government at different levels. It is important to gradually develop a system of co-governance at all levels, between national, municipal and regional bodies, and social economy organisations. This was mentioned above with regard to the new social enterprise sector; but is equally important to develop this capability with the established social economy sector. Thus, this might include support for the

development of a social economy coalition that brings together the NGOs, foundations and co-operatives; the development of horizontal networks across these pillars of the social economy may initially function better at the municipal level around areas of common interest, and where networks of learning and good practice might be supported by EU programme funding. As outlined above, it is important to have an inter-ministerial co-ordinative function for social entrepreneurship which would play a key role in policy governance in this area.

- develop good practice partnership projects between municipalities and social enterprise, such as with EU funding, for developing good practice in the use of social clauses for social entrepreneurship in welfare provision;
- consider support for the development of a social economy coalition that brings together NGOs, foundations and co-operatives, initially at the municipal level through the development of horizontal networks across these pillars of the social economy with EU programme funding;
- improve vertical and horizontal policy integration for social entrepreneurship through administrative guidelines;
- capacity building, communication, education and training of relevant administrative officials about relevant policy frameworks; and,
- gradually develop a system of co-governance with municipal and regional bodies together with social economy organisations.

Recommendations to Improve Finance

Finance is a central issue for social entrepreneurship, firstly because social enterprise needs to access conventional sources of finance, and typically there are barriers there which need to be removed; secondly because social enterprise generally support the most disadvantaged in society, some form of subsidy or preferential financial arrangement is often required; and, thirdly, because the transition from project funding for start-up to sustainable social enterprise requires careful design of a comprehensive framework of financial institutions and instruments to support the different phases of social enterprise development. This might include grants for feasibility studies and the development of business plans, low costs rose in incubators for the first 18 months of business development, loan guarantee systems, and specialist financial institutions to act in a venture capitalist type role supporting growth of the social enterprise. EU funds and funding institutions will play an increasingly important role in this area. In addition, consideration could be given to programmes to support social entrepreneurs, such as the business support grants of UnLtd¹¹ (UK) which are funded through a foundation.

Access to an efficient and lower cost micro-finance system is a very important issue for social enterprise, particularly when helping disadvantaged individuals and communities improve their lives through economic activity.

Not all these measures need to be derived from state funds; the development of community/social investment funds can be promoted through fiscal measures which might motivate corporations to donate finance to specialist funds from their corporate social responsibility budgets. In addition asset transfer policies by municipalities and other public bodies may provide buildings that can be used as low rent incubators giving financial and developmental support to newly-formed social enterprise.

A comprehensive framework of financial institutions and instruments to support the different phases of social enterprise development could be designed including:

- link activities/support from Budget and Lottery Funds enabling access for NGOs, social enterprises and companies for the disabled;
- the recently announced consultation on the establishment of a Social Inclusion Fund in the Republic of Serbia could also play an important role by strategically coordinating national and future EU funds for social inclusion;
- measures to address the conservative attitude of banks, possibly through government-sponsored loan guarantee systems;
- promote legislation to establish a comprehensive framework for micro-finance, so that it does not need to be channelled through the banks and is appropriately regulated in line with international experience;
- develop a comprehensive framework to support the financial needs of social entrepreneurs during start-up, development and growth of social enterprise;
- design a system of grants for feasibility studies and the development of business plans, low cost rents in incubators for the first 18 months of business development, loan guarantee systems, and specialist financial institutions to act in a venture capitalist type role supporting growth of the social enterprise;
- consider programmes to support social entrepreneurs, such as funding through a foundation; (with a possible endowment through international donor/CSR partnership);
- consider the development of credit unions community development finance initiatives (supported through fiscal measures); and,
- examine asset transfer policies by municipalities and other public bodies to provide buildings for low rent incubators.

Recommendations to Improve Skills

Chapter 3 developed a typology of skills relevant for social entrepreneurship. It appears that the first area of skills – skills for social inclusion – is relatively well-developed in Serbia, particularly in the area of disability. But the skill sets associated with integrating disadvantaged people may need more support from education and training institutions. Thus, vocational training institutions may be able to develop short courses for social enterprises working in this area, and this may be an area where EU funding would be appropriate, for example through Leonardo da Vinci funding – see for example the Leonardo funded Ariadne project for training managers in the social economy (<http://www.social-economy-training.eu/>).

