



**STRATEGIC STUDY ON SOCIAL ECONOMY  
DEVELOPMENT IN THE CONTEXT OF  
THE SOUTH EAST EUROPE 2020 STRATEGY\***



## Preface

We are convinced that social economy can and must play significant role in sustainable development of South East Europe, as well as its countries. Social economy initiatives pursue goals beyond financial profit using that profit to produce goods and services for their members and/or for the wellbeing of a community. They are rooted in the South East Europe, traditionally appearing as solidarity associations, cooperatives, mutuals, etc. However, societies and states of SEE, for decades now faced with existential challenges, have not been able to unlock its potential, which would make them more active subject in overcoming poverty, social exclusion. With more supportive environment, social economy can in fact increase employment and raise quality of community based services, generate social innovation in different sectors, and enhance social capital.

The Strategic Study on Social Economy Development in the Context of the South East Europe 2020 Strategy is the first document of its kind in the Region. It offers a general overview of the sector, its environment, while at the same time identifying opportunities for its development. The Study is designed in a way to give its readers overall regional outlook on this topic, as well as specific national insights with all local particularities.

The list of presented examples of good practice is not exhaustive, but still illustrative. They should serve both as inspiration and lessons to be learned for all future social economy initiatives. All further stakeholders, such as representatives of institutions, financial sector, and citizens can make use of these stories to recognise their own role and interest in supporting and/or activating in social economy, thus jointly contributing to development of their own communities.

As the Study underlines, values such as solidarity, cooperation and trust have always been the fundamental principles of social economy. Revitalizing those values in our societies will give great impulse to social economy and what is more important - with the development of social economy, social capital can only increase.

*European Movement in Serbia*

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# ABBREVIATIONS

ALL	Albanian Lek	LLC	Limited Liability Company
BCSDN	Balkan Civil Society Development Network	NGO	Non-Governmental Organization
BI	Business Incubators	NPO	Non-Profit Organization
BH	Bosnia and Herzegovina	OECD	Organization for Economic Cooperation and Development
CBC	Cross-border Cooperation	OG	Official Gazette
CEFTA	Central European Free Trade Agreement	OSCE	Organization for Security and Cooperation in Europe
COSPE	Cooperation for Development of Emerging Countries	P2P	People to People
CSO	Civil Society Organization	PBO	Public Benefit Organization
CSR	Corporate Social Responsibility	PWD	Persons with Disabilities
DG	Directorate General	RAE	Roma, Ashkali and Egyptian population
EaSI	Employment and Social Innovation	RCC	Regional Cooperation Council
EBRD	European Bank for Reconstruction and Development	SAA	Stabilization and Association Agreement
EC	European Commission	SBI	Social Business Initiative
EFTA	European Free Trade Agreement	SE	Social Economy
EIDHR	European Instrument for Democracy and Human Rights	SEE	South East Europe
EP	European Parliament	SEF	Social Entrepreneurship Forum
ERDF	European Regional Development Fund	SILC	Statistics on Income and Living Conditions
ESF	European Social Fund	SIE	Social Innovation Europe
EU	European Union	SME	Small and Medium Enterprise
FDI	Foreign Direct Investment	TACSO	Technical Assistance for Civil Society Organizations
FYR of pre Macadonia	Former Yugoslav Republic of Macedonia	UN	United Nations
FRY	Federal Republic of Yugoslavia	UNICEF	United Nations International Children's Emergency Fund
GDP	Gross Domestic Product	UNDP	United Nations Development Program
ILO	International Labor Organization	USAID	United States Agency for International Development
IMF	International Monetary Fund	VAT	Value Added Tax
IOM	International Organization for Migration	VET	Vocational Education and Training
IPA	Instrument for Pre-Accession	WAVE	Women against Violence Europe
IPA OP HRD	IPA Operative Program for Human Resources Development	WB	World Bank
IPARD	IPA for Rural Development	WTTC	World Travel and Tourism Council
LFS	Labor Force Survey		

# 1. EXECUTIVE SUMMARY

The Social Economy (SE) could play a significant role in the societies of South East Europe (SEE). Not only could it increase employment and provision of social and health services but it also has the potential to generate social innovation in many different sectors and enhance social capital.

After two years of preparation led by the Regional Cooperation Council (RCC), a regional strategy dubbed South East Europe 2020 was adopted in November 2013 by seven economies from the region: Albania, Bosnia and Herzegovina (BH), Croatia, Kosovo\*<sup>2</sup>, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia (FYR of pre Macadonia). Introducing the SEE 2020 Strategy, the RCC emphasized the importance of institutional regional cooperation in dealing with challenges that are faced by all the countries in the region. Within this Strategy the SE is recognized as an important instrument for tackling employment, and fighting poverty and social exclusion. The RCC commitment to foster implementation of the SEE 2020 led to the preparation of this report. It aims to identify the potential for SE in the region, to make concrete recommendations to national governments and to propose regional initiatives that would help create a supportive environment for development of the SE region-wide.

These seven SEE economies share similar challenges when it comes to the overall economic stability and growth, employment, poverty risks and social inclusion. All seven countries included in the study face a severe macroeconomic situation – high public expenditure, high levels of public debt and budget deficit, which all lead to an inability to achieve stable and sustainable growth. Kosovo\* is the only country which has shown gross domestic product (GDP) growth in recent years mainly due to high levels of foreign direct investment (FDI) coming from the diaspora and the donor community.

<sup>2</sup>\* Refers to designation of a political agreement regarding the regional representation of Kosovo\* and regional cooperation and representation of both sides (Serbia and Kosovo\*) which both have agreed upon. This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo\* declaration of independence.

The unemployment rate is extremely high, varying from 15.6% in Albania<sup>3</sup> to 44.8% in BH<sup>4</sup> in 2013 indicating that many citizens face poverty risks and possible social exclusion. One of the main reasons for such high levels of unemployment, besides the malfunctioning of the economy, is the mismatch between educational and economic policies leading to a miss-match between the available labor force and the needs of the market. A gender imbalance is traditionally present among the unemployed, but most worrying is youth unemployment, which is high even in the countries where the overall unemployment rate is below 20%. For example, youth unemployment in Croatia in 2012 was 43% while unemployment of population in general was 15.9%<sup>5</sup>.

One of the important characteristics of SEE countries is the size of informal labor market, which, for example, in FYR of pre Macadonia employed 22.5% of the overall working population in 2012.<sup>6</sup>

EU integration process is a significant political undertaking for all SEE economies. Whether they are at the negotiation stage or have already joined the Union, the process stimulates important reforms at different levels of society and state. The integration process ramps up the fight against corruption, helps establish stable and effective public institutions with transparent governance, and introduces social justice and social inclusion. As part of this process most of the SEE countries have already encountered the concept of SE, which is largely perceived as a sector that may be able to address growing social needs and offer a sustainable answer to labor market and education imbalances.

None of the countries covered by the study has a law designed specifically to regulate the SE as a whole. The same goes for governmental bodies and institutions - there is still no body in charge for the whole sector. Most SE initiatives operate under the laws governing non-governmental organizations (NGO) or associations and cooperatives, as well as companies<sup>7</sup>. Due to the wide range of legal forms, many institutions could be or are entitled to regulate the sector. The ministries responsible for the economy, social welfare, labor and entrepreneurship regulate the field within which SE initiatives operate. The absence of a single law on SE and/or social entrepreneurship does not mean that the existing legal framework is not adequate for its development. However, it does mean that there are still no concrete incentives by the state to support SE initiatives which would create a stimulating environment for their operation.

Over the past few years there have been several attempts to create a legal and institutional framework in the countries of the region, in particular for social entrepreneurship. Montenegro prepared a draft Law on Social Entrepreneurship,

but it has been shelved for the moment. In Serbia a draft proposal of the Law on Social Entrepreneurship and Employment in Social Enterprises was blocked during the public debate in National Assembly. The Strategy for Development of Social Entrepreneurship has been under preparation for more than two years in Croatia and is now, after the public debate, awaiting adoption in autumn 2014. At the moment, Kosovo\* is drafting a concept note on a law on social entrepreneurship while in FYR of pre Macadonia, following the public debate, the Law on Social Entrepreneurship is expected to be passed in June 2014. In Albania a draft Law on Social Enterprises is undergoing debate and the hope is that it will be adopted by the end of 2014.

Bearing in mind that there is a narrow legal and institutional framework in which it is possible to place SE initiatives, financial support is also modest. However, it is possible to identify state, international and domestic donor support and Corporate Social Responsibility (CSR) contribution.

State support comes from different funds used to finance projects for civil society organizations (CSO), grants for cooperatives and active labor market measures channeled through national employment services. None of these is set aside specifically for social enterprises. However, some of it is used to support social services provided by private entities and the employment of disadvantaged or disabled people, hence it is basically used to support SE activities.

Financial support from the state is also noticeable in tax reductions for some forms of CSO or in public procurement of services. However, none of this is exclusively aimed at social economy actors and some of the procedures are not sufficiently transparent, making it less accessible for SE initiatives.

The donor community is focused on tackling local economic development and the biggest contributor is the EU. In addition to the financial support provided by the European Union (EU), some of the most recognizable donors in the SEE region include the United Nations (UN) and United States Agency for International Development (USAID). Though some countries have access to specific donors a decline in donor contributions has been registered in all countries.

Some projects have been initiated with donor support with the aim of creating financial mechanisms tailored to SE actors. They mostly involved training, education and mentoring support for social enterprises, but after the funding ended these projects rarely entered the phase of self-sustainability. These examples can be identified mainly in Croatia and Serbia.

3 Source: INSTAT, 2013; available at URL: [http://www.instat.gov.al/media/208016/tregu\\_i\\_punes\\_2011-2012.pdf](http://www.instat.gov.al/media/208016/tregu_i_punes_2011-2012.pdf)

4 Source: Agency for Statistics of Bosnia and Herzegovina, Labor Force Survey from 2008 - 2013

5 Source: Croatian Bureau of Statistics, Labor Force Survey, available at URL: [http://www.dzs.hr/Hrv\\_Eng/publication/2013/09-02-07\\_04\\_2013.htm](http://www.dzs.hr/Hrv_Eng/publication/2013/09-02-07_04_2013.htm)

6 Source: IndexMundi.com URL: <http://www.indexmundi.com/facts/macedonia/gini-index>

7 Companies are not regular part of the social economy, except in cases when they are created specifically to pursue a social mission. They usually appear in form of private limited liability company, most often established by non-profit association. What distinguishes these companies from conventional commercial companies is that they have a primary social purpose, and the majority of their profit is reinvested in achieving social goals.

CSR is not common in most of the countries. There are not many companies that have CSR strategies and even fewer that are ready to become involved in creating a supply chain with SE actors. In Serbia Erste Bank is actively involved in cooperation with SEs through grants, loans and procurement of social enterprises products. This makes Erste Bank more of an exception than a rule in this respect.

Credits and micro-credit instruments are not accessible to all the countries and in some micro-financing, which is the most adequate form of support to SE initiatives, is not even allowed. In Albania, though, credit instruments have been identified with quite an outstanding record.

An important aspect of support to SE is non-financial support, mostly delivered in the form of training and education provided by other CSOs or intermediary sector. This is extremely important since most of the countries do not have formal education for SE or social entrepreneurship. Only in the case of Croatia is it possible to identify few sporadic university classes that partly cover some aspects of the SE and social entrepreneurship.

Finally, networking is a priceless support mechanism to SE actors. This is also not that common in SEE countries; however, Croatia and Serbia propose good models for networking of both SE practitioners and those engaged in creating a framework for SE development.

As a consequence of absence of a legal regulatory framework, official data on SE actors is lacking. Most of the countries could only provide fragmentary data for the non-profit sector, foundations, cooperatives and companies, but not for the SE sector as a whole. Also, there is no official institution in any of the countries tasked with gathering and analyzing the data for the whole sector. It is particularly difficult to track social enterprises as they are not registered as a separate form in national statistical systems. The exception is Serbia which is the only country that provided official data for social enterprises.

Unofficial data from most countries place the SE sector in both work integration and provision of social and health services. They are mainly involved in food production, crafts and services with important differences from country to country. Most SE actors are registered in more developed municipalities, mainly in the bigger cities, the exception being cooperatives, especially agricultural ones.

The fragmented data and inconsistent methodology provide little space for comparative analysis. However, a partial picture of the size and structure of

the sector indicates that CSOs dominate with around 52,000 associations in Croatia<sup>8</sup>; 12,000 in Bosnia and Herzegovina<sup>9</sup>; more than 5,600 in Albania<sup>10</sup>; and several thousand in other countries as well. Not all of these are active though and it is hard to estimate the sectors' real potential. Among CSOs, associations are the most numerous form of SE. Cooperatives are somewhat more numerous in Serbia (2124<sup>11</sup>) and Croatia (1169<sup>12</sup>), but in contrast, they rarely exist in some of the other countries of the region – only 15 cooperatives in Kosovo\* and FYR Macedonia each have been identified. Serbia is the only country with a developed methodology in place for measuring social enterprises sector where according to a recent survey, 1196 social enterprises<sup>13</sup> exist at the moment.

An important characteristic of SE actors in all the SEE countries is a lack of resources and capacity. When it comes to resources, human and financial resources are the main impediment to the development and sustainability of SE activities. This is mainly a consequence of the absence of adequate financial support to SE actors, as well as education and training. Skills of those already involved in SE activities are a grave burden on the development of SE activity. The first set of skills that practitioners identify is managerial skills followed by those related to knowledge of the overall procedural framework for cooperation with state and other stakeholders.

This report has identified the main features of SE in the region, as well as the challenges faced by the sector today. Based on the findings provided by national reports, some conclusions and recommendations have been provided along with incentives and impediments identified in the analysis.

The concepts of SE and social entrepreneurship are still not widely known or fully recognized among the key stakeholders. In general, the existing legislation enables the SE through various legal forms, but it is largely perceived as inconsistent and not particularly stimulating. Cooperatives are probably the type of SE with the most unfavorable legislation and in most countries of the region remain the most neglected. Some countries, though, show slight trends towards revitalizing the cooperative sector towards a more modern model. Cooperatives should be particularly encouraged in sectors other than agriculture.

The prevailing perception of the institutional frameworks is that they are inadequate and should be more stimulative. The crucial deficiency is the absence of a national institution or body responsible for the coordination of SE sector as a whole. This fragmented institutional approach deepens the current prevailing understanding which fails to appreciate SE as complex yet unique sector.

8\* Source: Government Office for Co-operation with NGOs, National Foundation for Civil Society Development, Croatia.

9\* Papic, Z., et al. (2012) Myth and Reality of Civil Society: The Role of Civil Society in Strengthening Social Inclusion and Poverty Reduction. Sarajevo: IBHI and FSU

10\* Source: Central Non-Profit Organizations Register Albania

11\* Source: Statistical Office of the Republic of Serbia (2011) Satellite Accounts of Cooperative Sector in Republic of Serbia, 2009, Belgrade.

12\* Source: Croatian Cooperatives Association (2014) Analysis of the Cooperative Sector (till December 31, 2013, URL: <http://www.zadruga.hr/images/stories/pdf/Analiza%2031.12.2013%20-KONACNO.pdf>)

13\* Source: Statistical Office of the Republic of Serbia (2014) Economic Impact of Social Enterprises, Belgrade

The lack of awareness of the important role SE plays in social development and economic recovery has resulted in a lack of political commitment to creation of a stimulating environment for these economic entities. In general, there is a perception that the development of SE has little or no support from government and government institutions. Attempts to create a legal framework for social entrepreneurship are recognized and welcomed, but stronger political will is needed in this process.

Currently, most of the limited financial incentives available to SE are provided through funding schemes for CSOs or through active labor market measures with funds being provided by the EU and other international donors. Financial mechanisms provided by the private financial sector are rare, sporadic and insufficient. The most lacking are initial funding, start-up capital, loans, micro-credits, and various financial tools designed for the needs and specificities of SE sector, which is often perceived by financial institutions as low-profit and high-risk.

The existing assessments of SE sector show its poor capacities in entrepreneurial skills, in particular managerial and financial skills. Moreover, weak cooperation with business sector does not contribute to exchange of knowledge or skills. This also affects the weak market position of SE products and services.

The most important impetus for SE development comes from the social economy sector itself. SE actors and activists play a fundamental role in the promotion of SE and social entrepreneurship by providing support to newly established organizations and establishing bottom-up networks for transfer of specific knowledge on the SE.

There is a huge potential for social capital in the region, and values such as solidarity, cooperation and trust should be revitalized and put to service in fostering the SE. This is particularly important for encouraging regional dialogue and cooperation.

Recommendations for creating an enabling environment for SE development include:

#### **IMPROVEMENT OF LEGAL FRAMEWORK**

The legislation should ensure a clear understanding of the SE, its elements and characteristics. It should define specific features that differentiate SE

organizations from commercial companies, particularly emphasizing the added value they produce, which is visible in their social, economic and environmental impact on local communities. Besides drafting and adopting a law on social enterprise, the need for better regulation is recognized as an even more crucial step as well as promotion of cooperatives that would enable their transformation from marginalized into effective actors of SE.

#### **IMPROVEMENT OF INSTITUTIONAL FRAMEWORK**

The establishment of a single umbrella government institution or body responsible for coordination, promotion and development of the SE sector as a whole is highly recommended. It would provide a unified approach and eliminate fragmentation and inefficiency over a wide spread of programs and uncoordinated activities by various government institutions. The SE should be included in the government agendas as one of the priorities in socio-economic development based on which coherent policies and supportive measures should be developed and accompanied by budget allocation.

#### **DEVELOPMENT OF FINANCIAL INCENTIVES AND SUPPORT MECHANISMS**

A supportive financial framework should develop systematic and regular public incentives for the encouragement of new SE organizations such as start-up grants and soft loan schemes and also enable financial mechanisms to scale up economic activities. Furthermore, other supportive subsidies should be enabled such as tax benefits and exemptions for specific types of SE organizations and activities. Governments should also facilitate access to financial resources through development of specialized funds for SE and by supporting organizations such as ethical banks and social investment funds as well as bottom-up initiatives such as crowd-funding and incubators.

#### **INCREASE OF CAPACITIES FOR SE**

The low level of SE capacities should be increased through development of cross-sectoral networks or support centers as a vehicle for knowledge and technology transfer, exchange of ideas and best practices sharing. Establishing formal and informal educational programs in collaboration with the academic sector and including entrepreneurship in the curriculum of vocational education and retraining programs in SE implies rising up new generations

of future social entrepreneurs and individuals who may create a responsible and inclusive economy. Furthermore, part of the capacity building could be delivered through different programs of mentoring, exchanging practices in skill development with business sector and strengthening cooperation with business community.

#### *SUPPORT TO SE EFFECTIVE ADVOCACY*

We need an extra effort in raising broader awareness, primarily of government and decision makers, that the SE can play an important role in economic recovery while still founded on social and environmental responsibility as integrated principles. This can be achieved through promotion of good practice of SE, examples of efficient support to SE, establishment of annual awards for SE or social entrepreneurship and launch of media channels and social media platforms. Partnerships can be also developed with media and educational institutions, including introducing young people or students to the concept of Social Economy and encouraging their involvement into SE organizations.

#### *ESTABLISHMENT OF INFORMATION SYSTEM ON SE*

Establishment of a comprehensive register of SE organizations and development of a methodological approach and data collection that would enable systematic monitoring and analysis of SE sector should be one of the priorities.

Some of the key recommendations for fostering regional initiatives, regional dialog and cooperation in SE include the following:

#### *ESTABLISHMENT OF REGIONAL 'INFRASTRUCTURE' THAT WOULD ENABLE AND FACILITATE COMMUNICATION AND COOPERATION*

This includes establishment of a regional umbrella organization as a coordinating mechanism and advocacy body focused on promoting SE and advocating for the adoption of strategic measures; development of a web portal as a media platform enabling information on SE organizations, activities, funding schemes, available financial and non-financial supports, best practices, needs for partnerships, etc.; establishment of some sort of a register or database which would provide information on active SE organizations in the region.

#### *IMPROVEMENT OF KNOWLEDGE TRANSFERS*

Establishment of regular mechanisms for regional knowledge transfer such as networks, visits, awards, conferences, internships and other practices (e.g. peer reviews) can contribute to exchange of knowledge and specific experiences. Other mechanisms include organization of inter-sectoral regional events, promotion of good practices of cross-border initiatives and cooperation, application of innovative services, mechanisms, methodologies, etc. in other countries and establishment of research networks for conducting comparative research in the region.

#### *DEVELOPMENT OF SUPPORT MECHANISMS FOR REGIONAL INITIATIVES*

This includes establishment of a regional fund for the development of SE and social entrepreneurship which would facilitate financial support and guarantee the use of EU funds. Furthermore, the private financial and banking sector should be encouraged to develop financial mechanisms to support regional SE initiatives.

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### 3. INTRODUCTION

Although SE has a long tradition, dating back to early 19<sup>th</sup> century when the term first appeared, only recently has the concept been revitalized and recognized as a sector of various economic actors. SE initiatives are increasingly seen as innovative practices, strongly committed to local socio-economic development and resilient even at times of global economic crisis. Regardless of the different traditions from which they arise, all these initiatives have value-driven activities at their core and aim to contribute to the society, primarily at the local community level helping people attain a better quality of life.

The traditional third sector which was dependent on public funds and financed mostly from contributions and donations is now transforming and new forms of SE are more directed toward achieving their goals through economic activities. This has led to even greater diversification of the sector, making it harder to define. Its impact on both the economic and social level is often difficult to measure and it can be challenging to develop an adequate framework of support in the form of legal provisions, institutions and financial mechanisms.

Due to its innovative approach and resistance to economic crisis, SE is in the EU recognized as a phenomenon that has proved able to respond to the growing problems of poverty and unemployment in a sustainable manner and foster social inclusion and cohesion. Recent data show that the SE in Europe (measured as an aggregate of cooperatives, associations, foundations and mutuals) engages more than 14.5 million paid employees or 6.5 % of the total working population of the EU-27<sup>14</sup>. This includes the majority of social enterprises as well, since they are mostly established as social cooperatives or entrepreneurial associations. In contrast to the trends of increasing unemployment in the overall economy, the SE sector has experienced employment growth during the last decade (from 11 million in 2002-03 to 14.5 million jobs in 2009-10<sup>15</sup>).

14\* European Commission (2013) Social economy and social entrepreneurship - Social Europe guide - Volume 4, Luxembourg: EC, Directorate-General for Employment, Social Affairs and Inclusion.

15\* *ibid*

The huge potential of this sector is the main reason why numerous activities have been initiated at the EU level to use the single market to help boost development and sustainability of SE initiatives.

In recent years the term SE has become somewhat more familiar in the SEE countries, mostly among the CSOs. Initiatives of this kind have become quite popular as instruments to ensure sustainability of NGOs and as a response to many social and environmental challenges these societies face. The SE has the potential to play a key role in the transformation of traditional state-centered social provision system, characteristic for all the countries in the SEE region with a socialistic background.

Since the term SE is well-known only to a small circle of practitioners, academics and interested members of the public, defining the term is the main step in any assessment of the forms such initiatives take, their numbers and environments they operate in. Defining the term is not easy, due to the fact that one may find a broad range of definitions in the existing literature. Therefore, a useful approach may be to stick close to the European tradition and apply the concept of SE reflected in the most relevant European studies and documents in this field.

SE implies a set of private, formally-organized bodies and enterprises with autonomy of decision and freedom of membership created to meet their members' needs through the market by producing goods and providing services, insurance and finance.<sup>16</sup> In other words, SE organizations are pursuing goals other than profit – their main purpose is to produce goods and services for their members or for the wellbeing of a community and not to generate financial profit for their owners or stakeholders.<sup>17</sup> Decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital contributed by each member. Quite the opposite, each member has one vote and decision-making is organized through democratic and participatory processes. The SE also includes private, formally organized organizations with autonomy of decision-making and freedom of membership that produce non-market services for households and whose surpluses cannot be appropriated by the economic agents that create, control or finance them.<sup>18</sup>

Traditionally, the main actors in a SE are non-profit associations, foundations, mutual societies and cooperatives, recently joined by social enterprises. All those legal forms are rather familiar and have already been rooted in different traditions of societies in the region. Associations are probably the oldest form of SE organizations referring to a group of people who come together

16\* Monzon, J. L., Chaves, R. (2012) The Social Economy in the European Union, Summary of the report drawn up for the European Economic and Social Committee by the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC).

17\* European Commission (2013) Social economy and social entrepreneurship - Social Europe guide - Volume 4, Luxembourg: EC, Directorate-General for Employment, Social Affairs and Inclusion.