The second category, skills for entrepreneurship and management (marketing, finance in particular, business planning and development), is the most important area. It would seem essential to ensure that social entrepreneurs have full access to SME training and mentoring programs – particularly government programs, but also CSR, and donor partnership programs. This requires ensuring associated legislation and policy is inclusive of social enterprise, and that the training is customised to the distinctive needs of social enterprise, and that this is communicated to the social entrepreneurs.

In addition to this, the distinctive features of social enterprise imply that specialist training programmes would be required to cope with what is available from SME training facilities. If this is well-designed it should become an integrated system of braided support.

There is currently an emphasis in SME development on identifying “gazelles” – those enterprises with high growth potential (10% per annum); a similar programme to that being developed for SMEs could be designed for social enterprise. However, there is also extensive international experience of capacity building agreements between public bodies and social enterprise; this has led to well-developed capacity building programmes over a number of years, such as UK Futurebuilders – this programme ran for eight years working with medium and large social enterprises to develop their managerial capabilities in order to engage in public service contracts. There are other initiatives that go beyond capacity building to develop skills for growth and scaling, and develop models such as social franchising which may also be relevant in Serbia.

The third category of skills – skills for meeting regulatory, reporting requirements, advocacy, and negotiating with bureaucracy – is clearly important, but might best be addressed through partnership projects between public bodies and social enterprise development agents. The EU funded EQUAL programme gave support to social procurement involving public bodies and social enterprise – some of the useful documents from this programme are still relevant and available online, and could be useful to explore.

The same applies to the final category of skills – skills for development of social enterprise – since development workers within projects and networks and ministries/municipalities would benefit most from developing networks amongst themselves so that they can become a community of practitioners, and share understandings of best practices. Such a network is also likely to benefit from international exchanges and partnerships through EU projects. Note that skills development includes building capacity of administrative officials through communication, education, and training, which is discussed under the infrastructure theme.

Recommendations:

- ensure that social entrepreneurs are made aware of, and have full access to, SME training and mentoring programmes that are properly tailored to their specific needs; particularly government programs, but also CSR, and donor partnership programs;
- ensure that SME related legislation and policy is inclusive of social enterprise;
- explore the development specialist training programmes specifically for social enterprise needs;
- examine the policy of picking winners, that is of identifying high growth social enterprise “gazelles”;
- develop capacity building agreements between public bodies and social enterprise for medium sized social enterprise;
- examine the potential to develop scaling models such as social franchising;
- explore project funding for skills aimed at meeting regulatory, reporting requirements, advocacy, and negotiating with bureaucracy – such as through available EU programmes; and,
- explore project funding for skills aimed at social enterprise development workers, for example through available EU funding.

Recommendations to Improve Access to Markets

This is a major strategic area in the development of social enterprise in Serbia. Having designed appropriate legal, fiscal and policy frameworks for social entrepreneurship, the issue is whether public service niche/quotas (protected markets) can be opened for social enterprise under social clause policies, without attracting opportunists. The 2008 *Law on Public Procurement* has provided a framework for designing such an arrangement of social clauses in public procurement markets, but it appears not to have been explored (the new draft law could enhance this possibility, building on SIPRU's consultative contribution). It would seem appropriate to initiate some pilot projects to explore this option on a small scale in sectors relevant to current social enterprise activity such as homecare, or eldercare (for example, meals on wheels). The other areas for the development of strategy and policy are in support of social enterprise operating in ethical markets; improving access to donations and legacies; and strengthening CSR relations. Measures might include:

- examining the potential of using the 2008 *Law on Public Procurement* (the new draft law discussed in 2012 could enhance this possibility) as a framework for designing social clauses in public procurement markets, by initiating some pilot projects in key areas such as homecare or eldercare (for example, Meals on Wheels);
- building partnerships with international organisations operating in ethical markets;
- building capacity of large NGOs for acquisition of donations and legacies;
- considering increasing tax breaks for donations;
- considering give-as-you-earn charitable donation systems through payroll deductions; and,
- strengthening relationships between social enterprise and corporate social responsibility institutions.

CHAPTER 5: ACTION PLAN – A STAGED APPROACH OF DEVELOPMENTS FROM FEASIBLE TO DESIRABLE

This chapter briefly outlines a staged approach of recommended actions for: short term, medium term, and longer term. The logic of the timings is partly what is more important, but also that some recommendations, though important take time, such as new legislation.

The action plan follows the same theme as the main study: Preconditions, Infrastructure, Governance, Finance, Skills, and Access to Markets. Taken together these comprise *a strategy for social entrepreneurship, which requires a new co-ordinative function to be established* to negotiate with relevant government and sector bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU (Social Inclusion and Poverty Reduction Unit) or OCCS (Office for Co-operation with Civil Society).

The main priorities for the short, medium and long term action are:

Recommendations to Improve Preconditions

What	How	Who
Short to Medium-Term		
Develop a public relations strategy for social entrepreneurship, which could include:	<ul style="list-style-type: none"> • promoting models of good practices; • attracting public figures and celebrities to social entrepreneurship, including via corporate social responsibility; • competitions for best social enterprise and best social entrepreneurs of the year; • the use of online media (Group 484's electronic "Newsletter on Social Entrepreneurship" is one such example); • strengthening research/policy/media networking so that sympathetic journalists are properly briefed; and, • raising the profile of social entrepreneurship in corporate social responsibility programmes. 	SIPRU in collaboration with the Coalition for the Development of Social Entrepreneurship
	<ul style="list-style-type: none"> • developing a few sector strategies as exemplars of effective social enterprise approaches to the informal economy, such as in recycling;. 	Coalition for the Development of Social Entrepreneurship with sponsors, such as international donors.

Recommendations to Improve Infrastructure

Legal Frameworks

What	How	Who
Short to Medium-Term		
Adapt existing frameworks	<p>Foundations:</p> <ul style="list-style-type: none"> • examine the potential of the foundation as a model for social entrepreneurship, especially the issue around relatedness to mission – registered activity; • clarification is also required about how to specify related economic activity to comply with the law, and extent of economic activity, given it may only be a non-core activity; • explore the extent to which Guidance Notes by registrars could be produced for public official and social entrepreneurs; and, • allow flexibility in the choice of economic activities and potentially link the issue of mission versus non-mission relatedness to different fiscal regimes. <p>NGOs/associations:</p> <ul style="list-style-type: none"> • clarify the permissible limit of “small-scale” economic activity, such as through Guidance Notes, to facilitate flexible and larger scale entrepreneurial activity; and, • encourage them to engage in entrepreneurial activity up to this limit; • consider inclusion of asset locks for both NGOs/associations and foundations; • using limited company law develop model constitutions and bye-laws, but limit their access to public funds; and, • develop a sector body to introduce and oversee a social enterprise marque renewable annually, with quality checks (partly to guard against opportunism by limited companies); this might best be undertaken by an independent member-based trade association. <p>Co-operatives:</p> <ul style="list-style-type: none"> • press for resolution to the social/public property issue and the adoption of new draft legislation on co-operatives and the inclusion of the articles or separate law for social co-operatives; • consideration could be given to ensuring these articles/law are relevant to both work integration and welfare service operatives, and that they function as non-profit organisations and that they allow multi-stakeholder structures; • press for a change in the law allowing a reduction in the numbers required to form a co-operative (to the same number as for associations); • press for a change in the law to allow secondary co-operatives to be formed; • support the development of a network assisting new socially entrepreneurial co-operative could also be provided. • as a medium-term goal, develop new legislation for social enterprise; and, • examine increased incentivised fiscal measures linked to each legal structure as a way of improving the chances of sustainability. 	SIPRU in collaboration with the Office for Co-operation with Civil Society and the Coalition for the Development of Social Entrepreneurship; and for co-operatives and companies, with the Ministry of Finance and Economy; and for foundations and associations, with the Ministry of Labour, Employment and Social Policy.
	Medium-Term	
	<ul style="list-style-type: none"> • develop new legislation for social enterprise; and, • examine increased incentivised fiscal measures linked to each legal 	For fiscal measures Ministry of Finance and Economy

structure as a way of improving the chances of sustainability.