18\* Monzon, J. L., Chaves, R. (2012) The Social Economy in the European Union, Summary of the report drawn up for the European Economic and Social Committee by the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC).

for a particular goal or purpose (social, cultural, environmental, recreational, economic, etc.). Foundations are created to achieve specific benefit to a group or society at large through the systematic fundraising. Mutuals are organizations that provide insurance services to their members based on the principle of reciprocity between members' participation and the benefits they receive. Cooperatives represent an autonomous entity established by a group of people or organizations to meet their common needs and aspirations through jointly owned and democratically governed enterprise. The least familiar term - social enterprise is an emerging and hybrid concept recognized as an innovative tendency in the context of SE.<sup>19</sup> This entity may combine legal and organizational forms in order to achieve social goals in an entrepreneurial way. A market oriented approach, which leads social enterprises to ensure majority of their income through the market rather than through dependency on funding, is what distinguishes social enterprises most clearly compared to other, traditional forms of SE. The European Commission (EC) defines a social enterprise as "an operator in the SE whose main objective is to have a social impact rather than make a profit for their owners or stakeholders. 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".<sup>20</sup>

Regardless the legal form of a SE organization, which can vary from country to country, there are several features that distinguish them from capital-based companies that may be taken as substantial determinants:<sup>21</sup>

- The primacy of individual and the social objective over capital
- Voluntary and open membership
- Democratic control by the membership
- The combination of interests of members, users, local community and the general interest
- The defense and application of the principle of solidarity and responsibility
- Autonomous management and independence from public authorities
- The essential surplus is used to carry out sustainable development objectives, services of interest to members or of general interest

SE initiatives are present in almost every sector of the economy such as health and social services, banking, insurance, agriculture, crafts, various commercial services, etc., contributing to employment, social cohesion, regional and rural development, environmental protection, consumer protection and social security policies.

19\* European Commission (2013) Social economy and social entrepreneurship - Social Europe guide - Volume 4, Luxembourg: EC, Directorate-General for Employment, Social Affairs and Inclusion.

20\* European Commission (2011) Social Business Initiative, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels

21\* CEP -CMAF (2002) Social Economy Charter, European Standing Conference of Cooperatives, Mutual societies, Associations and Foundations, Brussels; Monzon, J. L., Chaves, R. (2012) The Social Economy in the European Union, Summary of the report drawn up for the European Economic and Social Committee by the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC); European Commission DG Enterprise and Industry - Social Economy

Bearing in mind that SE both as a concept and practice is still not precisely defined and even in developed countries where the tradition of SE is well-known, it is even more difficult to identify these initiatives in the countries of SEE. Nonetheless, such initiatives exist in all the countries covered by this report and contribute to solving problems both by compensating for economic deficiencies and by addressing social issues.

SEE countries face many similar challenges from social exclusion and poverty to unemployment. Most of the countries share the same tradition, especially from the socialistic heritage, which contributed to the creation of a specific state-regulated economy and specific state-based system of health, social and education service provision. The transition and transformation of these sectors allowed for different approaches to establishing new systems of regulation. However, the process of EU integration has led to the adoption of quite similar approaches in most of these countries and has introduced political and value-related reforms.

This study is focused on assessing BH, Croatia, Kosovo\*, Montenegro, Serbia and FYR Macedonia in order to introduce possible regional initiatives and mechanisms which would contribute to the development of SE in all countries leading to more inclusive growth, both in individual countries and the region at large.

Unemployment, poverty and social problems are among the most critical threats to development in the region. Due to the similar heritage of socialism, mainly characterized by a command and semi-market economy, followed by long-term transition, all the countries are faced primarily with inadequate resources to institute sustainable solutions to the social and economic challenges they face. A precondition for dealing with these challenges is the readiness of government to substantially commit to socio-economic development. It means the commitment to implement reforms in the field of economy, public governance and human rights. It is possible to deal with unemployment, poverty and social exclusion with this concrete strategic orientation.

There are different choices to make in order to face the growing issues in the society. This mostly involves cross-sector work, creating synergies, using all the resources available and efficient coordination of different institutions and actors involved in the process. The knowledge of the needs of society and available resources is of utmost importance.

As part of the wider economy, the SE is often related to socio-economic development at the local level. Even though it is difficult to determine and

measure the economic contribution of these initiatives and their social impact, their characteristics place them at the heart of the socio-economic development of local communities. These initiatives are not only actors focused on dealing with on-going social and economic challenges but are also important representatives of a bottom-up approach, contributing to other instruments and measures coming from other actors, mainly the state.

In none of the countries in the SEE region is it possible to say that a developed sector of SE exists. Still, in all seven economies it is possible to identify many fragmented initiatives mainly led by citizens' associations that could be characterized as SE actors. SE initiatives are mostly identified in the provision of social, education and health services and in work integration. One of the main reasons for development of initiatives in these sectors is an increase in demands by diverse marginalized groups which cannot be addressed by the state, high costs of services needed, obsolete and inefficient state social provision system, incomplete and inconsistent reforms in social sector and a demand for many new services which need a different and innovative approach. An important factor is also the employment market which is narrow, very inclement and does not take into consideration the specific characteristics of numerous marginalized groups.

Faced with a situation where the SE is unregulated and fragmented, but being aware of the importance of providing social services and work integration of disadvantaged and disabled groups, national institutions in most countries in the region have opened dialogue for the establishment of some kind of support to SE. However, these efforts remain ad hoc and uncoordinated. Most of the countries face two major obstacles for further development of SE – a lack of human capacities on the side of both representatives of relevant institutions in understanding the concept and of social entrepreneurs in making their initiatives more sustainable if not self-sustainable. The socialist legacy and the turbulent early stages of transition have resulted in weak social capital across the region. The values of trust, solidarity and cooperation are of central importance to SE development, hence the promotion of these values and democratic principles should be made a core element of any coordinated strategy.

Moreover, as in other ex-socialist countries, some forms of SE, primarily co-operatives, are still perceived as undesirable. This unpopularity slows development, which is further limited by the uncondusive institutional environment.

The EU integration process is an important stimulus for SE development in all countries in the region. After the EU 2020 strategy, a turning point in EU politics

in relation to social enterprises came with the introduction of the Social Business Initiative (SBI) in 2011 that recognized the potential of social enterprises across the EU countries. It was followed by the adoption of Single Market Act II in 2012 when social enterprises were labeled as a major support to programs for growth and development. In the same year the European Commission established an expert group on the social economy GECES (Groupe d'experts de la Commission sur l'entrepreneuriat social) with the aim of following and promoting SE concepts and practices across Europe. Further support to SBI comes from the Regulation on usage of EU funds for Social Entrepreneurship (reg. no. 346/2013) which was approved by the European Parliament (EP) and EC.

By promoting the Strasbourg Declaration in January this year, the EC continues to support social entrepreneurship as a business model for the 21st century, answering the financial, social, cultural and environmental needs of the communities. The countries of the SEE region – governments, CSOs and social enterprises – for whom the EU accession is the most important reform process must use this momentum and the establishment of an EU agenda in this area to create a strong regional approach for the development of social entrepreneurship. This imperative has led to initiating the Social Entrepreneurship Forum (SEF), a network of regional CSOs working in the field of SE, gathered around the principles of the Belgrade Declaration<sup>22</sup> on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey. SEF is focused on advocacy initiatives towards national governments, regional and EU institutions and other stakeholders as well as at connecting different actors and facilitating communication between them, promotion of standards and development of programs enabling a more stimulative environment for social entrepreneurship development and promotion of social entrepreneurship and good practices in the region and beyond.

Introducing the SEE 2020 Strategy, the RCC emphasized the importance of institutional regional cooperation in dealing with challenges common to all the countries in the region. This means that regional cooperation is an important lever for reaching the priorities stressed in the EU 2020 strategy, recognizing the future of the region within the EU as a common goal of the countries, as well as emphasizing the specific challenges the region faces compared to the EU. Social issues and unemployment are crucial problems, as stressed by the SEE 2020, which countries face in their endeavor to accelerate development. Within the Inclusive Growth pillar, the SEE 2020 Strategy targets an increase in the overall employment rate from 39.5% to 44.4% by 2020. Here the SE is recognized not as the only but rather as an important instrument for tackling employment and fighting poverty and social exclusion.

22\* Belgrade Declaration is available at: URL: <http://belgradedeclaration.net>

This Study assesses the following dimensions in all seven countries in the region:

- Enabling policies, strategies and actions
- Legal framework and regulatory environment
- Financial incentives and support
- Current levels of skills, expertise and capacity building needs

Furthermore, with the regional framework of the SEE 2020 Strategy in mind, this Study:

- Identifies possible support to already established regional initiatives and networks in the field of Social Economy
- Proposes ways of strengthening dialogue among key partners in developing and implementing initiatives related to SE development
- Recommends measures for sharing knowledge, resources and joint action

The Study also puts forward a regional action plan for establishing a region-wide platform for SE development that can contribute to achieving the goals of the SEE 2020 Strategy.

## 4. A NOTE ON METHODOLOGY

The methodological approach used in the study includes desk analysis and interviews with experts. Desk analysis included collection of secondary data based on available documents, reports, studies, strategies, etc., related to SE in each country in the region. Identification and analysis of relevant laws, policies, measures and financial instruments provided information on the legal, institutional and financial framework for a SE. Data available from national statistical databases was also used as well as the existing reports from national government institutions and offices, reports and assessments made by international organizations (UNDP, OECD, etc.) and local CSOs evaluations and reports. The available data was used to assess the size and structure of the sector and to identify the main tendencies in SE development.

Due to the currently limited and fragmented data on SE in the region, additional methodology included interviews with the key national experts in the SE sector, either academic researchers or professionals working in SE organizations or support sector, and high-ranked national government civil servants with relation to the SE sector. The interviews were conducted mainly to provide feedback and additional information, and make assessments of the current capacities of SE actors in terms of their skills and expertise, as well as to identify the main impediments and incentives.

Besides being mainly focused on SE issues, national reports include background information on socio-economic situation in the country. These provide overview of the main trends of both economic growth and social development that may be important for understanding the preconditions for SE development. However, due to inconsistency in national and regional data collection and methodology, these background reviews may vary in terms of indicators and analysis. Therefore interpretations were based on identification of most relevant tendencies specific for the respective national context.

## 5. COUNTRY REVIEWS

### 5.1. ALBANIA

#### 5.1.1. Background review

Albania signed the Stabilization and Association Agreement (SAA) with the EU in December 2006, which entered into force in April 2009. Albania submitted its application for EU membership twice, in April 2009 and June 2011, and was rejected on both occasions. In view of the progress made by Albania, the EC recommended in October 2012 that Albania be granted candidate status subject to the completion of key measures in the areas of judicial and public administration reform and revision of parliament's rules of procedure. In December 2013, the Council of the EU postponed the decision on candidate status until June 2014.

With a population of 2,787,615 inhabitants as of January 2013, is a middle-income country and one of the growing economies in Europe mainly due to structural transformations caused by emigration and urbanization, which supported movements in the labor markets from agriculture to services (i.e. banking, telecommunications, tourism), construction and a smaller percentage to production. Agriculture remains one of the largest and most important sectors in Albania, dominated by small private farms and representing 21% of GDP and accounting for about half of total employment.

Until 2008, before the global financial crisis, Albania recorded fast growth rates of up to 6% and rapid reduction in poverty from 25% in 2002 to 12% in 2008 (World Bank, 2008). However, after 2008, the country began experiencing the first effects of the global crisis, showing a decline in economic growth going from 7.5% in 2008 to estimated 0.7 % in 2013 (AIDA, 2012).

Table 1: Economic Indicators (2008-2013)

	2008	2009	2010	2011	2012	2013
GDP (mil. EUR)	7,780	8,200	8,731	9,158	9,557	10,100
GDP growth rate (%)	7.5	3.3	3.8	3.1	1.3	0.7
GDP per capita (EUR)	5,059	5,252	5,775	7,237	7,602	7,822
FDI (mil. EUR)	712	728	768	757	700	790

Source: AIDA, 2012

The recovery to growth rates dropped from 8% in 2008 to somewhat above 3% between 2009 and 2011, and 0.7% in 2013, reflecting the deteriorating situation in the Eurozone (Bank of Albania, 2004-2012). Total revenues recorded a decrease from 26.7% of GDP in 2008 to 24% in 2013, while expenditure also saw a decline from 32.3% of GDP in 2008 to 30.1% in 2013 (Republic of Albania, 2014). Public debt continued to increase since 2008 from 54.7% to 70.5% of GDP by the end of 2013 (CIA, 2013). In 2012, the Parliament revoked the 60% of public debt-to-GDP limit without replacing it with any other fiscal or debt anchor.

The inflation rate is low and stable, and close to 2% between 2009 and 2013. Albania has experienced an increasing trend of FDI since 2008 (665 million EUR), with the second highest FDI among SEE countries in 2010, after Serbia with 793 million EUR. These levels dropped to 742 million EUR in 2011. Although the value of FDI flows to Albania is modest due to the small size of the host economy, its relative importance to the Albanian economy is considerable with a ratio of 25% of inflows to gross fixed capital formation (UNDP, 2012). Remittances coming mostly from Albanians residing in Greece and Italy have dropped significantly due to the severe economic crisis in these two countries, declining from 12-15% of GDP before 2008 to 8% of GDP in 2010 (CIA, 2013).

The workforce is experiencing a decline over the years, with a decreasing participation of young women in the labor force as presented in Table 2 and Table 3.

Table 2: Labor Market Indicators (2008-2013)

	2008	2009	2010	2011	2012	2013
Labor Market Indicators						
Unemployment rate (%)	13.0%	13.8%	14.2%	13.9%	13.9%	13.0%
Employment to population ratio (%)	53.8%	53.4%	53.4%	51.9%	50.1%	53.8%
Youth unemployment rate (% labor force)	24.7%	21.9%	22.5%	21.5%	27.7%	24.7%
Long-term unemployment rate (% labor force)	8.5%	9.1%	10.6%	10.2%	10.8%	8.5%
Female unemployment rate (% of labor force)	13.5%	15.9%	15.9%	14.4%	21.1%	13.5%
Self-employed with employees (% of total employment)	1.8%	1.4%	1.6%	1.8%	1.5%	1.8%
Self-employed without employees (% of total employment)	28.6%	28.3%	28.6%	27.7%	25.4%	28.6%

Source: INSTAT, Labor Force Survey, 2008; 2010-2012; 2013

Table 3: Social Expenditure and Poverty Prevalence

23\* Albania measures the risk of poverty rate once in three years, INSTAT, 2013.

Social Expenditure (million ALL)	2008	2009	2010	2011	2012	2013
Social insurance	65,823	73,744	79,316	85,265	89,860	95,598
Health insurance	10,376	22,980	25,141	26,974	28,828	30,147
Unemployment insurance benefits	825	868	982	876	984	800
Social assistance	15,925	16,060	16,706	16,369	18,011	19,370
Poverty prevalence and structure indicators	2008	2009	2010	2011	2012	2013
At risk of poverty rate (% of population) <sup>23</sup>	12.4%	-	-	-	14.3%	-
GINI INDEX	34.51	-	-	-	-	-

Source: Ministry of Finance, 2012; 2013; INSTAT 2013a; World Bank, 2014b

Albania has made improvements in the business and investment climate in recent years improving its ranking under the Global Competitiveness Index (from 108th place in 2008-09 to 78th place in 2012-13). In 2007 Albania set a strategic framework for small and medium-sized enterprises (SMEs) development and adopted the Business and Investment Development Strategy (2007-2013) and a medium-term program for SME development. Several reforms were introduced including simplification of procedures for establishing a business and registering land; a new procurement law including e-procurement, bankruptcy and company laws; modernization of the custom system; and establishment of a public credit registry (Ministry of Social Welfare and Youth, 2014). Despite the reforms, the level of female entrepreneurship and new start-ups is very low and impeded by land registration and access to finances. Despite the reduction in 2012-2013 as compared to previous years, corruption remains the most problematic factor in doing business as well as tax regulations and access to finance.

Despite improvements, the health system failed to ensure access for poor households. The public sector contribution to health system is very low and about 60% of sectoral funding comes from direct household spending, providing limited protection to the population, especially vulnerable groups (World Bank, 2014a).

### 5.1.2. Institutional and legal framework

As defined in this paper, SE represents a multitude of legal forms including non-profit associations, foundations, mutual societies, cooperatives and social enterprises.

The non-profit sector in Albania consists of three legal forms: associations (membership organizations, primarily serving their members), centers and foundations (non-membership, serving public interest) defined under the Civil Code adopted in 1994 and amended in May 2001 (Civil Code Amendment, 2001). It is further regulated by the Law on Non-profit Organizations (NPO) (Law No. 8788, 2001) and its two amendments (Law No. 9814, 2007; Law No. 92/2013), and the Law on Registration of NPOs (Law No. 8789, 2001). The registration of NPOs is centralized in Tirana District Court. The framework allows for a relatively straightforward process of registration and operation in line with international standards. Foundations are the only entity required to have capital before registration, the size of which is not stipulated by the law. A NPO may conduct economic activity without having to register a separate subject for this, provided that the activity is in conformity with its purposes, is declared as one of

the sources of income and is not the primary purpose of its activity. The profits from the economic activity will be used to accomplish the purposes specified in the charter and the establishment act.

The self-generating financial capacity of CSOs through fee-based services is hindered by the unclear legal framework. The differentiation between economic and non-economic activity is important, especially because it is related to different tax treatment of these two activities. A reflection of this confusion can be seen in amendments to the Tax Law in 2008 (Law No. 10003, 2008) when previous separate tax registration and reporting for the CSO economic activity was merged in one report which also included the non-profit activity. Foundations and associations are allowed to engage in passive investments and own movable and immovable assets, and generate income through the management of these assets (Civil Code, Art. 39/1, Art. 56/1). Nevertheless, there is a contradiction between what the law clearly allows and the Civil Code provisions according to which associations are not permitted to perform profit-making activities (Civil Code, Art. 39/1). The same is applicable to foundations (Civil Code, Art. 56/1) and centers (Law No. 8788, 2001). These provisions represent a misunderstanding as to what profit-making means in economic and commercial activities compared to economic activity for a nonprofit purpose.

The economic activity of NPOs is further regulated by the Council of Ministers Decision No. 1679 from 2008, according to which NPOs can be granted the status of "public benefit organization (PBO)"<sup>24</sup> which allows them to carry out economic activities in the fields of education, health and economic development as their primary activity. It leaves out activities such as provision of social services, culture, promotion of democracy, civil society development and environmental protection, which are without doubt for public benefit.

The Agency for the Support to Civil Society (ASCS) is a public entity which was established by the Law No. 10093 in 2009 and started its operations in 2010. The ASCS is managed by a Supervisory Board and it provides grants to NPOs, drawing on the state budget. The ASCS mission is to encourage the sustainable development of civil society through financial assistance and creation of favorable conditions for civil initiatives to the benefit of the public and in line with the priorities and strategies of the Government Program. The ASCS supports activities related to good governance, rule of law, domestic violence, development of social undertakings and employment in non-profit sector.

Savings and Credit Associations (SCA) are another legal form of SE, regulated by the Law No. 8782 in 2001. This Law provides for the establishment, activities

24\* The public benefit status of a non-profit organization is a known legal concept used in different EU countries. It refers to a special status that associations or foundations usually get after they are registered as legal entities for the purpose of promoting public benefit activities or fulfilling social needs.

and supervision of savings and credit associations and the unions generated by the merger of these associations. The general principles guiding the implementation of activities of savings and credit associations and their unions as determined by the Law are volunteerism, cooperation and mutual assistance to its members with the purpose of the activity being not-for-profit (Law No. 8782, 2001). The generated net surplus is not distributed to the members and is instead used for the development and expansion of association activities. The association is run by the members themselves with one member having one vote. The SCAs are committed to fulfilling the needs of rural unbanked inhabitants for financial services. The control over f SCAs administration is carried out by 36,000 members from 1,080 villages who elect the Board of Directors at Annual General Assembly.

Cooperatives are, as legal forms, regulated by the Law for Companies of Agricultural Cooperation, No. 38 (OG, 2012). The Law is based on a broader legal framework for Companies of Reciprocal Cooperation, No. 8088 (OG, 1996), amendments to the Law No. 9039 (OG, 2003) and the Law No. 9747 (OG, 2007). They may join and create federations to protect and promote their broader interests.

The companies of reciprocal cooperation are similar forms to Companies for Agricultural Cooperation but considered more suitable as a legal form by crediting, insurance and construction sector. Both entities must register with the National Registration Centre in order to obtain their legal status.

In its 2013-2017 program, the Government of Albania envisaged the implementation of a new model for growth based on policies that are better structured to give an impetus to economic growth, ensure the sustainability of its components, increase the domestic product and export rates, and create conditions for new jobs in strategic economic sectors of the country. Knowledge and skills are at the heart of such an economic growth model, and the design of proper employment and vocational education and training policies are crucial to achieve it (Ministry of Social Welfare and Youth, 2014). The new National Strategy for Employment and Skills 2014 – 2020 supports government objectives in this area and is in line with the EU 2020 and European Integration Agenda. It promotes quality jobs and skills and opportunities for all Albanian women and men throughout the lifecycle and is focused on four strategic priorities: 1. foster decent job opportunities through effective labor market policies; 2. offer quality vocational education and training to youth and adults; 3. promote social inclusion and territorial cohesion; 4. strengthen the governance of labor market and qualification systems (Ministry of Social Welfare and Youth, 2014).

The Strategy gives priority to the promotion of social business in line with the EU good practices as an additional means to achieve smart and inclusive growth through designing and implementing measures related to social entrepreneurship and creating conditions to foster female and male employment in the third sector with a focus on social enterprise. Priority is also given to Vocational Education and Training (VET) development. A new legislative framework is expected to address all the reforms to be undertaken in VET by optimizing VET providers' network and diversifying offers, ensuring the quality of VET providers and improving the quality and adequacy of VET inputs and processes, enhancing recruitment and improving competences of VET teachers and trainers (Ministry of Social Welfare and Youth, 2014). Social inclusion as a path to poverty reduction underlies all four strategic priorities of the Strategy. It is linked to almost all of the activities related to trade, VET and employment and nominally mentioned in two strategic priorities: (1) offer quality vocational education and training to youth and adults, and (2) promote social inclusion and territorial cohesion.

The concept of social enterprise is still unclear and debatable in Albania, despite some attempts in recent years to introduce and frame it, and support its development although in a fragmented way. In 2011, Albanian Government passed the Law No. 10376 establishing the Agency for Social Business Promotion the scope of which is to support sustainable economic and social development through promotion of sustainable, balanced and cohesive social business at national level. The Agency is a state-owned joint stock company. Its initial capital is provided from the state budget with revenues coming from funds received from the state budget, donors, co-beneficiaries, local government authorities and other sources.

In 2010 the Ministry of Social Welfare and Youth initiated preparation of the Law on Social Enterprises. The draft law is still under discussion by the new government and is expected to be presented to Parliament by the end of this year. According to the old draft law, a social enterprise is organized as an enterprise which combines economic purpose and benefit with the collective interests and favors local development through direct or indirect involvement of stakeholders in a community or territory. Services and/or goods provided in the sectors of social assistance, medical assistance, health and social welfare, education, vocational education, protection of environment and ecosystems, cultural heritage and social tourism are considered socially beneficial activities. Social enterprises can be legally registered as a foundation, cooperative, limited liability company, joint stock company or joint venture company.

### 5.1.3. Analysis of financial incentives and support mechanisms

The Agency for Support to Civil Society (ASCS) is the only state-funded body that supports CSOs through grant-making, drawing on the state budget. In 2010 the support granted to 52 CSOs amounted to 450,000 EUR; 70 CSOs were supported through two Calls for Proposals in 2011 totaling to 1,057,000 EUR (AMSHC, 2011); and about 712,000 EUR was granted in support of 61 CSOs in 2013. The support was focused on the fight against corruption, citizen participation and community engagement, promotion of citizen's priorities, employment and prevention of informal labor market.

Foreign donors remain the main source of funding for CSOs, including service provision. The general trend of support is declining while the country advances in its EU integration process. The EU remains the biggest donor for Albania compared to other bilateral and multilateral donors. The total EU support to Albanian CSO sector for the period 2009-2013 amounted to 12,691,478.72 EUR broken down as follows: 4,284,764 EUR through the IPA/SCF National Grant Scheme (2010–ongoing); 598,813 EUR under Instrument for Pre-accession Assistance (IPA) - Strategic Coherence Framework (SCF) Regional Grant Scheme (2012-2014); 4,693,317 EUR under IPA Cross Border Cooperation (CBC) Program (2010-ongoing); and 3,114,584 EUR under The European Instrument for Democracy and Human Rights (EIDHR) (2010-ongoing). Other funding comes from bilateral donors, development agencies, UN and private donors. The total donor funding for Albanian CSOs for the period 2010-2011 amounted to around 5,140,000 EUR (Balkan Civil Society Development Network, 2012).

Some of the EU programs target social and economic development. The main instruments are: IPA SCF supporting the promotion of social and economic inclusion of Roma minority and Egyptian community; IPA CBC Programs supporting economic development and social cohesion; and People 2 People (P2P) Program which supports visits to EU institutions and bodies to exchange experience, know-how and good practices between CSOs in beneficiary countries, EU and Member States. P2P supported study visits of Albanian CSOs and their participation in conferences to increase knowledge on social entrepreneurship.

Financial incentives for the SE are almost non-existent. There are a few legal provisions and regulations; however, they are not applicable or are subject to misinterpretation. The amended Law on NPOs foresees income tax exemptions for incomes generated through donations, grants, bank interest and membership fees. The definition of sponsors, under the Law on Sponsorship No.

7892, however, excludes employees that receive salaries, including all public administration employees. The Sponsorship Law allows only 3-5% deduction of profit before taxation (Article 5) and considers only humanitarian, cultural, artistic, sport, education and ecological activities, literature works, scientific and encyclopedia activities eligible for tax deduction.

Value Added Tax (VAT) exemption is regulated by the Council of Minister Decision No. 1679 from 2008 according to which CSOs can be granted the status of PBOs.