Improve Institutional Capabilities (governmental, donor community)

What	How	Who
Short-term		
Gradually reshape relevant government programmes	<p>There are a number of useful policy measures that are currently relevant to the development of social entrepreneurship and at the national level there is a recognition of the role of social enterprise could play, although the work integration role is dominant, and the welfare service provision role could be better established. Although it may be difficult to immediately develop a co-ordinated strategy across several ministries and programmes, it may be possible to gradually reshape relevant programmes by:</p> <ul style="list-style-type: none"> • taking forward the proposals in this document with relevant local/national government and sector stakeholders to establish a strategy for social entrepreneurship; • establishing a new social entrepreneurship coordinative function to negotiate with relevant responsible bodies and ensure the strategy is supported and implemented; such a function would need to operate at the inter-ministerial level and could be located in existing bodies such as SIPRU or OCCS. • developing a work integration social enterprise strategy (with protected budget) linked both to the National Employment Service, and to the Public Works Programme; • capacity building of NGOs for social enterprise activity financed by the Lottery Fund; • developing a social enterprise strategy for welfare service provision with the Local Government, alongside developing a social clause niche/quota social enterprise in procurement contracts; • developing a coherent framework and strategy for integrating the diversity of support measures and potential support; • capacity building, communication, education and training of relevant administrative officials about relevant policy frameworks; and, • co-ordinating of donor communities (international and private sector) in a strategy to support social entrepreneurship, and capacity building of NGOs towards social enterprise (possibly through the Sector Working Group for Civil Society, Media and Culture). 	SIPRU and relevant Ministries, local government, and Donors.

Improve the Institutionalisation of the New Social Enterprise Sector

What	How	Who
Short to Medium-term		
Improve the institutionalisation of the new social enterprise sector	<ul style="list-style-type: none"> for the emerging networks of social entrepreneurship, help develop governance structures that give a prominent place to new social enterprise. 	SIPRU, in conjunction with the Coalition for the Development of Social Entrepreneurship, and their representative bodies from NGOs and Foundations and relevant Ministries, such as the Ministry of Finance and Economy.
Medium-term		
	<ul style="list-style-type: none"> strengthen the relationship between the new and the established social enterprise sectors. 	SIPRU, in conjunction with the Coalition for the Development of Social Entrepreneurship, federations from NGOs, Foundations, Co-operatives, Companies for the Disabled, and their relevant Ministries, such as the Ministry of Finance and Economy, and the Office for Cooperation of Civil Society.

Development of the Institutions of the Established Social Enterprise Sector

What	How	Who
Medium-term		
Develop the institutions of the established social enterprise sector	<ul style="list-style-type: none"> develop the capacity of NGOs, particularly of medium and large NGOs, to generate income streams and engage in welfare service provision and procurement contracts; explore the extent to which foundations could be a useful interim structure for social enterprise, and, support medium and large foundations to develop brands and donation potential – possibly through partnership with international charitable organisations; build the entrepreneurial capacity of new co-operatives, such as through development bodies; and, with regard to companies for the disabled, address the issue of delayed payments and, at the same time, undertake a review of their performance with regard to the effective integration of disabled people into work. 	SIPRU with federations from NGOs, Foundations, Co-operatives, Companies for the disabled, and their relevant ministries, such as such as the Ministry of Finance and Economy.

Improve Business Support Infrastructure

What	How	Who
Medium-term		
Improve business support infrastructure	<ul style="list-style-type: none"> ensure that social enterprises have full access to SME programmes of support; and, develop the capacity for “braided” support of social enterprise, for example by developing a network of social enterprise trainers. make full use of available EU funding streams to establish projects for the development of social enterprise (including training/education at various levels). 	SIPRU with Ministry of Finance and Economy and National Agency for Regional Development.

Recommendations to Improve Governance

What	How	Who
Long-term		
Improve governance	<ul style="list-style-type: none"> improve vertical and horizontal policy integration for social entrepreneurship through briefing documents and administrative guidelines for relevant ministries and government bodies at national, regional, and local levels; develop good practice partnership projects between municipalities and social enterprise, such as with EU funding for developing good practice in the use of social clauses for social entrepreneurship in welfare provision; consider support for the development of a social economy coalition that brings together NGOs, foundations and co-operatives, initially at the municipal level through the development of horizontal networks across these pillars of the social economy with EU programme funding; and, gradually develop a system of co-governance with municipal and regional bodies together with social economy organisations so that policy is at all levels is more broadly based and coordinated. 	SIPRU with municipalities, regional bodies, and representatives from traditional and new social enterprises; and for EU policy framework: Serbian European Integration Office.

Recommendations to Improve Finance

What	How	Who
Short-term		
Design a comprehensive framework of financial institutions and instruments to support the different phases of social enterprise development, including:	<ul style="list-style-type: none"> • measures to address the conservative attitude of banks, possibly through government-sponsored loan guarantee systems; • promote legislation to establish a comprehensive framework for micro-finance, so that it does not need to be channelled through the banks and is appropriately regulated in line with international experience; • design a system of grants for feasibility studies and the development of business plans, low cost rents in incubators for the first 18 months of business development, loan guarantee systems, and specialist financial institutions to act in a venture capitalist type role supporting growth of the social enterprise; • consider programmes to support social entrepreneurs, such as funding through a foundation; (with a possible endowment through international donor/CSR partnership); • consider the development of community development finance initiatives (supported through fiscal measures); and, • examine asset transfer policies by municipalities and other public bodies to provide buildings for low rent incubators. 	SIPRU with Ministry of Finance and Economy, NALED, USAID and Microfinance Working Group; Consultation with banks; Negotiations with Lottery and other relevant funding bodies.
Medium-term		
	<ul style="list-style-type: none"> • develop a comprehensive framework to support the financial needs of social entrepreneurs during start-up, development and growth of social enterprise. 	Serbian European Integration Office, Ministry of Finance and Economy, Ministry of Labour, Employment and Social Policy, SIPRU, NALED, USAID and Microfinance Working Group, and banks.

Recommendations to Improve Skills

What	How	Who
Short-term		
Improve Skills	<ul style="list-style-type: none"> ensure that social entrepreneurs have full access to SME training and mentoring programmes. 	SIPRU plus with Ministry of Finance and Economy and National Agency for Regional Development; CSR/business community and representatives from traditional and new social enterprises.
Medium-term		
	<ul style="list-style-type: none"> ensure that SME related legislation and policy is inclusive of social enterprise; explore the development specialist training programmes specifically for social enterprise needs; and, examine the policy of picking winners, that is of identifying high growth social enterprise “gazelles”. 	As above
Long-term		
	<ul style="list-style-type: none"> develop capacity building agreements between public bodies and social enterprise for medium sized social enterprise; examine the potential to develop scaling models such as social franchising; explore project funding for skills aimed at meeting regulatory, reporting requirements, advocacy, and negotiating with bureaucracy – such as through available EU programmes; and, explore project funding for skills aimed at social enterprise development workers, for example through available EU funding. 	As above

Recommendations to Improve Access to Markets

What	How	Who
Short-term		
Develop access to public procurement markets and ethical markets	<ul style="list-style-type: none"> examine the potential of using the 2008 Law on Public Procurement as a framework for designing social clauses in public procurement markets, by initiating some pilot projects in key areas such as homecare or eldercare (for example, meals on wheels); the new draft law discussed in 2012 could enhance this possibility; and, build partnerships with international organisations operating in ethical markets. 	SIPRU with Ministry of Finance and Economy, relevant NGOs, Big Business via Global Compact.
Medium-term		
Support access to donations, with tax breaks	<ul style="list-style-type: none"> build capacity of large NGOs for acquisition of donations and legacies; consider increasing tax breaks for donations; and, consider give-as-you-earn charitable donation systems through payroll deductions; strengthen relationships between social enterprise and corporate social 	As above

responsibility institutions.