Public procurement and/or social contracting are other important mechanisms for developing good social service system and providing a source of funding for organizations in service sector. The Law No. 9355 from 2005 on Social Assistance and Services provides that "the public social services that are funded by the central or local budget shall be procured by local government units from private providers under the legislation in force on public procurement." Thus, the Law does not exclude CSOs from bidding; however, the process itself is discriminatory towards CSOs. It does not take into account that social services are a specific type of activity and price should not be the determining contracting factor but rather the number of people served and the quality of services provided. The contracting of social services through CSOs has been done on a pilot basis thus far, mainly through donor funding.

As a form of SE, SCAs are exempted from taxes on income and surpluses earned (Law No. 8782, 2001, Art. 52). The tax-exempt status is consistent with the conditions set by the Law on SCAs and their Unions: "not-for-profit", "no dividend distribution", "retain all earnings in the business", "members performing functions voluntarily and free of charge", and "members are collectively responsible for paying the liabilities which cannot be paid from funds from liquidation up to an amount equal to the value of their contributions." Savings and Credit Unions (SCU) granted 5,147 new loans amounting 1.7 million ALL in 2013 dedicated exclusively to production businesses in rural areas, 470 new deposits of 476 million ALL (ASC UNION, 2013).

Reciprocal Cooperation Companies, which focus on agriculture and livestock, are also eligible for fiscal incentives and other state aid according to the Law No. 9039 from 2003 and are exempted from taxes for the first 5 years of operations. The incentive schemes are not developed and their effectiveness remains still to be seen. According to the Ministry of Agriculture, Rural Development and Water Management (MARDWM), a new incentive scheme for Companies for Agricultural Cooperation will be proposed shortly in line with the Agriculture

and Rural Development Strategy 2014-2020, which is pending approval. The Government declared its commitment to support the agricultural sector by allocating 11.8 million EUR in 2014 or 71% more compared to the previous year.

The draft Law on Social Enterprises foresees fiscal incentives for donations, 1/4 reduction of cadastral and mortgage taxes, VAT rate of 4% rather than 20% for the rendered services and income tax deductions for donations of individuals and enterprises to social enterprises.

The EU Instrument for Pre-Accession Assistance in Rural Development (IPARD) represents an important support to Companies for Agricultural Cooperation. Preparations to manage and control rural development funds by the government under IPARD have continued. The first call for proposals under an IPARD-like scheme took place in the period December 2012 - February 2013, followed by two other CfPs in April 2013 and March 2014. The overall indicative budget of the Grant Scheme is 8,270,000 EUR of which 6,200,000 EUR was contributed by the EU and 2,070,000 EUR by Albania (IPARD, 2014). As part of these schemes Companies for Agricultural Cooperation are eligible to apply but so far, none of them have received any funds. It seems that Companies for Agricultural Cooperation still do not have the capacities required by the schemes.

The Advisory Service or Agricultural Extension Services is the biggest national provider of free information, economic and technical knowledge supporting the increase of production and income for different categories of farmers. The public advisory service is organized at the central level by MARDWM. The important role the service plays in the realization of national support schemes is played by providing assistance in completing applications, and the project design and implementation process, and assisting farmers who receive grants. In the grants scheme IPARD, counselors support potential applicants and beneficiaries (farmers and agro-processors) in the promotion process, information, application and implementation of investment projects (Ministry of Agriculture, Rural Development and Water Management, 2014).

Business incubators (BI) and laboratories are an important element of institutional infrastructure for development of Social Economy. In this respect, the first attempts were seen in Albania in 1998 when two BIs were established in Tirana and Shkodra, which did not prove very successful. They were set up by the Ministry of Labor and Social Affairs with the assistance of World Bank's (WB) Training, Enterprise and Employment Fund. The BIs received subsidies during the first three years of their operation and then switched to self-financing but failed to become self-sustainable. Over the past eighteen years, Tirana BI

opened 19 businesses and employed only 52 people whereas Shkodra BI is operating mostly as a rental space (AIDA, 2011). The Strategic Program for the Development of Innovation and Technology of SMEs 2011-2016 introduces a new Business Incubator Program which will pilot a business incubator in Tirana. Two additional BIs are expected to follow. The Program will be funded within the competitiveness component of the upcoming IPA III support.

#### *5.1.4. Analysis of the current situation within the sector*

As a practice, Social Economy in the form of cooperatives is perceived as belonging to the time of the communist regime in Albania. As terminology in the new capitalist context entailing different forms and founding principles, it is not very popular. The sector suffers from the lack of appropriate legal frameworks and fiscal incentives. Funding is scarce for most of the SE forms with the state still being a small player in this regard and the system lacks strong incentives to philanthropy and tax deductions. Thus, they have to rely on foreign donors and development programs. Weak regional connections hinder business exchange and transfer of knowledge and information. The increasing needs in terms of capacity building and management cannot be addressed by the current VET system, specialized resource centers or business incubators.

The legal and regulatory framework for various SE organizations is still under development and thus official data is lacking. Not until 2005 did the Statistical Institute of Albania (INSTAT) start providing data on NPOs as part of the Annual Register of Economic Enterprises (INSTAT, 2012). This data consists only of the total number of CSOs and newly registered CSOs per year. As INSTAT relies on Tax Authority and Social Insurance Institute data, where the number of CSO tax payers and social contributors is small, the total figure reported is far smaller than the actual. According to the Central NPO Register, there were 5,623 NPOs as of April 2014, including 3,944 associations, 463 foundations, 1,070 centers and 146 other types of NPOs. Considering that social enterprises may perform their activities registered as either as a business or NPO, their actual numbers cannot be ascertained. There is no official data on employment in the nonprofit sector, though unofficial sources suggest up to 66,000 jobs (paid and volunteer) which might account for 7.3% of total real employment in the country (TACSO Project & ASE Forum, 2013).

Recent research studies show that the majority of non-profits offer more than one kind of service and target different groups and categories, offer education and vocational training and health care (mostly home care services, elderly assistance).

Their mission may include social services and/or goods as well as social and work integration (TACSO Project & ASE Forum, 2013). The highest concentration of these organizations is observed in Tirana and other bigger cities. They were created or began rendering services after 2001.

In addition to the lack of conducive legal framework, the development of SE is hindered by internal capacity deficiencies. Management of human and financial resources represents one of the challenges, particularly when support infrastructures such as business incubators or specialized assistance is not developed. Accounting and financial advice, networking, information and support, marketing, business plan development, business advice and business models are very scarce. High staff turnover is another challenge social enterprises face. The social enterprise managers largely lack technical skills required in the production process and management skills to run the enterprise, increase production and timely respond to multiple clients. These needs cannot be addressed by the formal education or VET system due to low capacities of social enterprises, scarce resources and failure to combine academic knowledge with practical skills development. The management training and social enterprise start-up services are very few. There is a heavy dependence on donor funding while income from services and philanthropy constitutes only a small percentage of total income and public procurement is not an applicable financing instrument. All this represents a serious challenge to growth.

New cooperatives have been registered for the production of oil, cereals and vegetables under the Law on Companies for Agricultural Cooperation. Although there is a lack of data, the Ministry of Agriculture reports that there are 17 agricultural cooperatives and two new ones awaiting approval. Development of a functioning electronic agricultural information system (farm register, animal register, etc.) is considered to be crucial by the EU in order to create a basis for sound financial management of national and EU assistance (European Commission, 2014).

The data provided by INSTAT lack information on the reciprocal cooperation companies and agricultural cooperation companies (cooperatives). These companies are registered with the National Business Registration Centre as joint stock companies (Ministry of Agriculture, Food and Consumer Protection, 2013) with Ministry of Agriculture, Rural Development and Water Management also keeping a register of them which, however, is not made public.

On 25 January 2005, a number of SCAs founded the Albanian Union of Savings and Credit Associations (AUSCA) based on the Law on SCA, No. 8782. The AUSCA is a voluntary federation of SCAs, established and managed by its members

and administrated by the member-elected Board of Directors. It commenced its activities in 1992 when the Project for Rural Credit, financed by the WB, was launched. The AUSCA mission is to provide financial services to SCA members - rural inhabitants with the aim of promoting production activities, improving living standards and continuously developing rural areas. As of 2013, ASCU has 97 SCA members with a total credit portfolio of over 40 million EUR. The impact of the AUSCA is reflected in the support it provides to the advanced development of Albanian farms. It achieves this by financing an increase in investments and establishment of rural organizations which have the capacity to manage the credit system and other development projects. This has led to economic development with a significant impact on the improvement of living standards, increase in employment opportunities and reduction of emigration. The AUSCA has been ranked the world's 15th top microfinance institution by the MIX Market (World Bank, 2008).

Jehona is also an association which belongs to the SCA group. It started off as a foundation in 1996 launched by the Irish League of Savings and Credit Unions and the European Community Delegation to Albania. In May 2002 Jehona was licensed by the Bank of Albania as a SCU based on the Law on SCA No. 8782. It is a more traditional urban and profession-based SCA funded primarily by rendering deposit services. By 2013 Jehona had 20 SCA members with more than 11,000 individual members and an outstanding portfolio of more than 3 million EUR, providing credit and deposit services to its members. Its funding base primarily draws on borrowing from international donors and financial institutions.

Yunus Social Business GmbH (YSB) - the Albanian branch of a German company – was launched in 2011. YSB runs as a social business setting up incubator funds and providing advisory services to companies, governments, foundations and CSOs (Yunus Social Business, 2014). Identical in structure to a traditional for-profit venture capital fund, and a social business nonetheless, YSB Albania retains all profits for reinvestment. YSB has invested 210,000 EUR in the start-up of social businesses. On the basis of the MoU, The Agency for the Support to Civil Society and YSB allocated around 1 million EUR to support the start-up of social businesses during 2012-2013.

Networking is a weak feature of SE in Albania and this has been one of the factors hindering development of nonprofit sector, which failed to organize itself into a big umbrella or sector-based group over the past 20 years. This has had particularly negative impact on the advocacy agenda with regard to lobbying for a more conducive fiscal regime.

The first efforts in terms of organization in social enterprise sector are evident in the Albanian Forum on Social Enterprises (AFSE). It was established in January 2012 by a group of social enterprises and CSOs, supported by the Emilia Romagna Region. The Forum supports exchange and cooperation between social enterprises, organizations and entrepreneurs, investors, private sector, civil society and universities in Albania and beyond. However, there is little evidence of AFSE work in the above directions, membership numbers or services available.

The most prominent umbrella group of agriculture cooperatives is the Albanian Agribusiness Council (KASH) established in 2001 as the union of 22 agribusiness associations which serves to protect its member's interests and foster agribusiness development in support of consumers' needs and Albanian economic development. KASH has been active in policy development and lobbying, dialogue facilitation between its members and governmental institutions, and provision of information on local and regional prices of fresh and processed agricultural products. Still, it would be more appropriate for agriculture cooperatives to have their own coordination body due to differences in the way they run their businesses compared to for-profit companies, which also determines their advocacy agenda.

Regional level networking, especially among SE actors, is still in its infancy and yet to be developed and consolidated. Nevertheless, there are some efforts that make a good basis for promising future regional cooperation. They are mainly composed of and run by Western Balkans organizations or Western European networks that focus on the Western Balkans.

The Social Enterprise Forum, a network of SEs and social entrepreneurship supporting organizations aimed to encourage innovation development in the Western Balkans, was launched on 14 March 2014 with the Declaration of Western Balkan countries and Turkey on the Development of Social Entrepreneurship (Partners Albania, 2014). This Declaration marks the beginning of a collective advocacy campaign with EU institutions in order that Western Balkan countries become an integral part of the EU strategy on social entrepreneurship development.

The Social Innovation Laboratory (SIL) is a regional hybrid organization working in the area of social innovation in the Western Balkans. SIL promotes social innovation as a way to solve complex socio-economic problems and contribute to improving the quality of life of citizens. It provides a platform for knowledge, ideas and practices to meet by building a network of academics, research organizations, experts, researchers, CSOs, businesses and entrepreneurs.

Social Innovation Europe (SIE) is an online hub that serves as a meeting place where innovative thinkers from all 27 member states can come together to create a streamlined, vigorous social innovation field in Europe, to raise a shared voice and to propel Europe to lead the practice of social innovation globally. The SIE initiative is working to connect policy makers, entrepreneurs, academics and third sector workers with other innovators from across Europe, including the Western Balkan countries.

The Euclid Network (EN) is a pan-European network working both within and beyond the EU member states, including the Western Balkans. It was established in 2007 and connects 300 members from 31 countries from across Europe for a more innovative, professional and sustainable European civil society. For the fourth time the EN is managing the ERASMUS program which is first time ever open to non-member states in the Western Balkans such as Montenegro, Serbia, Albania, Turkey and FYR of Macedonia.

#### *5.1.5. Summary with recommendations*

The Social Economy in Albania is in its infancy. SE initiatives are emerging despite gaps in legislation and a lack of widely accepted concept on what it represents and what its values are. As a country which started with the European integration process, the European agenda and practices represent an important reference in developing the SE in the country.

There are a number of issues that need to be addressed in support of SE development. In general, they relate to the legal and regulatory framework, financial instruments, institutional capacities of SE and structures in place to support it, and networking as a vehicle for transfer of knowledge, best practices and effective advocacy at national and regional level. A set of recommendations is given below based on the analysis provided in this paper and the country specificities with regard to SE:

- Albania needs to have a framework regulation in place with regard to SE. The framework should provide supporting measures and policies needed for development of SE. It needs to define its characteristics, guiding principles and the field of activities, thus contributing to clarifying the concept. A structured dialogue between SE sector and government should be envisaged
- The SE can take different legal forms and a one-form-fits-all does not exist. Albania may consider an open legislative model rather than a specific

law on social enterprises. The framework regulation should address the nature of organization goals and activities rather than the institutional forms in which they operate. This will enable SE organizations to choose the model or legal form best suiting their needs in pursuing their social mission. Principles on what constitutes a social enterprise may be introduced as a way to distinguish it from other forms. The framework should reflect the difference between SE initiatives and nonprofits as two distinct legal forms.

- The development and role of SE should not be seen strictly along the lines of social inclusion and work integration, which is the case with the current Government Strategy for Employment and Skills. The SE should be seen in a wider spectrum of services and trade as a way to encourage social innovation.

- The Government needs to establish special grants and soft loan schemes, taking into consideration the forms of SE and beneficiary groups. This needs to be accompanied by meaningful fiscal incentives and subsidies for the respective forms.

- The Government should be actively providing assistance with regard to networking, technology transfer and services. In addition to direct benefits to SE development, it will help foster cooperation with and trust in public institutions, which is an important ingredient of democracy.

- The public procurement law needs to be revised, derogating from the general rules of public procurement in order to make it easier for the SE to be awarded public contracts for the provision of goods and services.

- The criteria and conditions determining Public Benefit Status should be defined by the law and not by ministerial decree, thus contributing to larger political stability. Public Benefit Status should not be associated with VAT treatment only but extend to other tax and fiscal benefits. The definition of public benefit activities should be reexamined to reflect other the areas apart the current three (health, education and economic development) and linked to activities carried out rather than specific types of organizations (ECNL, 2011). The revision should consider a combination of state control with public oversight.

- The Civil Code and Law on NPOs No. 8788 should be revised to provide a clear differentiation between economic and nonprofit activities and the extent to which NPOs are allowed to engage in economic activity.

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## 5.2. BOSNIA AND HERZEGOVINA

### 5.2.1. Background review

The socio-economic situation in BH has been very difficult for more than two decades. Economic indicators in the table below show that the macroeconomic trends for BH are characterized by a stagnant GDP growth rate, fluctuating around zero, and variations in FDI contribution. Some of the key causes of the slow growth include high levels of public expenditure, budget deficits, public debt and deficit of the current balance (Papic, et al., 2013). Indebtedness itself is not a major concern; however, in this case, it is part of a very dangerous process of accelerated debt dynamics with parallel decline in GDP. Public expenditure is financed through borrowings at every tier of government. The size of administration (all levels of government in BH) accounts for almost 13% of GDP allocated for salaries, which is the largest expenditure of this kind not only in the region, but in Europe as well.

Table 4: Selected economic indicators for BH

	2009	2010	2011	2012	2013
Nominal GDP (in million EUR)	12,273	12,666	13,130	13,160	13,356
GDP per capita in EUR	3,194	3,296	3,432	3,430	n/a
Real GDP growth rate	- 2.7	0.8	0.1	- 1.2	1.6
FDI contribution (in million EUR)	179.92	306.62	354.88	285.14	210.29

Source: AIDA, 2012

In late 2010 the WB conducted a survey which showed that approximately 60% of the BH population lives at the risk of poverty or social exclusion<sup>25</sup>. The main problem of the social protection system in BH is its poor efficiency in reducing poverty. In 2011 around 7% of GDP was spent on payments for various forms of financial assistance which were not based on contributions (World Bank, 2012). This is considerably higher percentage compared to 1.6% of GDP which is the average of the countries of the region.

According to the Agency for Statistics, unemployment in BH is extremely high with an average of 43% over the last five years. At the same time, youth unemployment

<sup>25\*</sup> Based on AROPE methodology, which is a key indicator of social impact in the EU 2020 Strategy.

(15- 25 years) was at 47.5% in 2008 and 58.2% in 2013 (Agency for Statistic of BH, 2008-2013). Total participation of women in the workforce was 39% in the period 2010-2013. The main feature of labor market in BH is the large number of employees in the public sector: 26.2% of total employees in 2013 were employed in public administration, education, health and social services. In 2013 most of the working population was employed in services (51.3%), followed by industry (29.8%) and agriculture (18.9%).

The average educational structure of the total number of unemployed in the period 2008-2013 showed 22% of those with completed primary school and below, 70% with completed secondary education and 8% of those with a higher degree (Agency for Statistic of BH, 2008-2013). There is no relevant study or data on vocational education. Observing the trend in the number of employed and unemployed over the past five years, one can say that the issue of unemployment in BH is being tackled very slowly.

The general social and economic situation in BH is characterized by a decrease in the economic growth rate, high unemployment rate and substantial poverty and social exclusion. Currently, BH is moving slowly through the process of restructuring and the government is facing challenges in ensuring political and economic stabilization, stimulating economic growth and increasing employment. Recognizing the need for a systematic approach towards socio-economic development of BH, Council of Ministers developed a Country Development Strategy and Social Inclusion Strategy in 2010. The last relevant strategy was adopted in the Federation of BH, Brcko District, still waiting to be adopted by The Council of Ministers. One of the measures within the Social Inclusion Strategy is the preparation of guidelines for creating an enabling environment for social entrepreneurship development in Bosnia and Herzegovina (BH Council of Ministers and BH Directorate for Economic Planning, 2010).

BH Government, as well as other countries in the region, adopted the SEE 2020 Strategy in 2011, which recognizes social economy as an important part of employment strategies, in particular with a view to fostering youth employment.

### *5.2.2. Institutional and legal framework*

There is no government body or institution in BH in charge of coordination of SE sector nor is there a specific strategy adopted focusing on SE development.

The only document which addresses SE issues is the Social Inclusion Strategy developed in 2010 by the BH Directorate for Economic Planning. One of the measures under this Strategy proposes development of recommendations and guidelines for social entrepreneurship at all government levels (state and entity).

The Action Plan adopted by the Government of BH Federation designated the Federal Ministry of Labor and Social Policy and the Federal Ministry of Development, Entrepreneurship and Trade as coordinating bodies in charge of creating an environment conducive to the development of social entrepreneurship. As part of the measures to develop an inclusive labor market, the development of social entrepreneurship for people with disabilities is encouraged through cooperation between the Federal Ministry of Labor and Social Policy, Federal Fund for Vocational Rehabilitation and Employment of Persons with Disabilities (PWDs), Federal and Cantonal Employment Office and Federal Ministry of Entrepreneurship and Crafts. These measures do not clearly state whether cooperation with the non-profit sector is planned. Currently, there are no available data on the extent to which the Action Plan developed by the FBH Government has been implemented.

In BH the Social Economy and social entrepreneurship have been developing within the institutional and legal framework for non-profit associations, foundations and cooperatives. The government body responsible for the establishment and registration of foundations and associations in BH is the Ministry of Justice at state, entity and cantonal level and the Basic Court in Brcko District. The legal framework for associations and foundations in BH at all levels regulates the types of organizations that can be registered (associations and foundations) and the manner of their operations. The relevant laws are: Law on Associations and Foundations of Bosnia and Herzegovina (BH OG, 32/01, 42/03, 63/08 and 76/11); Law on Associations and Foundations of the BH Federation (OG of the FBH, 45/02); Law on Associations and Foundations of Republic of Srpska (OG of RS, 52/01 and 52/05); and Law on Associations and Foundations of Brcko District (OG of Brcko District, 48/02).

With the appearance of different types of social enterprises, the abovementioned laws regulate the possible economic activities of NPOs (associations and foundations). Two sources of funding are interesting in terms of social entrepreneurship, namely: economic activities closely related to objectives stated in the statute (income generating activities) and economic activities not related to objectives and performed by establishing a separate enterprise.

Analyzing the two mentioned funding sources set out in Article 4 of the abovementioned Law on Associations and Foundations of BH, related economic activities are defined as “all activities that are directly related to the achievement of the objectives set in the statute, and all other economic activities that are not directly related to the objectives set in the statute, are considered unrelated economic activities” (Deloitte Advisory Service, 2012). Under this Article, CSOs conducting unrelated economic activities need to establish a separate legal entity in accordance with the Law on Enterprises in BH.<sup>26</sup> In line with these laws, legal forms that can be established by CSOs are joint-stock companies and limited liability companies.

The General Law on Cooperatives was adopted at the state level in 2003 (BH OG, No. 18/03, 55/06). As for Republic of Srpska, the Law on Agricultural Cooperatives was adopted in 2008 (OG of RS, 73/08). It is in accordance with the General Law on Cooperatives and is designed to connect members of agricultural cooperatives.

The General Law on Cooperatives stipulates that a minimum of five persons or legal entities may establish a cooperative. However, no amount of initial capital is set out. The Law allows NPOs to establish cooperatives (minimum five CSOs) in order to achieve their economic and social goals through joint cooperation. Non-profits may establish various forms of cooperatives, including social, cultural, agricultural, etc.

The BH legal framework for cooperatives gives impetus to the development of SE at large, and social entrepreneurship in particular. The Law on Cooperatives provides for the distribution of profit and coverage of losses or shortfalls in business. In line with Articles 57-61, a cooperative may use revenues only for material investments or its permanent working capital. A cooperative is required to invest a portion of the profit in reserve funds and the rest of the surplus may be distributed among cooperative members.

One may say that the current institutional and legal framework in BH does not limit the establishment of various structural models in the field of SE, and social entrepreneurship in particular. However, there is a need to improve the existing capacities of government bodies and institutions for the purpose of more efficient coordination at all levels, as well as planning and monitoring of the sector. Enhanced coordination at horizontal and vertical levels of management, both within and between different levels (state and entity levels), would significantly contribute to more efficient development of SE. Overall, coordination between different ministries and government bodies related to the SE sector should be improved.

<sup>26</sup>\* Law on Enterprises in the FBH (OG, No. 23/99, 45/00, 2/02, 6/02, 29/03), Law on Enterprises in the RS (OG No. 24/98, 62/02, 66/02, 38/03, 97/04, 34/06) and the Law on Enterprises in the Brcko District of Bosnia and Herzegovina (OG of Brcko District, No. 11/01, 10/02, 14/02, 1/03, 8/03, 4/04, 19/07, 34/07).

### 5.2.3. Analysis of financial incentives and support mechanisms

There are no comprehensive financial schemes or incentives in Bosnia and Herzegovina focusing specifically on social economy development. The existing legislation provides for tax relief for CSOs regulated under the Law on Profit Tax in both entities<sup>27</sup> and the BH Law on VAT<sup>28</sup>. Tax deductions are aimed at those models of social enterprise (associations and foundations) that do not involve establishment of a separate legal entity. In accordance with the laws on corporate income tax, associations and foundations that generate income through economic activities are exempted from this tax. In accordance with the VAT Law, non-profit organizations are also tax-exempt in case of the supply of services and goods directly linked to the services provided by political, trade-union, humanitarian, charitable, disabled and similar organizations to their members, in return for membership fees, in accordance with the regulations governing these activities, provided that such exemptions do not result in a distortion of competition on the market.

The laws do not offer clearly defined criteria for what constitutes a public good and there is no clear distinction between related economic activities and the concept of ‘distortion of competition on the market’. This lack of clarity in the mentioned fiscal law makes room for discretion and interpretation by representatives of tax administrations at all levels, which can lead to different approaches.

Organizational models of CSOs based on the establishment of separate legal entities are not subject to the aforementioned tax relief. Current fiscal policy does not recognize the merger of separately established companies with CSOs, an organizational model that was created for the purpose of advancing the public good or social values.

As part of its agricultural policy, the state (entity level and Brcko District) provides funds to agricultural cooperatives for the development of agricultural products (crops, milk products, fruit and vegetables). Some of the key challenges agricultural policy faces at all levels include: inconsistencies in the implementation of the adopted agricultural development strategy, low prices of primary agricultural products, violations of the system of protective pricing, low level of investment in agriculture in relation to its share in GDP, risk production and transport monopoly, lack of legislation and particularly of a General Law on Cooperatives in BH in the part related to registration and return of cooperative property (Sava, 2011).