GLOSSARY

Charity: An organisation, trust or foundation established to pursue philanthropic objectives and providing some kind of public benefit. Charities are not owned by anyone, and are governed by trustees who are required to pursue the purposes for which the charity was established. In many countries, charities have certain tax privileges.

Civil society: Civil society may be defined as a space or arena between households and the state, which affords possibilities of concerted action and social organisation. Thus, it encompasses all voluntary associations of citizens, whether politically motivated or active or not (although the term carries an implication of political consciousness and activity): business, labour, non-governmental organisations, churches, special interest or purpose groups. These elements are the constituents of civil society, but none can individually be representative of it. Business is often excluded, although the OECD does include it, given that channels of communication between traditional organised business and labour and government are generally well established. Most frequently the term is used interchangeably with “NGOs” where the term “NGO” refers specifically to activist groups, although these are simply one category of civil society as a whole.

Collective enterprise: A short-hand term for collectively owned enterprises: co-operatives, mutuals, non-profit organisations and foundations.

Companies for the disabled: These are the only officially recognised legal form of social enterprise in Serbia; they provide vocational rehabilitation and employment for people with disabilities. About half of these are majority state owned, and half privately owned. The *Law on Professional Rehabilitation and Employment of Persons with Disabilities* specifies the term social enterprise as a separate subcategory and links it to addressing the needs of people with disabilities. The implication of this is that a social enterprise provides services for people disabilities, and should employ at least one person with a disability. At the same time, the Law requires that at least five people with disabilities should be employed and the proportion of employees with disabilities should be at least 50% including 10% with special employment needs. The law gives tax relief on profits proportionate to the numbers with disabilities (Article 46).

Co-operative: A co-operative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Examples of co-operatives in Europe can be traced back to the 19th century. The International Labour Organisation has suggested that co-operatives should be based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity and share the principles of: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and, concern for the community, which were identified by the International Co-operative Alliance in 1995. A co-operative includes one or more kinds of users or stakeholders: 1) consumers who use the enterprise to acquire products or services (such as a retail co-operative, housing, healthcare or day-care co-operatives); 2) producers (such as independent entrepreneurs, artisans, or farmers) who use the enterprise to process and market the goods or services they produce, or to buy products or services necessary to their professional activities; and, 3) workers who use the enterprise to secure their employment and control their working conditions. Co-operatives operate democratically (one person, one vote) through two bodies (general meeting of the

members or delegates, and a board of directors, which is composed of members elected at a general meeting). The delegate structure may be required to reflect the size of the organisation or the distance covered by the co-operative. The co-operative's start-up capital usually comes from co-operative shares purchased by members. Since 1980, special co-operatives, known as social co-operatives, have become more widespread in OECD member countries.

Foundation(s): Foundations are philanthropic organisations, organised and operated primarily as a permanent collection of endowed funds, the earnings of which are used for the long-term benefit of a defined geographical community or non-profit sector activity. Foundations operate as grant-making institutions, and also as providers of social, health and cultural services. They thus provide a significant link between the private and non-profit sectors, acting as a recipient of private capital and a funder of non-profit organisations. Foundations are tax-exempt; incorporated; not-for-profit; organisationally autonomous; and, cannot be controlled directly or indirectly by government at any level, corporations, associations and their members, or individuals. They occupy a unique and central place in the non-profit sector and therefore the development of foundations will strongly affect the future of the sector as a whole.

Mutual organisations/societies: A mutual organisation is an organisation owned and managed by its members and that serves the interests of its members. Mutual organisations can take the form of self-help groups, friendly societies and co-operatives. Mutual organisations exclude shareholding as they bring together members who seek to provide a shared service from which they all benefit. They are widely represented in the insurance sector.

Non-governmental Organisation (NGO): An NGO is a legally constituted organisation with no direct representation or participation by government. Even if many NGOs receive funding from government, they retain their "non-government" identity because of their autonomy. Today, there are numerous national and international NGOs with an increased role in poverty reduction, social inclusion, environmental protection, social justice, to name a few. Many NGOs rely also on private contributions in the form of donations. NGOs include many civil society organisations directly and/or indirectly. The work of NGOs has increased substantially in the last two decades as has their fragility given their reliance on public funding in most cases. Most NGOs are organisationally and legally equivalent to non-profit organisations (NPOs), although a small minority may have not-just-for-profit corporate structures.