NPOs, foundations and cooperatives can use some benefits allowed by the Laws on people with disabilities<sup>29</sup>. Both laws allow associations, foundations and cooperatives to establish separate company for employment of PWDs,

<sup>27</sup>\* OG of FBH, No. 97/07, 14/08, 39/09 and OG of RS, No. 25/01, 80/02, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13.

<sup>28</sup>\* OG of FBH, No. 09/05, 35/05, 100/08

<sup>29</sup>\* Law on Vocational Rehabilitation, Training and Employment of Disabled Persons (OG of RS No. 59/09) and the Law on Vocational Rehabilitation, Training and Employment of Persons with Disabilities (OG of FBH, No. 2/10)

which is than eligible for certain benefits. Company for employment of PWDs is exempted from customs duties and other taxes. Also, utility costs, such as telephone and electricity, are charged at the same rates applied to households. In the Federation of BH, there are even more specific incentives designed to encourage this kind of business model and thus reduce the exclusion of PWDs. Currently, support for social entrepreneurship is enabled through schemes for CSOs provided by some government bodies. Those financial schemes are often based on co-financing and partnership with local or international organizations (e.g. the Foundation for Social Inclusion BH, Mozaik Foundation, USAID and the EU).

According to the data from 2014, there are 244 international and local donors operating in BH and funding various activities (Bubalo, 2013). The availability of funds for development of social entrepreneurship in BH is very limited. These funds are mainly focused on capacity development through start-up support, technical assistance and promotion of the concept of social entrepreneurship.

The following table gives some of the most important programs for CSOs that operate in the field of social entrepreneurship in BH.

Table 5: Support programs for social entrepreneurship

Donor	Name of the program	Types of support
USAID and SIDA	Fostering Agricultural Markets Activity (FARMA)	Start-up support, consulting and promotion
Delegation of the European Union to Bosnia and Herzegovina	Instrument for Pre-Accession Assistance (IPA) and European Instrument for Democracy and Human Rights (EIDHR)	Consulting and promotion Start-up support, consulting and promotion
Embassy of Sweden	The Challenge Program for Youth Entrepreneurs	Start-up support, consulting and promotion
World Bank	Social Inclusion Fund and Social Business Fund	Start-up support, consulting and promotion
UniCredit Foundation Embassy of Czech Republic	Initiative under the support to economic development	Start-up support
Foundation Mozaik	Regional Social Business Fund	Start-up support, consulting and promotion
Foundation for Social Inclusion BH	Social inclusion through the support to CSO sector	Start-up support and promotion

\* The listed programs are annual

There are no incubators specifically designed to fit to the needs of SE sector and social entrepreneurship in BH. CSOs and cooperatives which develop models of social enterprise by establishing separate SMEs do not have access to stimulating financial instruments. Financial instruments for SMEs are usually available through financial intermediaries such as banks and credit institutions. According to World Bank's Doing Business study, BH is ranked 73rd out of 189 countries in terms of access to loans for business purposes. According to the study, BH has the lowest score in the region compared to Croatia (42<sup>nd</sup>), Kosovo\* (28<sup>th</sup>), Albania (13<sup>th</sup>) and Montenegro (3<sup>rd</sup>) (World Bank, 2014).

#### 5.2.4. Analysis of the current situation within the sector

The concept of SE is still at its development phase in BH. There is no universally accepted definition of SE that would clearly refer to all the elements and organizations that make up this sector. However, social entrepreneurship has achieved somewhat greater recognition lately.

There are no clear guidelines on the direction which development of SE or social entrepreneurship in BH should take, and these concepts are often misunderstood and misinterpreted. For example, as an approach to work social entrepreneurship is not sufficiently understood by young people while as an idea to be promoted and supported, it is not yet fully accepted as a strategic goal. BH Development Strategy, which has not been adopted yet, provides recommendations and guidelines for development of social entrepreneurship and promotion of entrepreneurship among youth through cooperation with educational institutions at all levels (Council of Ministry BH and Directorate for Economic Planning of BH, 2010).

There is no systematic collection of data on the size and capacity of SE sector. This is particularly the case with social enterprises which are not legally recognized. Social enterprises are still marginalized in public debate and only partially integrated in the legal framework. Most social enterprises in BH operate within the Law on Associations and Foundations<sup>30</sup> and the Law on Cooperatives<sup>31</sup>. Some CSOs have started developing the concept of social entrepreneurship and launched specific business initiatives in an attempt to raise funds for their mission. The data from 2011 showing that 23% of the total number of surveyed associations was partially funded by revenue-generating activities indicate a new revenue-generating activities (related or unrelated) trend in CSO sector.

30\* Law on Associations and Foundations of Bosnia and Herzegovina (BH OG, 32/01, 42/03, 63/08 and 76/11); Law on Associations and Foundations of the Federation BH (OG of the FBH, 45/02); Law on Associations and Foundations of the Republic of Srpska (OG RS, 52/01 and 52/05); and Law on Associations and Foundations of Brcko District (OG of Brcko District, 48/02)

31\* General Law on Cooperatives (OG no. 18/03, 55/06) and Law on Agricultural Cooperatives of Republic Srpska (OG of RS 73/08)

According to a study conducted in 2011, over 12,000 civil society organizations operate in BH (Papic, 2013). However, the data on the size and capacities of the sector should be treated cautiously given that there are four laws on associations and foundations and no single registry of associations. This figure of 12,000 CSOs is comprised of all types of organizations including political parties, religious, sports and cultural organizations, and other associations. Registered associations operate primarily at the local level and most are registered at the entity level (Federation of BH and cantonal level) with only 19.2% at the state level. The most common fields of interest of associations are education, local community activities, consulting, lobbying, advocacy and monitoring of public policies and government institutions (Papic, 2013). According to data of the Union of Cooperatives in BH, there are around 850 cooperatives: 367 in Republic of Srpska and 237 in Federation of BH.

Out of the total number of cooperatives, 20% reach the level of accumulation of income vital for their development, 50% operate on the verge of profitability and 30% operate with losses for one of more years (Sava, 2011). There is no data available on the number of employees in cooperatives, the level of annual revenue or their total share in GDP. Although there is no official data on the total number of established cooperatives, one can assume that over 80% are agricultural cooperatives.

Based on the publications available from organizations which explore or support projects in the field of social entrepreneurship, there is a wide range of activities pursuing the social enterprise model. They can be found in agriculture, information technology, graphic and web design, preservation of traditional crafts, manufacture, service delivery to marginalized groups and their recruitment through delivering various types of support to small businesses, etc. (FSU, 2012; Mozaik Foundation, 2012; Human Rights Office Tuzla, 2013). There is an increasing trend of the number of agricultural initiatives run by CSOs and cooperatives focused on economic empowerment of households. According to UNDP, agriculture can make a significant contribution to the overall economy of the country but it cannot be its main driving force (UNDP, 2013). The motivation for launching such models is to improve the quality of life of various marginalized groups since BH society is burdened with the issue of social exclusion.

Almost all projects in the field of social entrepreneurship have been launched by CSOs so far owing to the available financial resources and their professional skills. Although CSO models which are based on the concepts of social entrepreneurship testify to the inventiveness of BH CSOs and cooperatives, in most cases they are managed inefficiently and in an improvised manner, without much planning or preparation, and lacking capital and support to

strengthen the capacities needed for their growth and empowerment. There are many reasons for this including a lack of understanding of the term social entrepreneurship and a lack of capacities, human resources and entrepreneurial skills and expertise characteristic of the business sector which are essential for development of models of social enterprises (FSU, 2012).

In the context of BH, it is evident that social economy is present in various forms, enabled by the above-mentioned legal regulations.

Following the Strasbourg Declaration, CSOs from the region of the Western Balkans and Turkey have taken an initiative to sign a Declaration on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey. Representatives of 465 organizations from Albania, BH, Kosovo\*, FYR of pre Macadonia, Montenegro, Serbia and Turkey signed the Declaration in March 2014, in Belgrade. The Declaration provides a good basis to build cross-border cooperation between key stakeholders (government, non-profit and private sector) in the field of social entrepreneurship.

Despite the obstacles and difficulties they face, CSOs have a very positive attitude towards social entrepreneurship (FSU, 2012). They are generally aware that international donors will withdraw from BH and that they must find alternative sources of income to ensure their sustainability and, thus, make some progress in addressing specific social issues of concern.

#### *5.2.5. Summary with recommendations*

Based on the analysis, one can say that the concepts of SE and social entrepreneurship are fairly new in BH and, therefore, the potential for their development has not yet been exploited.

The main impediments to creating a supportive environment for SE development in BH are: lack of familiarity with the concept of social entrepreneurship among the key stakeholders, CSOs, cooperatives and relevant departments at all levels; limitations of the existing institutional and legal framework for the SE development (NPOs, cooperatives and private entities); lack of coordination at all levels of government (state, entity) for development of social economy (social entrepreneurship); poor level of entrepreneurial knowledge and skills within CSOs and cooperatives; lack of funds to design new models and develop the existing SE organizations and social enterprises (start-up capital and subsidies); and challenges in implementation of agricultural policies at all levels in BH.

One of the main incentives to create a supportive environment for SE development in BH is the existing legal framework which enables development of various models of social enterprises from the perspective of CSOs and cooperatives, though additional measures would be welcomed. Large number of civil society organizations is one of the key potentials for social entrepreneurship development and it is necessary to promote more opportunities for this type of activities. The existing funds available from international organizations may be seen as a good basis to launch a different organizational model based on the principles of social entrepreneurship. Finally, the existing models of SE developed by CSOs and cooperatives should be more visible and acknowledged as they may serve as a basis for the exchange of experiences and good practices in BH and the region.

Based on the analysis, recommendations for creating a supportive environment for SE development in BH may include:

- The contents of entrepreneurship and social entrepreneurship should be included in the system of education at all levels as part of the planned education reforms. Education on entrepreneurship and social entrepreneurship should become part of the school curriculum in order to raise awareness among young people and influence a new mind-set oriented towards social economy. A Centre for the Development of Social Entrepreneurship may be established both at the state and entity level. The Centre would educate representatives of state institutions, CSOs, cooperatives and private entities on social entrepreneurship, promotion of SE initiatives, networking, sharing know-how on developing successful models, and identifying good practices. The Centre could also involve representatives of business sector to provide mentoring services for development of entrepreneurial potential of CSOs and cooperatives.
- Establishing stimulating environment for development of SE a social entrepreneurship should include more financial resources either as grants or capital for start-ups and scaling up. Resources should be exclusively focused on the acquisition of material resources needed to run a social business rather than on the costs of administering the allocated funds. Furthermore, loans and different credit schemes should be tailored to fit the needs of SE sector.
- The government sector should provide affordable credit lines through the development bank. Supportive system of tax relief for social economy organizations should be established.
- Existing legislation that regulates CSOs should be harmonized with legislation of other types of SE organizations and include common criteria.

Also, common indicators for monitoring SE organization should be developed and included in regular statistical reports.

- Given that there is no register of SE sector as a whole, it is necessary to establish one. The data on size, structure and impact of the sector will make it possible to plan adequate measures for sector development.
- Exchange of experience through the promotion of successful models of social enterprises should be encouraged. It is necessary to involve the academic community, private sector, CSOs, cooperatives and government sector in these activities. This will lead to a better understanding of SE concept among key stakeholders in order to create an appropriate definition for the development of this field.
- Establishment of an informal body, such as, for example, Forum of Social Entrepreneurs and Innovation, may improve harmonization of needs and articulation of common interests towards legislators and representatives of international donors (EU, USAID and others) in lobbying for adoption of strategic measures and recommendations that will enable supportive environment, both nationally and regionally.
- Funding should be more accessible to different forms of SE organizations. Besides developing diverse national funding schemes, establishment of a regional fund for development of SE initiatives in the region should be largely encouraged.

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## 5.3. CROATIA

### 5.3.1. Background review

In order to determine the socio-economic situation in Croatia, it is necessary to take into account large amount of quantitative data provided by surveys and researches conducted by the National Bureau of Statistics and other relevant institutions at national and European level. A set of most important indicators and their trends in the period 2008-2013 indicates the impact of the EU integration process and EU membership of July 2013 on the socio-economic development of Croatia. As mentioned above, development process seeks to create or adopt strategies and policies that will address the needs and interests of communities in most practical ways. Policies, strategies and programs adopted or designed for the purpose of Social Economy development in Croatia will be presented as a response to European trends and the current economic crisis indicated by the data in the tables. The most important indicators of economic health, standard of living and social welfare contribution in Croatia are shown in Table 6.

Table 6: Socio-economic growth indicators for Croatia (2008 - 2013)

	2008	2009	2010	2011	2012	2013
<b>Financial indicators</b>						
GDP (mil. EUR)	47,543	44,781	44,441	44,412	43,929	43,342
GDP growth rate (%)	2.1	-6.9	-2.3	0.0	-1.9	-1.0
GDP per capita (EUR)	10,718	10,108	10,057	10,375	10,295	10,155
FDI (mil. EUR)	4,055	2,567	389	1,087	1,066	530,5
FDI (% GDP)	8.5	5.7	0.9	2.4	2.4	1.2
<b>Social expenditure indicators</b>						
Total social expenditure (mil. EUR)	8,905	9,312	9,344	9,161	-	-
Total social expenditure (% of GDP)	18.7	20.8	21.0	20.6	-	-

As it can be seen, Croatian GDP was recording continuous decline in the observed period with the exception of 2011 when the GDP growth rate was neutral (0%). The decline continued after 2011 but at lower rates. GDP fell by 8.84% (4.2 million EUR) in 2013 as compared with 2008. In the same period, GDP per capita indicated a downward trend and decreased by 5.25% (563 million EUR). FDI, as the influx of capital and increased tax revenues, recorded a drastic decline as a clear indication of the economic crisis that affected Croatia and the rest of the world. In addition to macroeconomic indicators, it is necessary to provide a review of several indicators closely related to social conditions, where SE and social entrepreneurship may impact the most. In terms of direct or indirect public or private interventions related to the acquisition of social welfare, the most frequently used indicator is the amount of total social expenditure expressed as a percentage of GDP. In the absence of more recent data, it is possible to detect a general trend of growth in total social expenditure of 2.79% or 256 million EUR up to 2011. The most common areas of social protection expenditure in the reporting period included old age, health care and disability.

Employment indicators presented in the context of the potential for social entrepreneurship and SE development (Table 7) suggest a number of issues such as low productivity and the mismatch between education and employment policies. These problems create a number of social consequences the most significant of which are the risk of poverty and unequal income distribution in society (measured by the Gini index).

Table 7: Labor market and poverty prevalence indicators (2008 - 2013)

	2008	2009	2010	2011	2012	2013
<b>Labor market indicators</b>						
Unemployment rate (%)	8.4	9.1	11.8	13.5	15.9	17.2
Employment to population ratio (%)	57.8	56.6	54.0	52.4	50.7	49.1
Youth unemployment rate (% labor force age 15-24)	21.9	25.1	32.6	36.1	43.0	-
Long term unemployment rate (% labor force)	4.3	4.1	6.2	8.6	10.4	-
Female unemployment rate (% labor force)	10.1	10.3	12.3	13.2	15.6	-
Self-employed (% total employment)	14.7	14.7	14.4	13.6	12.0	-
<b>Poverty prevalence and structure indicators</b>						
At risk of poverty rate (% of population)	17.4	18.0	20.6	21.1	20.5	-
Gini index	0.29	0.27	0.31	0.31	0.31	0.33

Source: Croatian Bureau of Statistics, 2013a, 2013b, 2014b

In addition to the overall unemployment level and decline of employees in the total population, employment rate of PWDs (9.7%), Roma (0.4%) and other national minorities (6.42%) is not systematically monitored but is significant in terms of social exclusion and financial dependence. Although the data indicates consistently increasing risk of poverty and inequality in income distribution, Croatia has witnessed a steady decline in the share of self-employed, which may be significant in the context of encouraging SE development.

Adaptation to the legislation requirements of the EC and the struggle with the economic crisis marked the period 2008-2011 in Croatia. European institutions have proactively worked to make strategic documents, measures and activities to develop an economic model resilient to the financial crisis, which will put responsibility for social development on each individual. The Small Business Act, SBI, Strasbourg Declaration and EU 2020 Strategy emphasize corporate social responsibility, social entrepreneurship and SE as key elements of long-term sustainable economic and social development. The closure of accession negotiations in 2011 positively affected Croatian economy, but still not enough to compensate for the delay in implementing measures to identify potential, remove barriers and encourage development of SMEs as the foundation of the European economy and their potential for smart, sustainable and inclusive growth.

Although slow, the progress in adopting European practices in sustainable development has resulted in development of numerous laws and strategies over the past few years. These include laws on implementation of EU regulations; coordination of social security systems; employment promotion; cooperatives; professional rehabilitation and employment of PWDs; and the law on promotion of small business; as well as strategies on rural development; combating poverty and social exclusion; entrepreneurial learning; entrepreneurship development; sustainable development; and civil society development. Social Entrepreneurship Development Strategy in Croatia 2014-2020, which is directly related to development of social entrepreneurship and contributes to further development of SE, is prepared and expected to be adopted in 2014. It will include the specifics of Croatian economy and development path set by the EU which Croatia is a member of as of July 2013.

### 5.3.2. Institutional and legal framework

There is no governmental body or institution that is exclusively responsible for management, coordination and development of SE sector in Croatia. Given that we distinguish a number of legal forms of organizations in SE

sector - cooperatives, associations and foundations, social enterprises (sometimes registered as companies) and private social welfare institutions - there are various governmental bodies and institutions dealing with their development. Ministry of Entrepreneurship and Crafts (its Directorate for Entrepreneurship and Crafts, Division for Small and Medium-Sized Enterprises, Department of Clusters and Cooperatives, Cooperatives Department) is responsible for the operations and development of cooperatives. Croatian Cooperatives Association acts as an independent professional business organization of cooperatives, alliances of cooperatives and other members that promotes, coordinates and represents their individual and common interests. National Foundation for Civil Society Development is a leading public institution for collaboration, networking and funding of CSOs (associations and foundations) in Croatia. In addition to financial support, its support to development of CSOs is provided through a network of Centers of Knowledge for Social Development and Regional Support Centers for Civil Society and Local Community Development. In addition to the Foundation, Government Office for Cooperation with NGOs and Croatian Government Council for Civil Society Development play major role in the development and operation of associations. The main task of the Office is to coordinate the work of ministries, central state offices, Croatian Government offices and state administrative organizations, as well as administrative bodies at local level regarding monitoring and improvement of cooperation with the non-governmental and non-profit sector in Croatia. The Civil Society Council is an advisory body of the Croatian Government that fosters cooperation between the Croatian Government and CSOs regarding implementation of the National Strategy for Creating an Enabling Environment for Civil Society Development, development of philanthropy, social capital, partnerships and inter-sectoral cooperation. Administrative supervision over the implementation of the Law on Associations and the Law on Foundations is carried out by the Ministry of Public Administration. The Ministry of Entrepreneurship and Crafts, Directorate for Entrepreneurship and Crafts, Division for Small and Medium-Sized Enterprises, deals with the development of social enterprises which operate as commercial companies (limited-liability companies).

Private social welfare institutions, which make up only a small part of the total SE sector in Croatia, are coordinated by the Ministry of Social Policy and Youth. In addition to government bodies and institutions, intermediary sector led by Social Entrepreneurs Forum (SEFOR) and Croatian Cluster for Eco-Social Innovation and Development (CEDRA HR) has been playing a very important role in the development of SE in Croatia since 2011. SEFOR is an informal

network and coordination and advocacy organization which brings together 50 representatives of three sectors active in the development of SE and social enterprises. This network is in charge of Annual Social Enterprise Award which has been presented for three years in three categories. CEDRA HR links civil, private and public actors in economic and developmental research in the field of eco-social development. It is creating a framework for permanent, stimulating and economic co-operation and exchange, and joint action on local, national and global markets of eco-social economy products and services. CEDRA HR also develops and links support and capacity building systems for eco-social development. It currently connects 40 consultants or trainers in six support centers in major Croatian cities.

All listed government departments and institutions, non-governmental organizations and independent networks face challenges in advancing the development of SE mostly due to a lack of horizontal as well as vertical cooperation and coordination. However, the process of drafting the National Strategy for Social Entrepreneurship Development 2014-2020<sup>32</sup>, which was initiated by CEDRA HR at the end of 2011 and coordinated by the Ministry of Labor and the Pension System, for the first time provides for continuous strategic and focused participation and cooperation of more than 50 different organizations from all sectors. The Strategy defines the criteria for attaining the status of social entrepreneur and four important areas of development: establishment and improvement of legislative and institutional framework for social entrepreneurship development; establishment of a financial framework for efficient operation of social entrepreneurs; measures and activities to promote the importance and role of social entrepreneurship through formal and informal education; and measures and activities needed to ensure visibility of the role of social entrepreneurship and its possibilities in Croatia. The public debate ended in April this year and the document is expected to be adopted by the Croatian Government by autumn 2014. In addition to this Strategy, the most important strategic documents that contribute to development of SE are: National Strategy for Creating an Enabling Environment for Civil Society Development 2012-2016; Strategy for Combating Poverty and Social Exclusion in Croatia 2014-2020; Croatian Tourism Development Strategy 2020; Entrepreneurship Development Strategy 2013-2020; and Strategy for Women's Entrepreneurship in Croatia 2014-2020. The process of preparing the Strategy for Cooperatives Development 2014-2020 will be initiated soon. These strategies define ways to create an enabling environment for SE development and provision of financial support and instruments for its promotion at large, as well as its activities in specific sectors. Particularly strong focus was put on employment and work integration.

32\* The Strategy was presented for the public debate at URL: <http://raspravama.mrms.hr/bill/prijedlog-strategije-razvoja-socijalnogdrustvenog-print/>, accessed on 7 May 2014

There is no single law defining the operation of social enterprises in Croatia. Each legal form of organization and its activities in SE sector are regulated by a specific law or set of laws. Operation of associations is defined by the Constitution of Croatia (OG 85/2010), Law on Associations (OG 88/01, 11/02) and Regulation on Accounting of NPOs (OG 10/08, 7/09) while the operation of foundations is regulated by the Law on Foundations (OG 36/95, 64/01). Enactment of the new Law on Associations is expected this year. The key changes it will bring about include: differentiation of associations according to the area of operation; separation of sport associations by an individual law; tightening of conditions for founding an association; introduction of the institution of liquidator; and minor changes to the definition of economic activities associations are permitted to engage in. Also, the existing Regulation on Accounting of NPOs will be replaced by the Law on Financial and Accounting Operations of NPOs in 2014. It will regulate economic activities of associations in more detail, including obligation to register economic activities with the Register of NPOs (RNPO), limitation to the amount of income generated from economic activities, etc. There are no registered mutual insurance companies or mutual societies in Croatia. Although a legal option exists and is provided by the Insurance Law (OG 151/05, 87/08, 82/09, 54/13), the most common form is insurance joint-stock company. The operation of cooperatives is defined by the Constitution of Croatia (OG 85/2010), Law on Cooperatives (OG 34/11, 125/13) and Companies Law (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13). A new Law on Cooperatives, which will develop a new institutional framework for cooperatives, was adopted in early May. Social enterprises usually take the form of an association, cooperative, company or combination of these. Operation of companies, which are usually registered as limited-liability companies and joint-stock companies, is regulated by the Companies Law. In addition to this, there is a set of fiscal laws and a number of other laws which define employment as well as operation of some specific forms of social entrepreneurship such as sheltered workshops and work centers which are regulated by the Law on Vocational Rehabilitation and Employment of PWDs (OG 157/13).

Therefore, Croatian legal framework allows development of SE as well as development and operation of social enterprises. In some situations it can have a stimulating effect, e.g. it is very easy and fast to register a company, association or cooperative. In terms of tax and fiscal legislation, the effect is neither encouraging nor motivating. There is no mechanism or decision to relieve the financial reserves of social enterprises from taxation, enable organizations in SE to pay a reduced rate of VAT or income tax, pay lower taxes on business activities etc., as is the practice in most EU countries.

### 5.3.3. Analysis of financial incentives and support mechanisms

There is no tailor-made scheme of financial support for the development of SE and activities of SE organizations in Croatia. The first support program for development of social entrepreneurship in Croatia was published by a donor organization – the Academy for Educational Development (AED) in 2006. The fund financed several pioneering social entrepreneurship projects with symbolic amounts of up to 10,000 EUR. In 2007, NESsT (an international organization that works to develop sustainable social enterprises across the world) published the first call for proposals to fund start-ups - social businesses. NESsT has so far concluded two rounds of tenders - almost 40 organizations applied for funding and 18 passed NESsT's education focused on development of self-financed activities through social enterprises. Unfortunately, AED and NESsT no longer provide financial support to development of social entrepreneurship in Croatia. Today, socio-entrepreneurship projects and ventures in Croatia are financed largely by support funds allocated from the state budget, by various state funds, local and regional government budgets, and by local and foreign donors and investors. Four years ago Ministry of Entrepreneurship and Crafts launched a program titled Entrepreneurial Impulse to encourage entrepreneurship and crafts. The program provides ongoing financial support to cooperative activities (at an average annual level of 200,000 EUR – 0.003% of GDP). A call for proposals to apply for social entrepreneurship funding was published within the program in 2011 and 2012 and it was the first time social entrepreneurs could apply for grant support from the state budget. The total amount of grant funds was not so high (about 400,000 EUR – 0.006% of GDP) and mainly related to social employment. However, since 2013 the program contains no specific calls for proposals focused on social entrepreneurs. The National Foundation for Civil Society Development offers benefits to socio-entrepreneurial activities of associations in some of their tenders; however, this is a periodic practice rather than an established and defined strategic course of action. Social welfare institutions co-found some of their activities with the help of the Ministry of Social Welfare and Youth through individual, usually annual tenders. While such practice exists in neighboring countries, no bank in Croatia has developed a model of funding or lending for socio-entrepreneurial ventures and projects. In financial sector SE organizations are treated the same as other business organizations in terms of criteria and conditions of financing and guarantees. In 2012, Good.Bee from Austria (part of Erste Stiftung and Erste Group) tried to enter the market with their financial model to encourage activities of social enterprises implementing a pilot project in Osijek-Baranja County which ended unsuccessfully. In Croatia, as well as other countries in the region, a considerable level of support to the

development of SE is provided by the National Employment Service through different programs, support measures and incentives for different target groups, small grants to start a business, etc. Unfortunately, the existing social investment infrastructure has not yet taken hold, although organizations such as the Croatian Network of Business Angels – CRANE have been operating for several years in Croatia.

Unfortunately there are no tax deductions or exemptions for SE organizations in Croatia. There are some exemptions, though, that can be used by all kinds of businesses such as reduced income tax rates on reinvested profit. This relief is regulated by Article 6 of the Income Tax Law (OG 177/04, 90/05, 57/06, 146/08, 80/10 and 22/12) and Article 12a of the Ordinance on Income Tax Law (OG 95/05, 133/07, 156/08, 146/09, 123/10, 137/11 and 61/12) which prescribe in detail the procedure and method of using tax credits for reinvested profit. The abovementioned laws, together with the draft Law on Regional Development (expected to come into force on 1 January 2015) also define allowances in areas that are considered underdeveloped according to the criteria of regional development. In accordance with Croatian laws, rules and regulations related to employment, an employer employing PWDs is entitled to tax breaks, financial incentives, and incentives provided by a special contract on hiring people with disabilities concluded with the Institute for Expertise, Professional Rehabilitation and Employment of PWDs, Croatian Employment Service, Croatian Institute for Pension Insurance and other relevant institutions (based on the Decision on incentives to the employment of PWDs (OG 97/2013). Likewise, the Public Procurement Law (OG 90/11, 83/13, 143/13, 13/14) under Article 15 stipulates that “Contracting authorities/entities may reserve the right to participate in public procurement procedures to sheltered workshops or provide for contracts to be performed in the context of sheltered employment programs where most of the employees concerned in relation to the overall number of employees are handicapped persons who, by reason of the nature or the seriousness of their disabilities, cannot carry on occupations under regular conditions”. Unrelated to business organizations in the sector of SE, there are still some benefits. For example, the Law on Personal Income Tax (OG 177/04, 73/08, 80/10, 114/11, 22/12, 144/12, 43/13, 120/13, 125/13, 148/13) and Law on Income Tax allow tax deductions for donations of individuals and companies when donating up to 2% of their annual income to NPOs.

Previous support to development of SE and social enterprises provided by EU funds was not strong enough (e.g. IPA Operative Program Human Resources Development (IPA OP HRD) through which around 200 projects are financed) and mainly related to employment with only a part focused on

projects in the area of social welfare. However, IPA OP HRD did fund nine social entrepreneurship development projects to a total value of 900,000 EUR (Ivankovic, et al., 2013). Following IPA program, EU structural funds provide great potential for the development of SE and social entrepreneurship, in particular the European Social Fund (ESF), European Regional Development Fund (ERDF) and other EU programs such as the Employment and Social Innovation (EaSI). Although the structural funds programming process for 2014-2020 is still in progress, certain activities that aim to promote social entrepreneurship are envisaged within the ESF and are aligned with the drafted Croatian Social Entrepreneurship Development Strategy 2014-2020. Within ESF, activities will be supported through Investment Priority 9.8 promoting SE and social enterprises. EaSI's Axis III is entirely devoted to micro-finance and social entrepreneurship.

Although Croatia has a network of business centers, incubators and development agencies, it is very difficult for organizations in the SE sector to access non-financial support. The most common form of support, which has proved in practice to be the most flexible for organizations in different sectors and also the most used, are informal education and training programs. From 2007 onwards, associations, foundations, trade unions and other CSOs received free support in the form of information, advice and training through Knowledge Centers for Social Development and the national network of Regional Support Centers for Civil Society and Local Community Development (5 regional centers and 15 collaborating organizations) coordinated and funded by National Foundation for Civil Society Development. In 2013, more than 1,600 CSOs received over 6,000 hours of free support. With a variety of organizations that provide local support to SE sector (SLAP association, ACT Group, Impact Hub Zagreb, and others), the most important role lies with the national network of support centers to social entrepreneurs - CEDRA HR. This network provides information, education, counseling, networking and connectivity, feasibility studies, business plans, drafting and revision of strategies, development and operational plans, preparation and drafting of proposals, marketing and branding services, social research, organization of public events, campaigns, study visits, economic missions and other technical assistance. Through its regional support centers CEDRA HR also provides space and infrastructure for doing business,, socializing and exchanging information and knowledge. In 2013 CEDRA HR provided support to more than 2,000 social entrepreneurs, activists and social innovators through its six national branches. Expert, non-financial support to cooperative's operations is provided by the Croatian Cooperative Association as a chamber organization and the Croatian Agricultural Cooperative Association as a professional, business, voluntary and non-profit association of cooperatives,

mainly from the agricultural sector. Advisory, information and educational services to private social welfare institutions is provided by the Ministry of Social Policy and Youth. Only few faculties and colleges in Croatia (Faculty of Economics in Zagreb, Faculty of Economics in Osijek, Faculty of Law, Department of Social Policy, Zagreb School of Economics and Management, VERN' University of Applied Sciences and University of Pula) educate students on the aspects of SE and social entrepreneurship if anything. The lack of formal education is reflected in the lack of human and technical capacity.

In the context of regional cooperation and SE development, there is no organization which provides support to regional or cross-border initiatives, networks and cooperation. Almost all regional initiatives and projects were financed by EU funds (Multi-beneficiary IPA, IPA CBC, etc.). It is important to mention that, in 2010, a group of social and civic leaders and social entrepreneurs from Croatia, Serbia, FYR of pre Macadonia, Kosovo\* and Italy initiated a project called Eco Social Economy Network South and East Europe - ESENSEE. ESENSEE was envisaged as an open, non-formal network intended to be supported by self-reliant formal structures - and an educational cluster that would enable inspiring, sustaining and cost-effective cooperation and development among various stakeholders at local, national and regional level. Unfortunately, after the completion of the project at the end of 2012 and due to a lack of further financial support, the initiative for further development of the network was not implemented.

#### 5.3.4. Analysis of the current situation within the sector

In narrow and specialized circles (cooperative sector, CSOs), Social Economy is considered an important lever to get out of economic crisis and fight poverty. Lately, this has been recognized in different strategies such as the National Strategy for Social Entrepreneurship Development 2014-2020, the Strategy for Combating Poverty and Social Exclusion in Croatia 2014-2020, the National Strategy for Creating an Enabling Environment for Civil Society Development 2012-2016, etc. However, the SE does not receive much public attention (social entrepreneurship, for example, is much better covered in media) and it is not fully recognized by decision-makers as a stabilizing factor in development of labor market or as a sustainable community development factor. While there is no single definition of SE at the national level, the ones most frequently mentioned are in the context of CSOs, cooperative organizations and social enterprise activities. There are dozens of other terms used in public discourse – some of the most frequent being 'informal economy', 'good economy', 'economy based on values', 'human economy' or 'alternative economy'.

No institution, organization or unit has been established in Croatia that would deal with the collection and analysis of data on the status and development of SE as a whole. Regular research and analysis (from 2007 onwards, every 2 years) of the development and impact of CSOs (associations, foundations and arts organizations) is carried out by the National Foundation for Civil Society Development. The purpose of the research is to provide a basis for longitudinal monitoring of civil society development. Periodic research and monitoring of civil society sector activity and development is also conducted by other organizations such as the Government Office for Cooperation with NGOs, Technical Assistance for Civil Society Organizations (TACSO), etc. There are 51,290 associations in Croatia operating at this moment,<sup>33</sup> most of them being sports organizations (33.5%), cultural organizations (15.3%) and economic associations (9.1%). Croatian associations are small on average, rely on volunteer work, and lack knowledge, organizational and management skills. They have limited access to financial resources and mostly work in local communities primarily addressing issues and responding to the needs of specific groups such as children and young people, women, PWDs, the elderly and infirm. According to TACSO's research, the vast majority of CSOs concentrate on service delivery in the community, which in most cases includes training and informal education, counseling and professional services; roughly a quarter of all CSOs undertake some form of advocacy activities and almost 10% are engaged in monitoring political processes and the work of public administrations (TACSO, 2013). The civil society sector is continuously growing as evident from the data presented in Table 8.

33\* As of 8 May 2014, according to the Register of Associations URL: <http://www.appluprava.hr/RegistarUdruga/>

Table 8: Civil society organizations (associations) in Croatia (2008 - 2013)

	2008	2009	2010	2011	2012	2013
Number of associations	36,675	39,615	42,472	45,237	47,999	50,809
Number of associations in RNO	n/a	9,669	13,957	17,450	19,955	22,694
Number of employees	n/a	n/a	8,281	9,323	9,757	n/a
Annual income (mil. EUR)	646.2	568.9	569.8	582.0	598.3	611.6
Annual income (%GDP)	1.36%	1.27%	1.28%	1.31%	1.36%	1.41%

At least once a year, the Croatian Cooperatives Association publishes an analysis of the cooperative sector, using data from the Financial Agency (FINA), Bureau of Statistics and its own database. There are somewhat less than 1,200 cooperatives operating in Croatia at the moment. Similar to other European countries, cooperatives are most commonly seen in agricultural sector (40% of all cooperatives), which is understandable due to Croatian tradition and approach to agricultural production. However, in terms of industrial and service sector, as well as housing and finance, Croatia considerably lags behind European trends in the use cooperative model. Due to systematic neglect, the number of cooperatives, their members and employees has continued to decline over the last few years. In 2013, there was a slight increase as a result of a new wave of cooperatives - social, media and engineering. However, the cooperative sector is still very small and underdeveloped - for example, more than half of registered cooperatives do not have a single employee.

Table 9: Cooperatives in Croatia (2008 - 2013)

	2008	2009	2010	2011	2012	2013
Number of cooperatives	2,178	2,380	2,624	2,765	1,069*	1,169
Number of employees	3,591	3,565	4,329	4,246	2,680	2,734
Number of members	n/an/a	25,587	28,866	18,767	19,485	
Annual income (mil. EUR)	339.0	317.7	295.4	288.7	251.2	n/a
Annual income (%GDP)	0.71%	0.71%	0.66%	0.65%	0.57%	n/a

One of the first studies on social entrepreneurship in Croatia was conducted by NESsT in 2005. Subsequently, few mainly qualitative surveys on social entrepreneurship were conducted by academic community (such as Odinsky-Zec, Stubbs, 2009; Vidovic, 2012). There has been no comprehensive quantitative research or analysis of SE or social entrepreneurship sector that would shed light on its size, the number of organizations, their members and employees, income levels, economic, social and environmental impacts and other indicators. In 2013 CEDRA HR conducted a research on the capacity of social enterprises, examining a sample of 170 organizations. The final analysis has not been presented to the public yet. By the beginning of 2015, the National Strategy for Social Entrepreneurship Development plans to establish an institutional unit for effective preparation and implementation of public policies aimed at developing and monitoring social entrepreneurship.

Source: Croatian Cooperatives Association, 2014

The SE and social enterprise sector in Croatia lags behind the same sector in developed European countries. An important reason for this is a lack of awareness of the importance of SE and social enterprises for upholding economic and social equilibrium. The SE was for the first time identified in the context of creating positive impacts (economic, social and environmental) in the National Strategy for Creating an Enabling Environment for Civil Society 2006-2011. The Strategy emphasizes SE and social entrepreneurship as one way to alleviate the consequences of poverty and unemployment, especially among hard-to-employ groups. This is supported by recent data from the Government Office for Cooperation with NGOs which show that organizations have increased the number of their employees by 8% over the last 2 years. Unfortunately, there is no information on the social impact of these organizations in the area of employment, social services provision, community development, etc. An announcement of the results of research on social and economic effects of financial support by the National Foundation for Civil Society Development is expected this summer, which will be the first comprehensive study on the impact of CSOs on the issues of development and the needs of local communities in which they operate.

The 2011 report on the Assessment of Civil Society Development in Croatia (National Foundation for Civil Society Development, 2011a) showed several areas where members of associations and foundations need additional education. For example, slightly more than one tenth of CSOs (13%) state that they think training in the area of planning (defining the mission, long-term and short-term planning) is essential. Around one fifth of surveyed CSOs believe that training in planning and implementation of projects is not required, while more than three-quarters expressed this need. The need for additional training in the field of financial management was identified by half the CSOs (56.3%), and is considered essential by 8% of them. Somewhat less than half of the surveyed CSOs (40.1%) believed that they do not need additional training in the area of media relations and only 6.5% of respondents thought such training was necessary. However, in general the research showed that CSOs have sufficient knowledge and experience to serve local communities well and that the level of capacity is growing continuously as evident from comparison of results of 2007 and 2009 research. This can be attributed directly to the activities of regional support centers for civil society and local community development and other development organizations. Annual analysis of the cooperative system by the Croatian Cooperatives Association indicates the need for implementation of training for cooperative members, potential members and managers, especially in areas of administration and audit, cooperative principles and values, business and strategic planning, organizational management, marketing and project

management. The preliminary results of CEDRA HR study on social enterprises show a lack of capacity of social entrepreneurs in more or less the same areas as cooperatives.

Cross-border and regional cooperation in the context of SE development is indeed modest. In addition to the previously mentioned ESENSEE project that lasted from 2010 to 2012, it is very important to point out several cross-border development projects that were implemented and enforced through the IPA CBC Croatia, Slovenia, Hungary, BH, Serbia and Montenegro. For example, the Organica.net project, implemented by Slap association with other Croatian and Serbian partners, was aimed at connecting and strengthening small organic farmers in Croatia-Serbia cross-border area for better joint efforts in competing on the domestic and European markets. Training in organic farming, marketing, provision of marketing services, development of educational web portal and organization of organic fairs were some of activities of this project. Currently, the RODA association is implementing a development cooperation project with Serbian and Bosnian CSOs to strengthen the capacity of organizations in social entrepreneurship and assist in development and implementation of several socio-entrepreneurship ventures in these two countries. Within the implementation of IPA Adriatic CBC 2007-2013, Zdravi Grad association is implementing Adriatic Welfare Mix project. The project aim, among other things, is to create a convenient and innovative regulatory framework for local welfare systems, increase the efficiency of social services through public-private partnerships, launch and support social enterprises, establish an Adriatic Social Observatory that will work together with government agencies in improving the analysis and development of social policies and services. There are also few examples of research projects that established cross-border cooperation, one of them being project dubbed Vocational Training in the Field of Social Entrepreneurship and SE: Development of Knowledge, Research and Consulting Skills. Political Science Research Centre participated in the Leonardo da Vinci mobility program. The Institute for Social Policy, University of Zagreb, participated in WILCO cross-national research project on local welfare systems and social innovation that favor social cohesion. Croatia has been recently included in the ICSEM (International Comparative Social Enterprise Model) comparative research project that aims to identify types of social enterprises emerging in national and regional context.

Zagreb is the residence of SEE Centre for Entrepreneurial Learning (SEECCEL), an independent, non-profit institution founded in 2009 with the aim of strengthening and ensuring the impact of education on the competitiveness of SEE through cooperation on programs that will promote and encourage

economic development based on knowledge. In early May the Croatian Platform for International Civil Solidarity (CROSOL) was established to strengthen the participation of CSOs in projects of international cooperation and humanitarian aid development in Croatia. Also, the idea is to strengthen cooperation between CSOs and Ministry of Foreign and European Affairs in planning, implementing and enhancing the visibility of international development cooperation of Croatia. For several years the Balkan Civil Society Development Network (BCSDN) has been operating as a network of 15 CSOs from 10 countries and territories in SEE, with the aim of empowering civil society and influencing European and national policies towards a more enabling environment for civil society development in order to ensure sustainable and functioning democracies in the Balkans. BCSDN developed the Monitoring Matrix<sup>34</sup>, a tool for measuring the health of legal, regulatory and financial environment in which CSOs operate. CEDRA HR and its regional support centers have been providing technical assistance and consultancy services in Montenegro, Bosnia and Herzegovina and Serbia in the development and implementation of socio-entrepreneurship ventures for several years. Together with SEFOR and CROSOL, CEDRA HR has reached its maximum capacity, experience and knowledge, and has an established network of partners from the Western Balkan countries to continue its work on SE in the region. Signing of the Belgrade Declaration on the Development of Social Entrepreneurship in the region of the Western Balkans and Turkey opens up many opportunities in the future.

### 5.3.5. Summary with recommendations

The National Strategy for Creating an Enabling Environment for Civil Society Development provides guidance until 2016 in order to further improve the legal, financial and institutional support system for CSOs, which are recognized as an important factor of socio-economic development in Croatia. Through a very efficient network of Knowledge Centers for Social Development and Regional Support Centers for Civil Society and Local Community Development, and via decentralized models of financing CSOs, National Foundation continuously supports numerous CSO activities in various fields, including economic activities and social entrepreneurship. The National Strategy for Development of Social Entrepreneurship provides basic guidelines that are to be implemented in the period 2014-2020 in order to create a legal, financial and institutional framework for development of social entrepreneurship in Croatia, and systems of measures and activities for development of social enterprises. The goal of the Strategy is to create an enabling environment for development of social entrepreneurship in Croatia. It aims to provide financial support to social

34\* The tool is available at URL: <http://monitoringmatrix.net>

enterprises and design instruments for their promotion and development. The Strategy also focuses on education at all levels in order to bring home the importance of social entrepreneurship as an essential component of sustainable economic development. Although many strategies were adopted over the last several years, they continuously face implementation challenges and stronger cooperation with civil society and intermediary organizations should be established to facilitate their implementation. A national network of support centers for social entrepreneurs - CEDRA HR operates in this direction and is working constantly to eliminate numerous obstacles and tackle the issues of SE sector through a network of trainers and consultants.

In addition to the fact that Croatian society is not particularly entrepreneurial or innovative, there are many other obstacles along the way to implementing an enabling environment for the SE development. It is necessary that government stakeholders recognize the social, economic and environmental benefits of SE and build a stronger commitment to its development. Bureaucracy may be identified as one of the main obstacles in this respect. Furthermore, there are many contradictions in legislation and application of the laws - for example, if organizations act entrepreneurially and have commercial projects, they are not included in the state aid system, which has a less than stimulating impact on the development of socio-entrepreneurial activities. In addition to legislative restrictions, SE organizations are facing other obstacles too, including difficulty in obtaining initial funding; lack of support from the broader environment due to the lack of awareness and understanding of SE and social entrepreneurship; lack of capacity and knowledge for development of socio-entrepreneurial organizations; lack of infrastructure; support systems; lack of statistical data and in-depth research.

With the aim of facilitating faster and more efficient cooperative development, some recommendations are given below:

- Regulations should be further harmonized, taking into account the specifics of SE organizations.
- The tax treatment (income tax, profit tax, VAT) should be reviewed in order to develop an enabling and efficient system of tax deductions or exemptions for SE organizations.
- Through educational and promotional activities, decision-makers should be made familiar with the SE, social entrepreneurship and opportunities SE organizations offer through economic activities, employment and social actions in their local communities.

- Access to finance should be facilitated through development of specific funds and other financial instruments, as well as organizations such as ethical banks.

- Visibility of SE actors should be increased by initiating annual awards (like the Social Enterprise Annual Award), developing specialized media and shows, and through close partnerships with influential media.

- Methodology for systematic monitoring and measurement of the impact and effectiveness of investments in SE organizations should be developed and implemented.

- Formal and non-formal systems and educational programs should be further developed to build the capacities of organizations and individuals.

- Multi-sectoral collaboration should be encouraged through development of joint programs and initiatives of public, business and non-profit sector.

The SEE 2020 Strategy is geared to employment and job creation, development of regional markets and poverty reduction, and is currently a fundamental document for development of SE in the SEE countries. As such, it should serve to stimulate networks and cooperation between related organizations and individuals in the region. Belgrade Declaration on Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey, which gathered more than 460 organizations from all countries of the region, can be a platform for implementation of activities to achieve these goals. However, in the context of securing the support of government and government and state institutions, it is also important to establish a regional and intergovernmental platform for development of SE to ensure a strategic and long-term effective system for growth and development of SE sector.

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## 5.4. KOSOVO\*

### 5.4.1. Background review

Despite the financial crisis, Kosovo\*s economy has maintained its macroeconomic stability well, reflected in an average real GDP growth rate of 3.85% in the period from 2008 to 2013. However, the economy is still dependent on FDI inflows and donor activity. Remittances are estimated to account for about 13% of GDP mainly from the Diaspora and donor-financed activities and aid approximately at 11% (UNDP, 2009). Based on data from the Central Bank of Kosovo\*, the highest level of net FDI was recorded in 2011 with 394 million EUR or 8.2% of GDP and the lowest level was registered in 2012 with 229 million EUR or 4.5% of GDP. In 2013 it slowly began to recover registering 270 million EUR.

Between 2008 and 2013 the average real GDP growth in Kosovo\* was 5.2%. Real GDP growth slowed from about 7.2% in 2008 to about 3% in 2009, before recovering to 4.5% in 2011 and then slowing down again at 2.7% in 2012 and 3.2% in 2013. In 2012, growth was projected to slow modestly to 3.8% according to the International Monetary Fund (IMF), but was still expected to be robust. This performance was mostly due to strong domestic demand, largely due to remittances and capital inflows that originate from the Kosovo\* Diaspora located mainly in Germany, Switzerland and Nordic countries. However, the economy remains vulnerable to possible deterioration in labor market conditions in these countries, which could trigger a drop in remittances and capital inflows with negative repercussions for growth, fiscal position and financial stability (IMF, 2012).

Refers to designation of a political agreement regarding the regional representation of Kosovo\* and regional cooperation and representation of both sides (Serbia and Kosovo\*) which both have agreed upon. This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo\* declaration of independence.

Table 10: Economic indicators for Kosovo\* (2008-2013)

Indicator Name	2008	2009	2010	2011	2012	2013
GDP growth (annual %)	7.2%	3.5%	3.2%	4.5%	2.9%	3.2%
GDP per capita growth (annual %)	5.6%	1.4%	2.4%	3.4%	1.1%	1.7%
GDP (in billion EUR )	3.85	3.91	4.21	4.64	4.88	5.17
GDP per capita (in EUR)	2,323	2,325	2,468	2,674	2,776	2,894
Population (Total)	1,747,383	1,761,474	1,775,680	1,790,957	1,807,106	1,829,000
Consumer price index (2005 = 100)	114.8	112.1	116.0	124.5	127.5	129.8
Inflation, consumer prices (CPI annual %)	9.4%	-2.4%	3.5%	7.4%	2.5%	1.8%
FDI, net inflows (BoP, EUR mn)	390	96	353	394	229	n/a
FDI, net inflows (% of GDP)	9.3	7.2	8.5	8.2	4.5	n/a

FDI is crucial for economic growth and development, in particular for a small economy that has not reached world technological standards. Following the onset of the global financial crisis in 2008 and sharp fluctuations in FDI inflows in most Western Balkan economies, a modest recovery began in 2011. Kosovo\* witnessed a sharp drop in FDI of 229 million EUR in 2012, which is equivalent to 4.5% of GDP. The data for 2013 has still not been released by the Central Bank of Kosovo\*.

Investment in Kosovo\* has mostly been in the financial services sector, which on average has received 26% of the total FDI during 2007-2010. In 2010, one-third of total investment went into real estate and construction, and one-fifth into financial services (European Commission, 2011). However, this increase of FDI in manufacturing sector is largely related to privatization rather than new green-field investments (KPMG, 2011). The majority of FDI originates from the EU countries.

More than 35,000 families or 155,000 members of families are covered by the Social Assistance Scheme. According to the Ministry of Labor and Social Welfare, social expenditures which include pensions, social assistance and war benefits reached 1.16% of GDP in 2011, fluctuating up to 1.28% of GDP in 2012. Based on Kosovo\* Statistical Agency information, general poverty rate reached 29.7% in 2012 whereas extreme poverty was at 10.2%.

Table 11: Selected social indicators for Kosovo\* (2009-2013)

	2008	2009	2010	2011	2012	2013
Social Expenditures (in EUR)	151,424,852	169,084,581	175,254,084	175,254,084	195,193,113	n/a
% of GDP	1.16%	1.23%	1.20%	1.20%	1.28%	n/a
Unemployment rate – Labor Force Survey (LFS), in %, average	46%	45.4%	45.1	45.1	44.8%	30.9%
Population below poverty line	-	34.5%	29.2%	29.2%	29.7%	n/a

A key challenge for Kosovo\*'s economy is its labor market with an unemployment rate at 30.9%. More than 30% of the population lives below the poverty line on less than 1.42 EUR per day (European Commission, 2011). Since the census in 2011 and recalculation introduced by the Kosovo\* Statistics Agency official unemployment was 30.9% in 2013.

Source: Kosovo\* Statistical Agency and Wiiv Kosovo\* Economic Indicators

Unskilled workers account for 60% of the total registered job-seekers. The number of unemployed university graduates has steadily increased, although it remains relatively low.