Non-profit sector: The best known definition, while not commonly shared, particularly in European countries, is undoubtedly that supplied by the Johns Hopkins University (www.jhu.edu/~cnp/). According to this definition, the sector includes organisations which are voluntary, formal, private, self-governing and which do not distribute profits, such as hospitals, universities, social clubs, professional organisations, day-care centres, environmental groups, family counselling agencies, sports clubs, job training centres, human rights organisations, and others. In fact, entities belonging to the non-profit sector can vary from country to country according to national history and tradition. The term non-profit, emanating from the USA, refers mainly to the absence of profit distribution. This is substantially different to the European approach of "social economy", which includes co-operatives. However, this difference is less significant when investigated through empirical research. Borzaga and Defourny (*The Emergence of Social Enterprise*, 2001, Routledge, London) argue that the distribution of profits is, in any case, limited by internal and external regulations in co-operatives and mutual organisations in European countries.

Social economy: The term "social economy" first appeared at the beginning of the 19th century in France. It was, nevertheless, only at the beginning of the 20th century that it began to be used to indicate various entities aimed at improving collective working conditions and individual lives. This concept is now also used by Anglo-Saxon countries to refer to the production of goods and services provided not solely by the non-profit sector, but also, in some cases, by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations

belonging to the social economy, one can find associations, co-operatives, mutual organisations and foundations. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism. The “social economy” is a broader concept than the non-profit sector, as it is less strictly bound to the non-distributional constraint, according to which organisations cannot legally redistribute their surplus to their owners (see also “third sector”).

Social enterprise: Social enterprise refers to an organisation form which has flourished in recent years and for which various definitions exist. Alongside academic definitions, and those elaborated by international organisations, which are built around general criteria, there are definitions used within countries that are specific to the national understanding of the phenomenon of social enterprise. Increasingly countries are developing formal legal definitions of social enterprise. Generally, this concept refers to any private activity conducted in the public interest, organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to problems such as social exclusion and unemployment (see *Social Enterprises*, OECD, 1999). In this way, social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole. Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses, or charities’ trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services.

Third sector: The concept of “third sector” is often used as a synonym to the non-profit sector and, more recently, also to “social economy”, notably in the British literature. The term was chosen to reflect the idea that the sector assembles these otherwise disjointed entities, and that it sits between the public and private sectors and follows unique social goals and internal organisational rules. Its mode of financing is mixed, as it can seek both private and public funding. The idea of establishing a distinct “third sector” has given rise to many hefty debates, which have centred upon the danger of using the third sector as a residual sphere or “dumping ground” for those individuals excluded from the private and public sectors. To avoid the danger of social polarisation, the third sector should not merely be seen as an alternative route or juxtaposition to the public and private sectors, but as an interactive and reflexive component of economy and society. Others have argued that the boundaries of the third sector cannot be established with certainty, and for this controversial reason the European Commission preferred the use of the term “Third System”.

ANNEX 1: EU SOCIAL BUSINESS INITIATIVE

With regard to social entrepreneurship, the EU proposes to create a favourable climate for social enterprises, key stakeholders in the social economy, and innovation, through the following action plan:

To support social entrepreneurship in Europe:

- Improving access to funding
 - Facilitating access to private funding
 - Mobilisation of EU funds
- Increasing the visibility of social entrepreneurship
 - Developing tools to gain a better understanding of the sector and increase the visibility of social entrepreneurship
 - Reinforcing the managerial capacities, professionalism and networking of social businesses
- Improving the legal environment
 - Developing appropriate European legal forms which could be used in European social entrepreneurship
 - Public procurement
 - State aid

(European Commission, 2011b)