Overall, information about the labor market is scarce and doubts about its accuracy persist. Youth unemployment in Kosovo\* is around 55.3% (age group 15-24). The number of new labor force entrants in Kosovo\* is significantly higher than in other economies in the region. The level of economic activity is insufficient to absorb the 30,000 young people entering the labor market each year (SMESA, 2012). Unemployment, particularly long-term unemployment, remains a critical challenge (OECD, 2010b).

The government recognizes that high youth unemployment is a major constraint to social and economic development. Efforts to address this issue include actions to enhance job-finding opportunities for youth and improve cooperation between institutions over their youth employment policies. The Ministry of Labor and Social Welfare developed a Sectoral Strategy 2009-2013 to increase the employment rate in Kosovo\* and establish an employment and vocational training infrastructure that corresponds to labor market demands. The poverty headcount was at 29.7% in 2011.

Due to the importance of developing SE sector in Kosovo\*, the EU has oriented its funding towards implementation of measures to ensure a suitable environment for development of such activities. The IPA 2014-2020 will support several initiatives aiming to increase employment and contribute to improving social service delivery, including two projects with the Ministry of Trade and Industry and the Ministry of Labor and Social Welfare.

#### 5.4.2. Institutional and legal framework

Since the concept of SE is relatively new in Kosovo\*, there is no specific institution in charge of the overall management and coordination. However, there are several institutions that regulate different aspects of social economy such as the Ministry of Trade and Industry (MTI) and Ministry of Labor and Social Welfare (MLSW) as leading institutions, and other relevant ministries including the Ministry of Finance (MF), Ministry of Agriculture, Forestry and Rural Development (MAFRD), Ministry of Economic Development (MED), Ministry of Education, Science and Technology (MEST), Ministry of Public Administration (MPA), Ministry of Local Government Administration (MLGA) and other relevant bodies. In this regard, MTI and its agencies are supporting the development of

private sector. The Department for Registration of NGOs within the MPA is the responsible institution for registration of CSOs, while there is no specific unit within MAFRD that monitors the operation of cooperatives.

There is a low level of cooperation between these institutions and no specific coordinating body that deals directly with inter-institutional cooperation in SE. In terms of general economic development cooperation, the National Economic Development Council (NEDC) is the forum responsible for coordination of policy development and implementation of reforms with the goal of improving the business and investment environment and achieving sustainable economic growth in Kosovo\* (OECD, 2013).

There is no national strategy on SE development. However, there are several strategies that foster economic and social development. The Government Economic Development Vision and Priorities Plan approved in 2011 envisaged support to human capital development (formal education, vocational training) and social welfare (veterans, elderly, poor and homeless). The Mid Term Expenditure Framework 2014-2016 emphasizes priorities to support sustainable economic development, thus contributing to development of human resources and improving citizen's lives and social welfare. These objectives are also reflected in relevant sectoral strategies.

Several main strategic goals of the SME strategy with a vision for 2020 that could promote social enterprise sector development in Kosovo\* include: improving SME's access to finance; promoting and developing an entrepreneurial culture; improving dialogue between the private sector, public sector and civil society; strengthening SME support institutions and encouraging the inclusion of marginalized social groups in entrepreneurial activities. In addition, MLSW identifies SE development as one of the priorities in the draft Sectorial Strategy 2014-2020 and draft Action Plan 2014-2016, which will be submitted for Government approval in May 2014. The specific objective for development of alternative and innovative forms of service provision for social protection and promotion of social inclusion specifies activities including the drafting of a new law and developing a model for social enterprises.

In terms of legal framework, there is no specific legislation that regulates SE sector. However, there are several laws that refer to the functioning of different forms of organizations such as: Law No. 02/L-123 on Business Organizations and 2011/04-L-006 Law on Amending and Supplementing the Law No. 02/L-123 on Business Organizations that promote and facilitates efficient creation, registration, operation and dissolution of the usual and customary types of

business organizations found in economically successful countries; Law No. 03/L-134 on Freedom of Association in NGOs which sets out the establishment, registration, internal management, activity, striking off and closure of legal persons organized as NGOs in Kosovo\*; and Law No. 2003/9 on Farmer's Cooperatives and Law No. 03/L-004 on Amending and Supplementing the Law No. 2009/3 on Farmer's Cooperatives that regulate the work of farmer's cooperatives for the benefit of agricultural development and to increase farmers' productivity.

Other laws with a bearing on economic and social activity include the Law on Social and Family Services No. 02/L-17 which specifies the tasks of municipalities which provide social services. The Law also allows the Ministry to provide grants and other support such as facilities and technical assistance to licensed NGOs providing social and family services across Kosovo\*; Law No. 03/L-019 on Vocational Training and Employment of PWDs which aims to advance the socio-material position of people with disabilities and help integrate them into the labor market, thus implementing their fundamental right to employment; and Law on Local Self-Government No. 03/L-040, Article 18.2 which gives the right to central authorities to delegate other competencies to municipalities. Based on this article, MLSW delegated the responsibility for delivery of social and family services to local authorities in 2008.

Even though there is no specific legislation for the sector, the existing legislation allows for development of SE sector with some limitations. The Law on Nonprofit sector allows CSOs to engage in economic activities for the purpose of supporting their nonprofit activities and provided that the income is used solely to implement the mission defined in CSO's statute.

The Law states that cooperatives are service providers for their members and will not be based on making profits for themselves. A minimum of 75% of gross turnover will be generated from the activity of the members. Agricultural cooperatives can be established by at least five farmers who are responsible persons. Cooperatives cannot be established without capital and they cannot exist without capital. The capital is divided into shares of equal value with a minimum value of 10 EUR. In addition, the director cannot be a member of the cooperative.

Given that the existing legislation refers to the functioning of business rather than to non-profit organizations, the Ministry of Labor and Social Welfare has identified the need for a new law that will regulate SE activities in Kosovo\*. In this regard, MLSW is drafting a concept paper to propose a law on social enterprises which

will be based on a model from other European countries that have a tradition in social enterprises (British and Italian model). The new law will identify all responsible bodies for management of social enterprise sector as well as specific issues regarding registration and licensing of social enterprises, tax exemptions, etc. In this respect, MLSW is being supported by the UNDP with expertise.

#### 5.4.3. Analysis of financial incentives and support mechanisms

There are no financial support schemes that contribute explicitly to the development of SE in Kosovo\*. However, the Government is contributing substantial funds to creating the necessary infrastructure and suitable environment for economic development and social inclusion. In terms of improvement of social service delivery, MLSW is co-financing a project through IPA that has established 4 day care centers for children with disabilities and 2 day care centers for elderly PWDs. The municipality of Fushe Kosova/Kosovo Polje has allocated around 300,000 EUR for funding the establishment of a social enterprise through an UNDP project.

Moreover, the Government will co-finance EU and donor projects on social enterprises. MLSW will co-finance the EU project to support the establishment of social enterprises and an IPA project to support creation of new jobs, including those for vulnerable groups, which is planned for 2015.

Currently there are some exemptions for delivery of services of public interest. Chapter 8, Article 27 of the Law on VAT No. 03/L 146 includes exemptions for certain activities in the public interest such as: supply of services and goods closely linked to welfare and social security work, including those supplied to old people homes; supply of services and goods closely linked to the protection of children and young persons; provision of children or young people education, school or university education, vocational training or retraining, including the supply of services and goods closely related thereto, by bodies governed by Kosovo\* or by other organizations recognized by the Kosovo\* authorities as being devoted to social welfare and at comparable prices. In addition, the Law also provides for reduction of standard VAT rates. The VAT rate applicable in Kosovo\* is 16%; however, Ministry of Economy and Finance may, following a decision of the Government of Kosovo\* after the approval of the Assembly, issue a subordinate legislation to introduce a reduced rate not lower than 5% for designated supplies of goods and services. However, there are no other benefits provided by the state for SE organizations or activities. The Law on Public Procurement No. 04-L-042 and the Law No. 04/L-237 on Amending and

Supplementing the Law No. 04/L-042 provide no exemption for provision of social services by non-public actors.

Despite the efforts to adopt policies that would secure legal and financial conditions for the establishment of social enterprises, the majority of existing social enterprises are financed by the donor community. One of the main donors is the EU through IPA for the period 2007-2013, continuing with IPA II during the period 2014-2020. Among other projects, the EU Office in Kosovo\* has supported development of 5 Regional Development Agencies founded in December 2008 as inter-municipal institutions to act as co-coordinators and drivers of development activities in their economic regions and provide support to potential applicants for the EC-related grants including cross-border projects (OECD, 2013). While in terms of direct support to social enterprise development, the Kosovo\* government will co-finance projects of establishing sustainable partnerships between the government, social CSOs and social enterprises, in order to provide social services to the most vulnerable groups in Kosovo\*, for which around 2.6 million EUR have been allocated through IPA Program.

In addition, there are other donor organizations which support sustainable economic development contributing to employment and social inclusion such as the WB, USAID, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), UNDP, etc. WB supports several sectors, including social inclusion, environmental education and agriculture (WB, 2012). The Second Youth Development Project promotes social cohesion, economic opportunities and sustainable access to youth services in Kosovo\*. The Agriculture and Rural Development Project 2011-2017 aims to transfer knowledge to the rural sector and provide grants to foster growth and competitiveness in rural sector (WB Kosovo\*). One of the main USAID programs offering financial and technical support is the Young Entrepreneurs Program (YEP) (2010-2015) providing grants and training to young entrepreneurs.

The private sector offers support through CSR network, a joint business initiative which currently includes 22 business organizations and aims to implement best CSR practices in compliance with the Global Compact Principles, contributing to smart, sustainable and inclusive growth. One of the main donors of the network is Raiffeisen Bank which has, over the years, funded a number of projects primarily related to education, culture, sports and social welfare, including various voluntary activities.<sup>35</sup>

In addition to financial support, there are a number of programs and initiatives offering technical assistance to increase capacities in the economic and social

35\* In cooperation with the Ministry of Labor and Social Welfare, Raiffeisen Bank is to open Folk Kitchen; the project of Encompass Center - Atom focused on discovering young people with exceptional intelligence, etc. There are many other initiatives from CSR network members including fundraising for children, environment awareness, etc.

sector. The EU office funds KOSVET VI Project for the development of Vocational and In-Company Training Schemes and Development of the Entrepreneurship Scheme. GIZ also provides significant support in terms of economic and rural development with several projects including Economy and Employment Promotion (2011-2018), Rural Economic Development (2010-2018) and Promoting Skills Centers as part of the Reform of Vocational Training (2003-2017); and in terms of social development with the projects such as Improving Basic Education 2010 to 2018. Through the Inclusive Growth Program, UNDP is implementing a number of projects contributing to employment and social inclusion such as: Area Based Development Program in Mitrovicë/a and Zvečan/Zvečan; Entrepreneurship and Local Economic Development; Aid for Trade (2012 - 2014); Active Labor Market Programs for Youth (2005 – 2014); Building a Better Future for Citizens of Fushë Kosovë/Kosovo Polje and Obiliq/ć (2012-2015) by establishing two social enterprises; and Local-level Response for Employment Generation and Integrated Territorial Development (2014-2017) which supported the establishment of social enterprises in Dragash/ Dragaš and is working to establish one in Shtërpçë/Štrpce municipality. The project will contribute to 450 direct and 1,400-1,700 indirect beneficiaries at risk of economic and social exclusion in the selected municipalities, in particular (smallholder) farmers and other small and micro production units that are largely underserved by the current provision of services in support to business and market access (UNDP, 2014).

The International Organization for Migration (IOM) in cooperation with MLSW has completed the first phase of the 5-million EUR IPA funded project Beautiful Kosovo\* 2011-2013 aimed at fostering economic development and reducing poverty in selected municipalities by enhancing economic opportunities for Kosovo\* population, especially marginalized groups. The program was successfully implemented by providing employment to 1905 persons including those from vulnerable groups. The second phase of the project will continue with an additional 5 million allocated by the EU.

In addition to the projects mentioned above, there are a number of other initiatives including incubators aiming to support job creation with an innovative approach and training for entrepreneurship such as Innovation Lab Kosovo\* funded by United Nations International Children's Emergency Fund (UNICEF), Innovation Centre Kosovo\* funded by the Norwegian Ministry of Foreign Affairs, Centre for Entrepreneurship and Executive Development (CEED) funded by USAID, 3 Business Advisory Centers (BAC) in Mitrovica North, South and Zvečan, Business Support Centre in Kosovo\* (BSCK); Genesis Technology Centre and Kosovo\* Association for Information and Communication Technology (STIKK) (OECD, 2013).

As regards regional and cross-border cooperation, one of the main donors is the EU Office in Kosovo\*. The support is given through IPA Component 2 that provided 1,200,000 EUR in 2010; 1,800,000 EUR in 2011; 2,929,148 in 2012; and 2,987,731 EUR in 2013 through the Regional Development Agencies which were responsible for supporting the implementation of several cross-border cooperation projects aimed at fostering economic development and social inclusion activities. Cooperation projects included several neighboring countries - Albania, FYR of pre Macedonia and Montenegro.

#### 5.4.4. Analysis of the current situation within the sector

Term SE is not widely known or understood in Kosovo\*. The term social enterprise is mostly associated with the old state-owned enterprises that are undergoing a privatization process. With the exception of international donor community, the term of social enterprise is unfamiliar for most of the stakeholders - government officials, entrepreneurs, business support organizations and CSOs. Therefore, in recent years, the concepts of SE and social enterprise as a form of organization were introduced and promoted mostly by donor organizations which offer support to innovative entrepreneurship with the idea of increasing employment and addressing social needs. To date it has been mainly known and understood only by the leading government institutions such as MLSW and MTI, but it is rapidly becoming a topic of interest for civil society and in particular for business community. Despite this, the concept is still new and there is very little or no public awareness of the sector due to the lack of a regulatory framework for the establishment and functioning of these enterprises.

Data on social and economic sector is collected by Kosovo\* Agency of Statistics. However, no data is gathered specifically for social enterprises. To date MTI has been responsible for maintaining data on registered and operating businesses while MPA is responsible for maintaining the database of the NPOs registered and operating in Kosovo\*. There are about 4,882 CSOs registered in Kosovo\*; however, only 500 are active. In terms of cooperatives, MAFRD has listed 15 cooperatives that are currently active.

SE development is at an infancy stage. There are very few organizations that can qualify as social enterprises in Kosovo\*. To date, there have been a few initiatives from the EC and the UNDP that have created several pilot social enterprises. There are around 6 known social enterprises and MLSW aims to have in total 10 established by 2015. The EC project has established 2 enterprises that were transformed from social incubators to social enterprises, one operating in Gracanica with purpose of

delivering services to PWDs, and the other in Mitrovica North offering services for employment and entrepreneurship. The UNDP has supported the establishment of four social enterprises: one in Fushw Kosova/Kosovo Polje Municipality where a business organization is providing household maintenance; one in Obiliq for manufacturing clothes; another in Suharekë/Suva Reka; and one in Dragash/Dragas with another planned in Shtërpçë/Štrpce municipality.

Currently there are two enterprises for rehabilitation of PWDs established by an EU-funded project (implemented jointly by KMOP and Handikos CSOs), located in Ferizaj/Urosevac and Prishtine/Pristina. These enterprises provide daily shelter for disabled adults as well as home social services when needed. The activity is planned to be expanded to other municipalities with an EU support project in 2015. In addition, in cooperation with the Ministry of Labor and Social Welfare, the One to One Children's Fund has established 4 enterprises serving as daily centers offering psycho-social advice/activities to children with disabilities. These enterprises are located in the following municipalities: Prishtine/Pristina, Peje/Pec, Prizren, and Ferizaj/Urosevac.

In terms of agricultural associations and cooperative activities, around 1.5% of farmers are organized in the form of associations, while only 0.8% in the form of cooperatives. However, their activities are limited and have mainly been supported through donor funding such as the UNDP Supporting the Agricultural Organizations Project – SAO implemented in 2006.

The overall number of all types of SME in Kosovo\* is at 103,755 enterprises: 102,070 (or 98.37%) are micro enterprises; 1,406 (1.35%) are small; 221 (0.22%) are medium; and, only 58 (0.06%) are classified as large companies. In terms of sector breakdown, SMEs are mostly concentrated in: retail (around 50%); transport, storage and distribution (14%); food products, beverages and tobacco (9%); and, hotels and restaurants (9%). The SME sector in Kosovo\* faces several barriers to business development and is thus contributing less to social inclusion. The barriers are divided into cultural, infrastructural, operational, regulatory and internal skill barriers. Lack of managerial skills, bureaucracy, lack of trust, lack of capital for start-ups, and informal economy are the main barriers to development of SMEs including social businesses/social enterprises (SME Development Strategy, 20012-2016).

In terms of the capacities of nonprofit sector in Kosovo\*, there are many challenges. The sector is over-dependent on donor funding, its capacities are low, the level of public acceptance of CSOs is low and it lacks sustainability. This situation was created mainly due to the shift of donor priorities from human rights to conflict mitigation to think tanks and advocacy. CSOs mainly offer

support in the form of training and workshop delivery while they have little experience in economic activities. This has changed recently with a number of NPOs engaged in production and service provision. CSOs showed readiness to engage in economic activities but lack the experience. The nonprofit sector is involved in economic and social activities supporting employment and delivery of social services such as Kosovo\* Women Network which implements different economic activities focused on women's employment, organizations supporting the social sector such as Handikos which provides services and employment for people with disabilities, UNICEF One to One Children's Fund and One to One Kosova which offer services for children with disabilities.

Overall, there is potential for development of SE, including organizations from the private sector which are starting to understand the importance of contributing to a social mission and those from nonprofit sector which are moving towards the development of economic activities to ensure social inclusion.

In terms of regional or cross-border cooperation, there were few recent initiatives mainly through IPA financed programs. The CBC between Kosovo\* and FYR of pre Macedonia, Montenegro and Albania included cooperation between ministries of local government administration focusing on: 1) sustainable economic, social and environmental development and 2) enhance of social cohesion through P2P initiatives including environmental protection. Currently the main actors in CBC are the respective local governments. Kosovo\* has signed a free-trade agreement in the framework of Central European Free Trade Association (CEFTA) and participates in different regional initiatives such as RCC. In addition, Kosovo\* has signed a protocol with FYR of pre Macedonia on cooperation in the field of education, investment and tourism. The cooperation with FYR of pre Macedonia also includes cooperation within the civil society sector and inter-municipal cooperation with joint efforts by private sector to support entrepreneurs and SMEs through establishing partnerships, facilitating investment and increasing trade between the two countries. Cooperation with Montenegro includes inter-municipal cooperation in tourism, green energy, education, rural development and civil society cooperation while the private sector has no mechanism to support partnerships. Cooperation with Albania includes inter-municipal cooperation, cooperation between civil society networks and private sector cooperation.

#### 5.4.5. Summary with recommendations

One of the main incentives for creating a supportive environment for SE is the willingness of all actors involved, including the government, civil society

and private sector to develop mechanisms which would foster social economy development.

However, SE is not a widely known concept in Kosovo\*, and the lack of awareness makes it more difficult to establish comprehensive support. In addition, there is no clear legal framework or a responsible institution that will push forward development of the sector. The support initiatives come mainly from the donor community, while the government currently allocates little or no funds to support the sector activities. Long-term political commitment seems lacking and support models are unsustainable. There is no coordinating mechanism to ensure cooperation between different institutions on relevant issues. In addition, there are only a few organizations in Kosovo\* which operate as social enterprises but are not part of a larger regional network and therefore lack support in terms of knowledge exchange with other neighboring and European countries. To add to this, there is no reliable data on the number of social enterprises and their activities, except for a few most visible initiatives.

In these circumstances, several recommendations can be given to encourage creating of a favorable environment for SE development:

- Awareness of the social economy concept should be raised at the level of government and local institutions, private and nonprofit sector, and a broader discussion should be opened to identify and recognize the benefits of social enterprises.
- The main institutions responsible for the sector should be identified and agree upon a coordinating body to include social economy in the government agenda.
- Necessary regulatory measures should be drafted, including a law or/ and amendments of other laws to ensure financial incentives for social enterprise development.
- Government policies need to be harmonized and coordinated to ensure that different aspects of SE sector are included. In particular, policies that harmonize education with market needs and support innovation to increase employment and social inclusion should be introduced. .
- It should be ensured that strategies and related policies for the development of social economy are budgeted and included in budgetary planning. Also, sustainable funding opportunities from the governmental

level should be provided as well as incentives for development of new social enterprises that aim to increase employment and social inclusion through different innovative initiatives.

- Enterprises with social goals should be further encouraged to participate in business support programs and private sector should be encouraged to participate in activities with social goals.
- New social enterprises and nonprofit organizations should receive technical support.
- Data collection system on social economy should be established.
- Networking between social enterprises or nonprofit organizations with a social mission should be improved and supported.
- Inter-governmental cooperation between neighboring countries to share best practices and learn from the existing initiatives (regulatory framework, data collection, incentives, etc.) should be stimulated.
- The existing regional cooperation initiatives and networks of civil society organizations may be used to foster development of joint projects on social economy.
- Regional dialogue for inclusion and cooperation of social economy sector should be stimulated with neighboring countries to develop activities with a social mission.
- Regional cooperation should be built on the best practices and lessons learned from the existing cross-border initiatives. Also, continuance of successful cooperation in different sectors such as tourism, education, environment, agriculture, etc. should be fostered.

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## 5.5. MONTENEGRO

### 5.5.1. Background review

Montenegro formally declared its independence in 2006 and is still in a state of economic transition. Until 2010 it recorded high growth rates, primarily due to tourism and real estate investment boom; however, nowadays the Montenegrin economy faces more predictable changes.

The economy remains mostly based on the service sector (71.3% of GDP in 2010), while industry accounted for 19.5% of GDP and agriculture 9.2% in 2010.

Table 12: Key macroeconomic indicators (2008-2013)

	2008	2009	2010	2011	2012	2013
GDP at current prices (mill EUR)	3,086	2,981	3,104	3,234	3,141	3,335 <sup>36</sup>
Gross domestic product per capita (EUR)	4,908	4,720	5,006	5,211	5,063	5,362
GDP, real growth rate in %	6.9	-5.7	2.5	3.2	-2.5	2.5
<b>Expenditure structure of GDP, in %</b>						
Household consumption	91.2	84.0	82.2	84.4	85.4	85.4
Public expenditure	22.6	22.2	23.4	22.1	21.7	21.4
Gross fixed capital formation	38.2	26.8	21.1	18.4	18.1	18.9
Net export	-54.5	-33.3	-28.4	-26.0	-25.2	-25.0
FDI (mill EUR) <sup>37</sup>	685	1,070	692	534	633	479

Source: MONSTAT, 2013

Tourism is still the fastest growing sector of the economy and according to a World Travel and Tourism Council (WTTC) report, Montenegro will continue to record the highest growth rate in the world in tourism for the next 10 years (average growth rate in the next 10 years will be at 8.8%, from 20% of GDP in 2012 to up to 37.2% in 2024).

Besides tourism, the future economic development of the country relies on continuation of large foreign investments on the coast, the future of Aluminum Plant Podgorica (which generates a significant portion of Montenegro's GDP)

36\* Estimation, official data will be published in September 2014.

37\* According to Montenegrin Investment Promotion Agency (MIPA)

and large infrastructure investments planned for the upcoming period (such as the Bar-Belgrade highway, construction of the second block of Pljevlja Thermal Power Plant, re-launch of the Niksic steel mill operations) which can generate high growth rates in construction, employment and imports.

The Montenegrin general government balance turned from surplus to deficit in 2009 due to decreased revenues and automatic stabilization effect in the most difficult year of crisis. Deficits have become regular since 2009 ranging from -4.4% of GDP in 2009 to -2.7% in 2013.

According to 2011 Population Census, the total number of inhabitants in Montenegro stands at 620,029, with 68% of active population, labor force of 251,300 and 19.7% unemployment rate. In January 2014 the Statistical Office of Montenegro (MONSTAT) registered 167,616 employed and 34,804 unemployed people.

At the end of January 2014 there were 55,633 registered private companies and 13,150 entrepreneurs of which 23.6% have been blocked from trading with a total debt of 448 million EUR (Central Bank of Montenegro, 2014). The number of blocked companies is increasing and the debt is causing significant problems for the whole economy.

Key characteristics of the labor market include relatively low level of population activity (especially regarding females), lack of mobility, long-term unemployment and the mismatch between labor supply and demand. All of these can be attributed to several factors – job losses due to restructuring, entry barriers to the labor market (a high level of employment protection and fiscal burden imposed on labor, although falling in the recent period). There are also considerable risks associated with inequalities and the phenomenon of social exclusion.

Table 13: Key labor market indicators (2008 -2013)

	2008	2009	2010	2011	2012	2013
Activity rate	51.9	51.1	50.1	48.7	49.1	49.0
Employment rate	43.2	41.3	40.3	39.1	39.3	39.5
Unemployment rate	16.8	19.1	19.7	19.7	19.9	19.7

Source: MONSTAT, ILO, 2013

Long-term unemployment remains a serious concern, since 68% of unemployed persons have been out of work for more than two years. The labor market is characterized by

significant differences based on geographical location, age, gender and vulnerability. The population in the North has limited access to public services, while women and the elderly have a considerably lower income. Unemployment rates in the North are two times greater than the national average, reflecting growing regional development disparities. Due to persisting gender-based disadvantages, women are vulnerable and lack political and economic empowerment, including protection against family violence.