NOTES

- 1 The UK's Community Interest Company legislation provides some indications of the kinds of measures that might be incorporated into bye-laws to constrain opportunistic behavior – such as asset lock, dividend caps, and an annual community interest report;
(see <http://www.bis.gov.uk/cicregulator> and <http://www.cicassociation.org.uk/about/what-is-a-cic>; however bye-laws can be changed by a company, thus some form of continuing branding such as a social enterprise marque (brand) could help to reduce the risk of opportunistic behavior
<http://www.socialenterprisemark.org.uk/the-mark/get-the-mark/?gclid=CK21oInm4bECFRGBfAodmzUAQA>)
- 2 This operates through the National Employment Service to provide employment for disadvantaged people through public tenders to conduct activities in: social, humanitarian, cultural and other sectors, maintenance and rehabilitation of public infrastructure, maintenance and protection of environment and nature.
- 3 An asset lock is used in the UK's Community Interest Company legislation, as well as in many European Co-operative laws. An asset lock prevents profits from being distributed to its members or shareholders other than in certain limited circumstances. It also means that all assets must be used for the community purpose or, if they are sold, open market value must be obtained for them and the proceeds used for the community purpose. In addition, if the CIC is wound up, its assets must be transferred to another, similarly asset-locked body.
- 4 “Braided” business support is based on the view that SME business support caters for the typical business and the typical entrepreneur; and the need to recognise firstly that disadvantaged groups have special support requirements, and social enterprise have distinctive features that need specialist advice – thus “braided” support combines standard mainstream provision with specialist support (GHK et al., 2006).
- 5 However, current research argues that the design of Serbia's employment tax and benefit system helps explain this, by effectively excluding low wage and part-time workers:

“The reason for the high tax wedge at lower wage levels in Serbia are the minimum social security contributions that employees and employers have to pay. The minimum social security contribution is not adjusted for hours actually worked, so also part-time workers are subject to it. Additionally, once a person has a formal work on his record there is a sudden withdrawal of social assistance and family benefits. The marginal effective tax shows that, at low wage levels (below 10 percent of average wage), every dinar earned is subtracted from entitlements to social assistance. Hence, 100 percent of any additional dinar earned is taxed away. Therefore, the so-called mini-jobs and midi-jobs (mainly part-time jobs) are not economically viable for low-wage earners. This effectively excludes a substantial part of the Serbian working-age population from formal employment and social security coverage” (Randjelovic et al., 2012).
- 6 The picture is complicated due to re-registrations under the new law; 28 448 associations were registered in 2011, about 15 000 of which were re-registering under the new law; there were about 8000 sports clubs, and approximately 5000 are associations that are not autonomous.
- 7 The Social Innovation Fund was based in the Ministry of Labour and Social Policy, with support from UNDP, the EU, other governments and NGOs. From 2003 to 2009 EUR 6 million were invested in the development of local social welfare services.

- 8 For example in January 2011 at a conference discussing draft legislation for co-operatives in Serbia, Ms. Dragijana Radonjic Petrovic, State Secretary at the Ministry of Economy and Regional Development stated: “The main issue with the co-operatives is related to public property. We hope that the new law will solve this issue. In addition to existing youth and agricultural cooperatives, new law will also introduce social co-operatives.”
(see: <http://www.undp.org.rs/index.cfm?event=public.newsDetails&revid=47EDC346-956A-5522-548E8EC321461E3F>)
- 9 New EU proposals for procurement which if approved will come into effect in 2014 will reduce the transactions costs of tendering for SMEs (relevant also to social enterprise), and broaden the scope for sheltered workshops for disabled and disadvantaged workers;
(see: http://ec.europa.eu/internal_market/publicprocurement/modernising_rules/reform_proposals_en.htm)
- 10 As reported to the OECD team on several occasions, and documented in the literature: “This may reflect a resistance to the idea of co-operatives, which are often identified as being part of the ‘old regime’ in Serbia. It may also reflect a low level of understanding of what genuine co-operatives can achieve (as demonstrated widely throughout the world)” (Simmons et al. 2010) and “a bad image of cooperatives inherited from socialist time, which prevents the establishment of new cooperatives.” (EMES, 2008)
- 11 UnLtd, the Foundation for Social Entrepreneurs, is a charity which was endowed with GBP 100 million from UK lottery money in 2002. It uses the income from this endowment to fund awards to different types of awards for projects and people with growth potential.

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