The age structure of employees is unfavorable. Only 11.8% of young people are employed in Montenegro, while the unemployment rate of young people aged 15 to 30 years was at 54.3% for the first quarter of 2013 (IEED, 2013)<sup>38</sup>. According to Montenegro Employment Agency, young people with university degrees on average wait for about four years for their first job. The Agency records show that there are around 10,000 people with university degrees, 6,000 of which are unemployed (in 2013 nearly 4,000 young graduates started professional training financed by the Government).

According to the UNDP Human Development Report for 2009, the Roma, Ashkali and Egyptians (RAE) population, beneficiaries of social and child protection, long-term unemployed, displaced persons and PWDs are particularly vulnerable social groups as a result of poverty and social exclusion.

Table 14: Poverty indicators (2008 – 2013)

	2008	2009	2010	2011	2012	2013
Absolute monthly poverty line, in EUR <sup>39</sup>	163.57	169.13	169.98	175.25	182.43	-
Poverty rate (%)	4.9	6.8	6.6	9.3	11.3	-

Source: MONSTAT, 2013

According to a 2010 survey on poverty in Montenegro (MONSTAT, 2011), the poverty rate in the North is two times higher than in Central Montenegro, and four times higher than in the South. Due to high economic growth rates, the population below the poverty line decreased from 12.2% in 2003 to 4.9% in 2008. However, it has been recording an upward trend since 2009 following the negative trends of real GDP growth and government balance deficits. The level of social transfers is closely related to the situation in public finances, due to the high number of beneficiaries of social welfare which has increased significantly over the last decade to 11.54% of population in 2011.

38\* Unemployment of youth in Montenegro, Institute for Entrepreneurship and Economic Development, Podgorica, available at: [http://iper.org.me/nezaposlenost-mladih-u-crnoj-gori/#.U3klm\\_mSxu4](http://iper.org.me/nezaposlenost-mladih-u-crnoj-gori/#.U3klm_mSxu4)

39\* The national poverty line was set at EUR 144.68 per adult equivalent per month in 2006

In addition to significant level of unemployment and large share of employment provided by the informal economy (the estimate is that its share is at somewhat higher level than the European average), the Government is facing a challenging labor market structure, given that more than 35% of total employees are employed in the public sector. Thus, the Government is facing the need to reduce the number of employees in public sector, primarily through reduction of bureaucracy and transition of social providers from state-owned to private-public partnerships or privately-owned providers, and, in parallel, to improve employment and better matching market supply to demand.

Labor market policy aims to improve employment, ease transitions in labor market, contribute to better matching market supply to demand and help integration of vulnerable groups. However, employment can be increased only through sustainable economic growth and job creation where social economy can give significant impetus.

Montenegro's most impressive results in the recent years relate to the EU integration process as a result of strong government and political willingness to harmonize legislation with European policies. Montenegro opened formal membership negotiations with the EC in 2011 and began accession negotiations on 29 June 2012. Approaching the EU means accepting the standards in the area of politics, socio-economic development, etc. It involves adoption of the EU social model which is focused on combating poverty and regional disparities, primarily through development of the third sector.

The EU integration process significantly influences social economy development through the EU 2020 strategy and other policies. However, the Government has decided to postpone adoption of the Law on Social Entrepreneurship for the moment and it should be further encouraged to face the key challenges in this field and take important steps to foster SE development.

### 5.5.2. Institutional and legal framework

The Government of Montenegro understands that the employability and adaptability of citizens is vital for the country to maintain its commitment to becoming a competitive and dynamic knowledge-based economy, as well as a more comprehensive and tolerant society in which citizens have the opportunity and ability to fulfill their ambitions.

Consequently, a number of strategies and policies have been adopted over the past years with a view to bringing Montenegrin labor market much closer to EU

standards. At the same time, new laws were adopted the most important being: Labor Law, Law on Employment and Exercising Rights with respect to Unemployment Insurance, Law on Employment and Work of Foreigners, Law on National Vocational Qualifications, Law on Recognition of Education Qualifications, etc.

The underdevelopment of SE and social entrepreneurship in Montenegro is mirrored by a lack of legislation in this area that would define the types of SE organizations, procedures of foundation, registration, operation and funding. However, the Constitution and many strategic documents, such as the Economic Reform Agenda (Government of Montenegro, 2002), Poverty Reduction Strategy (Government of Montenegro, 2003), Regional Development Strategy (Government of Montenegro, 2008), National Strategy for Sustainable Development of Montenegro (Government of Montenegro, 2007), and National Development Plan 2013-2016 (Ministry of Finance, 2013) outline the goals and priorities which are closely related to the development of SE.

Montenegrin legislation is not particularly supportive of development of SE organizations, but neither is it restrictive. The Law on NGOs defines two types of organizations: non-governmental associations and non-governmental foundations which may perform economic activities provided that the profit is used for further activities and goals of the organization. According to the Law, NGOs cannot perform economic activity if revenues from economic activity exceed the amount of 4,000 EUR in the previous calendar year or if such revenues exceed the amount of 20% of the total annual revenues in the previous calendar year. In this case, they are obliged to register with the Central Register of the Commercial Court in Podgorica for the purpose of conducting economic activity. According to the Law, NGOs are to perform economic activity in accordance with special regulations. The transfer of services to CSOs is regulated by the Law on the State Administration through the provision of "transfer or delegation of state administration services."

The Law on Business Organizations defines the following forms of organization that may pursue economic activities: 1) individual entrepreneur; 2) general partnership (GP); 3) limited partnership (LP); 4) joint stock company (JSC), 5) LLC; 6) foreign company branch.

The importance of social entrepreneurship has been recognized by the Government of Montenegro. The National Strategy on Employment and Human Resources (2012-2015) (MLSW, 2012) emphasized that the concept of social entrepreneurship can contribute to creation of alternative jobs, especially for those who are members of vulnerable groups of population.

The 2013 Work Program of the Government of Montenegro obliges the Ministry of Labor and Social Welfare (MLSW) to prepare a draft Law on Social Entrepreneurship, Social Entrepreneurship Strategy 2013-2016 and 2013 Action Plan. The Ministry formed a working group in November 2012, consisted of representatives of relevant ministries, trade unions, employers and CSOs. The aim of the Law was to introduce new terms related to social entrepreneurship and social enterprises in the Montenegro legislation as well as to regulate the sector and provide the basis for its further development.

In cooperation with international expert Mr. Dragan Golubovic<sup>40</sup>, the working group has prepared a draft Law on Social Entrepreneurship which would create a general legal framework for further development of social entrepreneurship in Montenegro and an obligation to the Government to draw up a draft Strategy on Social Entrepreneurship and the Action Plan for its implementation.

Key issues that arose during preparation were: Why do we need a specific law on SE organizations? How is it related to the Law on Business Organizations and what would be the sources of funding? The draft of the Law was not well-accepted by certain sections of the government. As a result, MLSW proposed that the government should abandon the proposed Law and the Strategy, arguing that there are no related EU laws, nor enough practical experiences to rely on.<sup>41</sup>

On the other side, the Working Group tasked with preparation of the Strategy on NGO Development 2014-2016 (Ministry of Interior, 2013), managed by the Ministry of Interior, defined social entrepreneurship as the fourth measure for development of an encouraging environment for civil society. Turbulences during the preparation of the Law on Social Entrepreneurship resulted in its removal from the Government agenda for 2014; however, the situation may change in 2015.

As was the case with the Law on Social Entrepreneurship, the Montenegrin Government decided to draft a Law on Agricultural Cooperatives in 2012. A draft was prepared by the Ministry of Agriculture and Rural Development (MARD) and the Government recently adopted the proposal. It is expected to be submitted to the Parliament by the end of this year. The proposal is primarily focused on agricultural production and other types of cooperatives such as housing, consumer, student, youth and health were left out. It is important to note that there has been no legislation in this field since the adoption of the Law on Business Organizations in 2012. The Law proscribed that existing cooperatives, defined by the Federal Law on Cooperatives (from 1996, former Federal Republic of Yugoslavia), will continue to operate until the adoption of new legislation in this field.

40\* Technical support provided by TACSO office in Montenegro.

41\* The proposal to amend the Work Program of the Government of Montenegro for 2013 in the jurisdiction of the Ministry of Labor and Social Welfare

In the field of labor law, amendments to the Labor Law were adopted in December 2012 with the aim of further alignment with the acquis. Implementation and enforcement of the legislation remains a challenge. In the area of employment policy, an action plan for employment and human resource development was adopted by the Government in 2012. It focuses on measures and activities particularly targeting young people and long-term unemployed; however, it was not fully implemented due to budgetary constraints.

In 2011 the Government adopted the Strategy on Encouraging Competitiveness at Micro Level in order to enhance performance of SMEs. The Law on Prevention of Illegal Business Operations was adopted in June 2013. A working group was set up to propose measures to combat grey economy, and action plans for 2013 and 2014 were developed and implemented. Undeclared work continues to be an obstacle to increasing regular employment. Preparations in this area are at an early stage.

As a part of preparations for the ESF, Montenegro's Strategic Coherence Framework was endorsed by the European Commission in December 2012. A new section for programming and implementing EU funds was set up in March 2013 as an independent unit within the MLSW. Despite the provision of training, administrative capacity in the relevant line ministries is still insufficient in terms of both staff numbers and expertise.

The Action Plan for 2012–2016 Strategy on Improving the Position of the RAE Population was adopted In January 2013. The Strategy for Social Protection of the Elderly 2013–2017 was also adopted in June 2013. With regards to PWDs, amendments to the Law on Spatial Development, adopted in July 2013, foresee some measures to improve accessibility. The Law on Professional Rehabilitation and Employment of PWDs, adopted in 2008 and amended in 2011, regulates the manner and procedure for exercising the right to vocational rehabilitation of PWDs, measures and incentives for hiring, the method of financing and other issues of importance to vocational rehabilitation and employment of PWDs.

A strategic document on labor market policy is the National Strategy on Employment and Human Resources Development 2012-2015 (an extension of the former Strategy) which is grounded in comprehensive and inter-sectoral definition of employment policy. The policy priorities defined by this strategic document are: 1) increase in the employment rate and reduction of unemployment rate; 2) improvement of knowledge, skills and competences in view of increasing employment opportunities and competitiveness through formal and informal education and training; and 3) promotion of social inclusion and reduction of poverty. The Strategy proposes several measures to enhance employment for vulnerable social groups – the long-term unemployed, youth, women, persons from undeveloped areas and PWDs.

### 5.5.3. Analysis of financial incentives and support mechanisms

The Law on NGOs adopted in August 2011 introduced a major change in terms of financing from the state budget. The Law defines establishment of a cross-sectoral Commission for allocation of funds to NGOs by the Government. Following the adoption of this Law, the funds of several ministries designed for this sector were abolished. The Fund for Minorities and the Commission for Allocation of Revenue from Gambling still exist while the Commission for Allocation of Funds from the Montenegro Parliament does not operate in practice, although its mandate was extended until the election of the Commission stipulated under the new Law on NGOs. Resources from this fund, although envisaged by the 2012 Budget Law, have not been distributed to CSOs as yet, and for the third year, the Montenegrin Government decided to distribute the resources under the Fund for Minorities and Lottery Fund according to the old system of distribution.

It is argued that distribution of public funds to CSOs is characterized by a lack of transparency of allocation process, limited number of areas of public interest that are awarded support, lack of a systematic approach to monitoring project implementation and control of spending (Centre for Development of NGOs, 2013). Still is not well understood that funds should be allocated for solving social issues in communities not just for the sake of 'spending'. Thus, for more than three years, the Government has not been acting according to the Law (the Administrative Court of Montenegro overturned the allocation of funds for the previous two years) and funds are being distributed to only 5-6 areas of public interest, while the Law recognizes more than 20 areas of public interest (Parliament of Montenegro, 2013).

Table 15: Allocations of state funds to CSOs

	2009	2011	2012	2013
Total transfers to CSOs (national level) in EUR	4,721,991	3,078,028	2,338,164	1,546,886
Current budget in EUR	649,752,299	631,608,828	605,567,483	599,870,760
%	0.73	0.49	0.39	0.26
Total transfers to CSOs (local administration) in EUR	298,121	370,044	199,179	n/a

Distribution of state funds in line with the Law on NGOs and improvement of the efficiency of these funds can stimulate greater participation of the sector in development of SE.

International donors are losing interest in Montenegro and the region as a whole due to the economic crisis and EU integration processes of Western Balkan countries. Donors still tend to focus on political issues such as corruption and bureaucracy and environmental issues while many other important areas are not considered. On the other side, local funders (primarily corporate ones) are focused on specific activities linked to their CSR strategies.

Providing synergy and tackling different social issues in a way that might provide greater sustainability of the civic sector is the greatest challenge funders face. Development and promotion of social entrepreneurship might solve this problem by providing additional funding to CSOs, integrating marginalized groups into the society and reducing currently the biggest problem – unemployment.

Individual philanthropy and CSR are at a low level of development, with much room left for improvement of partnerships between CSOs and enterprises. Most of the smaller, less developed CSOs do not know how to approach business sector with ideas or how to adapt their ideas to appeal to companies, while the business sector finances only those CSOs whose programs are well aligned with their individual CSR focus. There is still an underdeveloped culture of individual philanthropy and social responsibility of enterprises, especially when it comes to cooperation between enterprises and CSOs.

The Law on Professional Rehabilitation and Employment of PWDs provides significant benefits and financial mechanisms to disabled persons including: 1) grants for adapting the workplace and working conditions for employment of PWDs; 2) favorable loans for the purchase of machinery, equipment and tools required for employment of PWDs; 3) participation in financing the cost of personal assistance to PWDs; 4) subsidies to earnings of PWDs, provided for employers who employ persons with disabilities (Subsidy of 75% of gross earnings is provided for employers hiring a person with at least 50% disability, during entire period of employment while employers hiring a person with less than 50% disability were provided with the subsidy of 75% of gross earning only in the first year of employment, is 75%, followed by 60% in the second year, and 50% in the third and each subsequent year.

Even though the Law provides considerable opportunities for rehabilitation and employment of persons with disabilities, there is a lack of interest in and

quality programs for usage of the Fund which is valued at 4-5 million EUR a year. Employers showed greater willingness to pay special contributions to the Fund rather than to employ PWDs while CSOs and other market participants (institutions, cooperatives) are not able to absorb this Fund due to the lack of quality programs. Thus, the Fund is mostly returned to the state budget. Developing SE (through cooperatives and social enterprises), this situation could change significantly with entrepreneurial initiatives that aim to support social inclusion, rehabilitation and employment of the disabled in Montenegro.

The Employment Agency manages active employment measures such as financing or co-financing job creation, inclusion of the unemployed in a public works programs, providing loans for investments in employment based on new production, organizing seasonal employment (in tourism, construction, hospitality, agriculture, etc.), providing assistance in the training of newly hired employees, developing employment programs for certain categories of unemployed persons (disabled persons and persons who are waiting longer for employment), etc.

The 2012 regulation on subsidies for hiring certain categories of unemployed persons provides subsidies to employers who hire people from one of the nine categories of unemployed people registered with the Employment Agency: people at least 40 years of age; RAE population; people who are unemployed for more than 5 years; people employed in the public works sector; people employed after completion of training or internship; people made redundant; people employed to perform seasonal jobs; and unemployed people with over 25 years of experience who receive monetary benefits. For people from these categories, employers are exempt from paying compulsory contributions to social security fund (contributions for pension and disability insurance, health insurance, unemployment insurance, contributions to the Labor Fund) and personal income taxes.

Furthermore, Ministry of Agriculture and Rural Development and Investment and Development Fund of Montenegro (IDF) have different potential financing mechanisms (co-financing and favorable loans) that can be used for development of cooperatives. A significant financial impact is expected after the adoption of the Law on Agricultural Cooperatives which is still in the adoption phase.

The Directorate for the Development of Small and Medium-sized Enterprises, together with the Ministry of Economy, is working on creating different support mechanisms for development of SMEs such as defining the strategy for SME development, preparing the implementation of SME support programs

and projects, providing expert assistance to SMEs, and preparing training programs for entrepreneurs. The Directorate supported adoption of the Law on Agricultural Cooperatives by assessing it to be “according to EU standards and international cooperative principles” and offering all necessary support for development of cooperatives in Montenegro and implementation of the Law (Ministry of Agriculture and Rural Development, 2013).

The Montenegro Chamber of Commerce and Business Associations (Montenegro Employers Federation and Montenegro Business Alliance) which include cooperatives as their members provide different types of technical support to their members and it is expected that they will take part in development of cooperatives in Montenegro.

#### *5.5.4. Analysis of the current situation within the sector*

The concept of social economy is not well known to Montenegrin general or professional public due to the fact that it may be associated with something that was abandoned as an unsuccessful model and which initiated a whole series of reforms needed to ensure economic development of the country. Thus, it is necessary to put it on the agenda again in line with the new trends in EU countries that have overcome the shortcomings of the current model of capitalism in the world, which caused the crisis of 2008.

There is no official data on the size and structure of the SE sector as a whole in Montenegro. Since there is no system of data collection in the field of SE, this analysis must rest on a variety of sources and studies.

Although the number of registered CSOs and cooperatives is significant, the SE sector is underdeveloped. The sector is fragmented, disorganized, poorly equipped, with limited capacities and resources and over-dependent on foreign donors. It is focused on political and humanitarian issues more than on development issues and rarely on income generating and employment of disadvantaged groups.

The SE, i.e. new forms of cooperatives and social enterprises, is in its infancy. It is difficult to expect that cooperatives and social enterprises could develop quickly. It should be taken into account that active labor market programs are aimed directly at development of SE, as are some other programs.

Over the last decade and a half Montenegrin society has created important conditions for the organization of SE. This applies in particular to the experience

gained in carrying out various programs, projects and active employment policies implemented by the Employment Agency and the human capital created through training of a large number of people engaged in CSOs and local communities.

Compared to many other countries, the SE sector is not well developed in Montenegro. One reason for this is the lack of adequate framework which then relates to several other reasons such as: no directives or specific EU documents regarding the creation of a legal framework in this area; no obligation from the EU; unsuccessful practices with creating a legal framework across EU states; and the fact that some specific areas of SE are partially regulated by a disperse legal framework. There is no law on professional associations, private charity foundations or humanitarian organizations and their constitution under the Law on NGOs creates significant limitations to their operations. Similarly, there is a lack of legislation in the field of cooperatives and social enterprises which would provide a framework for development in this field.

Even though there is no law on cooperatives, some 140 cooperatives are registered in the Central Register of the Commercial Court in Podgorica under the former Federal Republic of Yugoslavia legislation from 1996 (OG of FRY, 41/96). Most of them are organized around the Cooperatives Alliance of Montenegro, which gathers together more than 100 cooperatives of different types, primarily focused on agriculture. There are also several student and housing cooperatives; however, the cooperative sector in Montenegro is generally in a poor situation. The Alliance which has 7 employees and provides services to over 1,000 members and over 5,000 subcontractors has not been a beneficiary of the MARD budget since 2013 due to budget reductions. Previously, it received 80,000 to 90,000 EUR per year. All the cooperatives which are members of the Alliance together have around 500 employees (0.3% of total employees in the country), while the Alliance annual budget amount to around 2 million EUR (0.06% of GDP).

According to the Ministry of Interior data, 3,096 CSOs were registered until 01 April 2014: 2,908 non-governmental associations, 95 foundations and 93 representative offices of foreign CSOs. The financial sustainability of CSOs, especially in terms of public sources of funding, remains an open question. Poor communication and cooperation between CSOs and insufficient access to information and support for organizations in rural areas, particularly in the North, appear to be deep-rooted problems with origins in culture, geography and technology which have negative impact on sustainability and effectiveness of the sector. Shortage of financial resources and dependence on short-term

project funding determine that a limited number of Montenegrin CSOs conduct their activities continuously.

There are rather rare cases of CSOs managing to gain financial sustainability from their own sources of income. Also, a small number of CSOs achieved financial stability for longer than 12 months (through programs financed for periods longer than a year).

410 CSOs have been registered for business activity with the Central Register of the Commercial Court in Podgorica, but unfortunately, there is no recent research on their activity. Centre for Development of NGOs survey from 2011 showed that 933 CSOs submitted their financial reports to the Tax Administration in 2010. 57% of CSOs that filed tax applications operate in the central region, including 41.69% of organizations with headquarters in Podgorica. CSOs are almost equally represented in other parts of the country, with 20.25% in the northern region and 22.7% in southern, coastal region.

According to the Annual Financial Reports of CSOs in Montenegro – 2010<sup>42</sup> (TACSO, 2011), 213 CSOs had revenue in 2010 amounting to 5,413,603.98 EUR in Montenegro<sup>43</sup> in 2010. Most CSOs generated income of up to 10,000 EUR in 2010 - 149 of them. Revenue exceeding 100,000 EUR was generated by 18 organizations. Revenues from domestic sources, primarily government sources of funding, came to a total of 1,432,862.94 EUR. According to the data, CSOs received funds from 41 local donors (legal entities) in 2010. Funds CSOs received from foreign sources (64 foreign donors) amounted to 3,952,345.76 EUR. In the same year, a total of 4.1 million EUR was allocated for CSOs from the national budget, accounting for 0.26% of GDP.

According to the 2010 survey by the Association for Democratic Prosperity ZID (TACSO, 2011), there are only 556 persons permanently employed with CSOs, while 1,358 were engaged on the basis of service contracts (short-term or occasional employment). That is less than 1% (0.86%) of the total number of employees in Montenegro in 2010 (MONSTAT, 2010-2013). According to the TACSO 2011 Needs Assessment Report, Montenegrin CSOs officially employ two persons on average.

At the national level, there is a group of well-established, organizationally mature CSOs engaged mainly in provision of social services, advocacy, research, monitoring and capacity building in fields such as vulnerability, environment, fight against corruption, public administration, poverty reduction and human rights. The small number of fully professionalized organizations contrasts the

42\* URL: <http://www.tacso.org/project-org/Montenegro/>

43\* CSOs that agreed to share their information on financial statements.

great majority of CSOs that are active but can be defined as weak, are fully voluntary based or semi-professional.

Montenegrin public is relatively well informed about the civil sector and holds it in high regard. Public support to CSOs and their activities is relatively high and stable. A survey conducted by Center for Democracy and Human Rights (CEDEM) (TACSO, 2011) in December 2010 indicated that citizens have significant trust in CSOs (50.5% of people have trust in CSOs). A Gallup survey in 2010 showed that the number of those with no trust was reduced from 8.4% in 2009 to 6.7% in 2010. Trust in civil society is significantly higher in Montenegro when compared to other countries in the region, with the exception of Kosovo\* (TACSO, 2011).

The main factor that contributes to generally positive citizens' attitude to civil society is the high level of interest of local and national media in CSO activities. Furthermore, civil society has taken its own steps to enhance its performance, standards and transparency.

Even though social enterprises do not exist in Montenegrin legislation, there are examples of social enterprises in the country primarily established by CSOs. A good example might be 'Nova Sansa u Novom' (New Chance in Herceg Novi) which established a digital printing house 'Naša ID Kartica' (Our ID Card) as a Centre for training of youth with disabilities. Another good example of a social cooperative might be the Roma women craft cooperative 'Rukatnice' engaged in employing Roma women in tailoring and hairdressing and established through the support of CSO 'SOS Nikšić', which due to internal problems and lack of know-how did not succeed in becoming sustainable and it has ceased its activities for the moment.

Though rare, these examples can be used as case studies for further development of the concept. This shows that there is significant potential for the development of SE in Montenegro and that they need additional support in order to be sustainable and profitable, primarily through training, consultancy and mentorship in order to develop managerial, financial and marketing skills. No research has been done in this field, but their perennial dependence on donor support indicates that these organizations need empowerment in order to be prepared for the market.

Currently, there are two BIs in Montenegro: the IT Business Incubator 'Inventivnost' from Podgorica and BSC Bar. 'Inventivnost' was established in 2008 by the Directorate for Development of SMEs and Podgorica Capital City and started its operations in March 2009. Further support was provided by the University

of Montenegro, GIZ, TurnAround Management (TAM) and Business Advisory Services (BAS) Program of European Bank for Reconstruction and Development (EBRD) and a Dutch CSO SPARK. Entrepreneurs with implementable projects joining the incubator are offered a range of specialized support resources and services, such as: physical space and equipment, management coaching and training, support to creating effective business plans, administrative services, transfer of knowledge and technology, and business networking.

BSC Bar was established in 2010 by the Municipality of Bar and with the support of SPARK, and its primary mission is to provide comprehensive and integrated support to small and medium-sized enterprises. BI is located on a total area of approximately 1,100 square meters. The business incubator management has provided business space for each tenant with all the necessary infrastructure and shared office space which includes offices for receiving guests, a copy/scan area, computers with Internet access, cafeteria, etc. Entrepreneurs (new and existing companies) can stay at the BI at discounted rates for a maximum period of 3-5 years. It also provides different trainings for acquiring and improvement of business skills, advisory services for starting a business, micro-loans, etc.

On 29 December 2011, the Government of Montenegro adopted the Business Development Incentives Program, which defines tax and administrative benefits for the development of business zones in Berane, Kolasin, Podgorica, Bar, Cetinje, Bijelo Polje and Niksic, and potential business zones in Zabljak, Mojkovac, Tivat and Danilovgrad. Business activities within the zones will receive tax and administrative benefits, with additional benefit based on the free trade agreements with EU Member States, EFTA, CEFTA, Russia, Turkey and Ukraine. In order to implement the project, the Government adopted a complex program of incentive measures, while the municipalities accepted a commitment to develop infrastructure and provide additional exemptions for investments. However, due to the slow adjustment to local governments, business zones are mostly in the initial phase.

The Montenegro Chamber of Skilled Crafts and Entrepreneurship, which is the umbrella organization representing professional, economic and social interests of Montenegrin SMEs organized through 15 professional associations, is currently implementing IPA project entitled 'Third Sector and Social Enterprises Development in Montenegro' in cooperation with a partner organization Cooperation for the Development of Emerging Countries (COSPE) from Italy. The project published a call for proposals for development of social enterprises in Montenegro. Six CSOs representing vulnerable groups have been selected to receive 7,500 EUR grant each for their business start-ups. The Chamber

will provide technical support and public awareness campaign about social entrepreneurship throughout the project.

Montenegro participates in four IPA CBC Programs (Component II) with neighboring Western Balkan countries (Albania, BH, Croatia and Republic of Serbia, and recently with Kosovo\*). Montenegro also participates in the IPA Adriatic CBC program with Member States and the trans-national cooperation programs: SEE and Mediterranean under the ERDF. These programs have significant impact on development of social sector in Montenegro, primarily through know-how support, experience exchange and funding, but also through development of networks of similar organizations that will have an impact on regional, national and local level such as the BCSDN and SIGN Network of local donors from SEE<sup>44</sup>, which have already made some progress in empowering civil society and promoting sustainability of the sector.

Similarly, significant impact can be achieved through joint regional initiatives for promotion of SE such as the Belgrade Declaration on the Development of Social Entrepreneurship, which was based on the principles of Strasbourg Declaration on the principles of contribution of social enterprises to Europe. Such initiatives can more easily promote different European models and successful regional practices and also provide exchange of experience and know-how. Also, different studies focused on regional level, such as this report, can significantly contribute to influencing national policies due to comparative analysis and expertise that comes from a similar environment and development level.

#### 5.5.5. Summary with recommendations

Economic development does not flow evenly in all parts of Montenegro. Differences in the level of economic development are directly reflected in employment and recruitment. Elimination of regional disparities in employment is a strategic option given that activation of human resources is an essential prerequisite for rapid economic and overall development of the country.

- Faster development of individual regions requires development of appropriate forms of SE that encourage employment of those groups that are not sufficiently competitive in the open market, activate potential economic resources (arable land, pastures, forests, rivers, industrial facilities that are not operational) and meet the specific needs of local community in the area of production and services. It is necessary to increase awareness and understanding of SE and social entrepreneurship at different levels (regionally, nationally and

44\* Members: National Foundation for Civil Society Development (Croatia), Mozaik (BH), Trag (Serbia), fAKT (Montenegro), FIQ (Kosovo\*) and CIRa (FYR of pre Macedonia)

locally) and increase capacity and know-how in order to achieve sustainable development and provide better allocation and effectiveness of available funds.

- Along with recognizing the benefits of SE, its further development should be more strongly supported by the Government and other institutions. The crucial impetus may come from involving all stakeholders regionally and nationally in harmonization of regulations and development of support mechanisms.

- Social inclusion, reduction of poverty, deinstitutionalization of social care, rural development and employment of vulnerable groups are not areas with high profitability and it will be difficult to find investors to partner with the state in solving these issues. Thus, it is necessary to develop a framework for SE development which is based on and compatible with EU standards, and increase efficiency of existing social funds by supporting different social initiatives focused on meeting the social priorities defined in key national strategies in this field.

- Development of SE in Montenegro does not depend on large budgetary allocations or changes to the system but rather on introduction of new mechanisms to match market supply and demand. The SE can play a significant role in mediation between beneficiaries (vulnerable groups) and different social and development institutions.

- Development of the social economy has to be an integral part of the strategy for overall development of Montenegro. It is necessary to adopt specific regulations and policies which regulate SE organizations and different financial mechanisms.

- Reducing the barriers to starting new businesses and the principle of the one-stop shop should be introduced at all levels of the administrative process.

- Upgrade the data collection system, including better coordination of different institutions and data adjustment together with monitoring and collection of additional data.

- Advocacy for the development of the SE means a commitment to efficiency, higher employment and employability, reduction of social exclusion, justice, humanity and harmonious society.

The examples of social businesses established by a number of CSOs indicate that there is significant potential for development of SE in Montenegro and that

they need additional support in order to be sustainable and profitable, primarily through training, consultancy and mentorship in order to develop managerial, financial and marketing skills. Another option could be classical separation of management from ownership by taking young graduated students (who are registered with the Employment Agency) to manage social enterprises and be responsible to the 'owners' (founders/members of social cooperatives/enterprises). The example of the 'Rukatnice' cooperative shows how lack of capacities in terms of knowledge and skills may be obstacle for sustainability of SE. Thus, the necessary know-how could be accessed and unemployment of youth and marginalized groups reduced by involving graduates in the field of SE. Such initiatives could improve sustainability and give additional impetus to economic development in the country.

Mutual programs and exchange of experience among key stakeholders in the country and partners from the region are essential in order to provide best practices.

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## 5.6. SERBIA

### 5.6.1. Background review

The socio-economic context in Serbia is not particularly favorable to SE development at the moment. After a decade of blocked transformation during the 1990s, a period of intensive reforms has brought significant changes to the socio-economic and cultural environment. However, since 2009 the effects of global economic crisis coupled with uncompleted and ineffective reforms have contributed to a new phase of deterioration in economic and social conditions.

During the period of reforms prior to the economic crisis (2000-2008), Serbia experienced relatively high economic growth (around 5% on average), intensive privatization processes, improvement of conditions for entrepreneurship and development of SMEs and increasing living standards. However, these processes were not completed; growth was based on an increase in consumption and the eruption of the economic crisis in 2008 revealed that this model was not sustainable.

Since then Serbia has been facing the issue of achieving stable and sustainable economic growth. In 2009 and 2012 the growth rate was negative, and never again has it reached the levels from first half of 2000. A sharp decline of FDI contributed to the recession and decreased opportunities to generate new economic initiatives. Fiscal instability and a sharp increase in government debt which reached almost 60% of GDP in 2012 contributed to the bleak picture of macroeconomic environment.

Table 16: Macroeconomic indicators in Serbia (2008-2013)

	2008	2009	2010	2011	2012	2013
GDP (mil. EUR)	16,024.3	17,289.5	18,993.6	20,285.3	23,327.4	28,473.9
GDP per capita (EUR)	4,446.0	3,954.7	3,835.7	4,350.6	4,111.8	4,453.2
GDP real growth, in %	3.8	-3.5	1.0	1.6	-1.5	2.5
Foreign Direct Investments, net (mil. EUR)	1,824,4	1,372,5	860,1	1,826,9	241,9	768,5

Source: Ministry of Finance of RoS

Severe problems of unsuccessful economic restructuring lie behind these trends. Activity in key sectors has been declining: industry, agriculture, construction and retail trade. Only a small number of service-based activities remain drivers of growth (i.e. financial services, insurance, communications, etc.). Part of the problem is related to ineffective privatization. Many of the privatized companies failed to contribute to development, the process was marked by numerous problems and irregularities and the proportion of terminated or cancelled privatization contracts has been growing steadily, reaching 26% of the privatized enterprises in 2012 (Stosic et al., 2012: 360-361). In 2013 the Government launched a public sector reform program which may also have a negative impact on the labor market.

During 2008-2013 the total number of employed persons fell by about half a million (from 2,821,724 to 2,310,718), while the number of unemployed persons registered through LFS showed an increase of over 210,000 (from 455,380. to 656,120) (SORS, 2013). Key labor market indicators show a steady decrease in activity and employment rates among the over-fifteens, an increase in the unemployment rate up to 2012, and only a slight recovery in all dimensions between 2012 and 2013.

Table 17: Key labor market indicators for population 15+ in Serbia (2008-2013)

	2008	2009	2010	2011	2012	2013
Activity rate	51.5	49.1	46.9	46.4	46.7	48.4
Employment rate	44.4	41.2	37.9	35.8	35.5	37.7
Unemployment rate	13.6	16.1	19.2	23.0	23.9	22.1

Source: Statistical Office of the Republic of Serbia (SORS), Labor Force Survey 2013.

46\* According to the ILO, it includes forms of employment other than salaried work. However, study on vulnerable employment in Serbia (Krstic et al, 2010) has broadened the concept so it also encompasses low chances to get to employment (unemployment), informal employment, insecure and low paid salaried work.

Gender inequalities on the labor market are prominent, and various marginalized social groups are more exposed to vulnerable employment<sup>46</sup>: young people (15-24), elder workers (50-64), people with low qualifications, rural population, forced migrants, Roma, PWDs and others (Krstic et al, 2010: Cvejic, Babovic, Pudar, 2011: Babovic, 2010: Cvejic et al, 2010: Ilic, Babovic, Cvejic, 2007: Babovic, Cvejic, Rakic, 2007).

According to the first Statistics on Income and Living Conditions (SILC) survey, conducted in Serbia in 2012, a quarter of the population is living at risk of poverty<sup>47</sup>. Since the SILC survey was implemented for the first time in 2012, the comparative data is lacking. However, the measures of absolute poverty that were applied until 2010 indicated an increase in the poverty rate after the economic crisis (Government of Serbia, 2011).

Table 18: Poverty and social inclusion indicators for Serbia, 2012

	%
At risk of poverty rate	24.6
At risk of poverty rate before social transfers	31.4
Relative poverty gap	36.6
Severe material deprivation	27.0

Source: Statistical Office of the Republic of Serbia, SILC, 2012.

Higher risks of poverty are recorded among children, young people, households with three and more children, single parents, self-employed and unemployed persons (SORS, SILC, 2012). Other sources indicate significant issues of social exclusion of various groups such as Roma, forced migrants, rural population, PWDs, and others (Government of Serbia, 2011).

Serbia was granted the status of EU candidate country in 2012. Basically, this has been a major driver of the reform process. The Government has responded to the crisis with a combination of austerity measures and investments in infrastructure and export, with modest attention paid to active employment and social inclusion policies. Presently, there is no development, social inclusion or poverty reduction strategy. There is no specific national strategy for SE either. The closest to this is the Strategy for Development and Promotion of CSR for the period 2010-2015<sup>49</sup>. This Strategy is beneficial as it promotes values important for SE and social enterprises. Unfortunately, the Strategy for Development of Agriculture<sup>50</sup> does not specifically recognize SE as means for agricultural or rural development.

Contrary to this, the National Strategy for Employment 2011-2020<sup>51</sup> emphasizes the importance of SE and social enterprises not only as a potentially good

47\* Meaning with equivalent household income below 60% of median income in Serbia.

48\* Pensions are included in income.

49\* OG of RS, No. 48/10

50\* OG of RS, No. 78/05

51\* OG of RS, No. 37/2011

framework for new employment, but also as an appropriate vehicle for introducing duality to the labor market. The Strategy envisages various active employment measures that are favorable for social economy: job-matching, counseling and development of entrepreneurship and employment programs (employment subsidies). However, training programs are insufficiently developed and targeted in the National Employment Service programs.

### 5.6.2. Institutional and policy framework

To understand the legal, institutional and policy framework for SE in Serbia, it is important to keep in mind that notions such as 'social economy', 'social enterprise' along with the concepts which define them and provide the basis for a more coherent and systematic approach are not widely understood. There is no law on SE or social enterprises; no institution mandated to deal with this sector, nor individual strategy or other policy document that will organize strategic action for promotion of SE. Despite the lack of a solid conceptual, legal, institutional and policy framework, the SE has been developing for years in diverse legal forms: companies for the disabled, cooperatives, associations of citizens or NGOs, foundations and LLCs.

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

The Law on Professional Rehabilitation and Employment of PWDs<sup>52</sup> is the only law that uses the term 'social enterprise'. In Article 34 the Law stipulates that special forms of employment and recruitment of PWDs aimed at employment, i.e. recruitment and improvement of the quality of life of PWDs may be organized as:

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

In this sense, the 3 types are recognized as special forms of employment and recruitment of PWDs. The Law regulates enterprises for professional rehabilitation and employment of PWDs in detail while social enterprises and organizations were only introduced in the context of enhancing the position of PWDs. Presenting and regulating the overall SE concept was not the intention of this Law.

52\* OG of RS, No. 36/09 and 32/13

Moreover, the Law only applies to this single category of enterprises - those intended for employment of people with disabilities. They can be founded by the state (at central, provincial or local level), companies, associations of PWDs or other persons or legal entities. It has to employ at least 5 full-time PWDs or 50% of the total number of employees (Article 36). The Law also stipulates additional conditions that should be fulfilled (working environment, supporting staff, etc.), however leaves room for different interpretations, referencing Company Law as the relevant regulation for conducting business activities (except the obligation to reinvest part of the income into improvement of the position of PWDs). The problem with this Law is the lack of precision (i.e. does not specify the proportion of income that should be allocated for the integration of PWDs, whether wage subsidy is standard regardless of the degree of disability, etc.) and the limitation to apply it to other vulnerable categories (Group 484, 2011).

The Law on Cooperatives<sup>53</sup> dates from the mid-1990s and was last amended in 2006. A draft proposal of a new Law was prepared in 2010, the consultation process was completed in 2011 but the Law was never adopted. According to the present Law, 10 people are required to found a cooperative. The tax regime is the same as for associations and for-profit companies (10% of corporation tax).

The Law on Associations<sup>54</sup> is relatively new and was adopted after significant pressure from civil society. Only after the new Law was adopted did the associations attain the right to perform income-generating activities in commercial terms, creating possibilities to develop social entrepreneurship. The Law bans distribution of profit. The associations are allowed to establish their own companies to undertake commercial activities, but the relations between the founding association and the spin-off company are not precisely defined (Group 484, 2011).

The Law on Endowments and Foundations<sup>55</sup> stipulates much tighter control the founders may exercise over assets of this type of organizations. This type is not presently seen as a model for social enterprises in Serbia, but they can be founders and sponsors of social enterprises.

Company Law<sup>56</sup> is not adjusted to the establishment of social enterprises; it generally regulates the registration and activities of companies in different legal forms. In practice social enterprises often take the form of a LLC, which is also the most common form of profit-making company. This type can be suitable for social enterprises when statutory restrictions on profit distribution are included.

53\* OG of FRY, No. 41/96, 13/98, OG of RS, No. 1012/2005, 34/2006

54\* OG of RS, No. 51/09

55\* OG of RS, No. 88/10

56\* OG of RS, No. 125/04

According to the Law on Churches and Religious Communities<sup>57</sup> voluntary organizations with religious affiliation can establish certain institutions and organizations within the framework of social and charitable activities, undertaking production and/or service activities. The Law also stipulates that in performing activities and securing income, churches and religious communities can be fully or partially exempted from taxes or other obligations in accordance with the laws regulating particular public revenues.

Besides these key laws that enable the establishment of social enterprises in various legal forms, there are several other important laws such as the Law on Social Protection<sup>58</sup> which enables establishment of institutions for social protection by state, private persons or legal entities, creating space for the development of social enterprises within this sector, and the Law on Volunteering<sup>59</sup> which regulates volunteering work and stipulates that this kind of work can be organized by nonprofit legal entities (associations, foundations) or the state at central, provincial or local level.

The existing legislation is more limiting than supportive to the development of SE (more detailed analysis in Group 484, 2011; European Movement in Serbia, 2011).

There are no government or state bodies which have a clear and primary mandate to deal with the SE or social enterprises. As in the case of laws, responsibilities are scattered and this is one of the main reasons for uncoordinated action in the promotion of SE in Serbia.

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

57\* OG of RS, No. 36/06

58\* OG of RS, No. 24/11

59\* OG of RS, No. 36/10

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

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

### 5.6.3. Financial incentives and support mechanisms

The Budget Fund, Public Works, and the Lottery Fund are important state instruments for financing social enterprises. The Budget Fund draws income from penalty payments levied on employers who do not comply with the obligation to employ a certain proportion of PWDs. Since the establishment, this Fund has collected app. 35 million EUR (Spear at al, 2013). The Fund financially supports primarily companies for the disabled (refunds of salaries and improvement of working conditions, process, etc.). Financial resources are partly distributed directly and in other cases through National Employment Service. The Lottery Fund was established by the Law on Games of Chance<sup>60</sup> and it has been used to finance various social projects within five areas: disability, youth and sport, Red Cross, social protection at local level through municipalities, and rare diseases. Social enterprises could also be financially supported through the Development Fund, which is the main source of state-funded credit for businesses, including SMEs. Besides its own funds which operate in line with the budgetary constraints, it channels funds from certain ministries and cooperates with the National Agency for Regional Development and regional development agencies in supporting business start-ups. One of the financial instruments available for financial support to SE was the Social Innovation Fund which was functional during 2003-2010 and supported almost 300 projects in over 100 municipalities to the tune of or roughly 7 million EUR. There is an initiative to establish a similar fund – the Social Inclusion Fund which would be similar to the ESF, focusing on beneficiaries and managed by the inter-ministerial body (SIPRU, 2013).

60\* OG of RS, No. 88/11

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

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

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

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

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

Among international organizations involved in the SE sector support projects, most important are: the British Council which focused on skills and capacity building and is currently engaged in training and development of social enterprise business plans – "Think Social, Act Business" Program; the UNDP which has focused on social entrepreneurship, especially cooperatives, and gender equality issues; USAID with its interest in micro-finance; EU funded

projects like Satellite Accounts for Co-operatives and Mutuals in Serbia, Economic Effects of Social Entrepreneurship in Serbia; trainings of local institutions and organizations in social entrepreneurship.

There are different support mechanisms and initiatives for SE which are not financial in nature. They are more focused on skills development (for entrepreneurship, management, handling regulations, etc.), protection of joint interests (such as providing a better environment for social enterprises, etc.), introduction of legal and institutional changes, etc..

Skills development services are delivered by the National Employment Service, National Agency for Regional Development, Regional Development Agencies and CSOs on project basis. There are no estimations on how many beneficiaries from SE sector participated in these programs.

Another important form of support is interest-based networking within SE sector. The Coalition for Social Entrepreneurship Development (CoSED) was established as an informal network consisting of a number of organizations and social enterprises. The Social Economy Network Serbia (SENS) with 35 members has formed a small internal market and promotes social entrepreneurship as an innovative solution to the problems of poverty and social exclusion. The Green Initiative Network includes 22 associations involved in waste collection. The National Alliance for Local Economic Development (NALED) with the 'Civil Society Sector Organization for Competitiveness' program and CSR certification was developed with partners Smart Kolektiv and Balkan Community Initiative Fund (now Trag Foundation).

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

Recently the Belgrade Declaration on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey was signed by representatives from Albania, BH, Montenegro, Kosovo\*, FYR of pre Macedonia, Serbia and Turkey. The Declaration stresses the importance of social entrepreneurship for socially sustainable development in the region,

as well as readiness of social enterprises and related actors in the region to cooperate in this regard.

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

#### 5.6.4. Current situation within the sector

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

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

However, reliability of the collected data depends on the accuracy of information provided by the organizations themselves, and occasional research has shown that annual reports are not always 100% accurate. Nonetheless, this data offers a solid basis for monitoring the development of SE. There is no regular reporting on trends in SE. Several studies of associations have been made so far (CRNPS, 2006; Lazic, 2011), Mapping of Social Enterprises (SeConS, 2008), Satellite Accounts of Cooperatives (SORS, 2010) and Analysis of the Performance of Social Enterprises (SORS, SeConS and Group 484, 2014).

This part of the report is built on the findings presented in the publication – Economic Impact of Social Enterprises in the Republic of Serbia, developed by the Serbian Statistical Office and SeCons and Group 484 as a part of an EU-funded project, and some previous surveys by leading organizations in this field. According to this research, there were 1196 social enterprises of various legal types in 2012 in Serbia and they employed 10,326 persons, which accounted for 0.60% of all employed persons in Serbia.

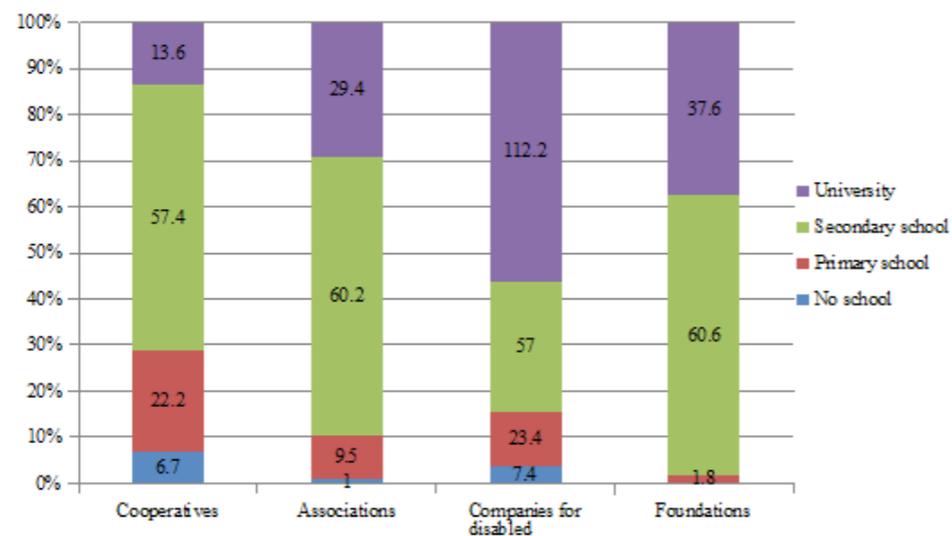
Table 19: Social enterprises in Serbia according to legal type, in 2012

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

Source: SORS, 2014

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

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



Source: SORS, 2014

Figure 1: Qualification structure of employees according to type of organization, 2012

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

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

There are differences in identification of objectives among different types of social enterprises. Associations and foundations are primarily focused on social and humanitarian objectives, which are often combined with education and promotion of values that are incorporated in their mission. Cooperatives and companies for the disabled are primarily oriented towards employment and economic empowerment, though, the latter also place strong emphasis on improvement of the position of their target group - PWDs. Development agencies, BI and spin-off enterprises are almost equally oriented towards local development and economic empowerment (SORS, 2014).

Within the social enterprise sector, 20.7% of enterprises (mostly associations and foundations) devote more than 50% of their income to some social mission such as assistance to vulnerable groups, rural development, environmental protection, etc.

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

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

The dominance of agricultural cooperatives among those cooperatives that fit the definition of a social enterprise limits the ability of this legal form to lead the development of the whole sector and localizes the effects of social entrepreneurship to the area of rural development. The gross added value of the sector was at the level of 6,819.2 million RSD, and a major contribution to this was made by cooperatives (75.3%), followed by associations (10.3%) and companies for the disabled (5.5%) (SORS, 2014).

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

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

### 5.6.5. Summary with recommendations

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

- Initiatives to improve the legal framework are presently blocked, but incentives from the state can be summarized in 4 key areas:
  - Several mechanisms that are available for financial support to SE: Budget Fund, Public Works, Lottery Fund.
  - Employment programs, retraining, laws and strategies that support employment of PWDs and other vulnerable groups.
  - Incentives to foster entrepreneurship through programs for start-ups, development of entrepreneurial skills, simplifying or adjusting rules in order to provide a more favorable environment for entrepreneurship in general;
  - oEmerging incentives at local levels to support SE.
- International donors and some distinguished representatives of the banking/profit sector have been supporting the SE sector in line with their CSR strategies. This can serve as a good example to others and replication of similar actions could be implemented.
- International donors and particularly availability of EU funds are important drivers of the development of SE sector.
- The SE sector is organizing itself through national and even cross-border networks.

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

- Underdeveloped and inconsistent legal framework which creates problems in establishment and performance of certain types of social enterprise (cooperatives, companies for disabled, associations).
- Inadequate institutional framework – there is no institution or a body responsible for SE sector which can provide more coordinated action in the improvement of the environment for SE or the performances of SE organizations.
- Restricted access to certain resources, particularly financial markets and appropriate loans.

- Weak entrepreneurial orientation and economic performance which are the consequence of the socialist legacy and underdeveloped entrepreneurial skills of managers and other people employed in the sector.

- Difficulties in monitoring the sector due to the limits of statistical surveys and limited methodology.

- Cooperation between third sector entities, including self-help groups, and the business sector is not well-developed, and procurement chains do not provide good opportunities for social enterprises to strengthen their economic position.

- Insufficiently promoted opportunities to develop more SE organizations in the field of social services delivery.

Analysis of SE sector resulted in several recommendations to improve the current situation and foster creation of an enabling environment for SE development:

- The legal framework should be improved in several aspects:
  - New Law on Cooperatives and legal resolution of the issue of social property that is presently blocked, preventing the transformation of many cooperatives;
  - More elaborated legal propositions for regulating the economic activity of associations, which can stimulate their economic activity at larger scales and greater entrepreneurial performance;
  - Needed clarification in the regulations related to the connection between the mission and economic activity of foundations; Drafting a new proposal of the Law on Social Enterprises that will make the legal framework more consistent.
- The institutional framework should be improved by:
  - Establishing a single body which will be responsible for the improvement of SE sector and coordinate various stakeholders at central and local levels;
  - Developing further support mechanisms through establishment of a Social Inclusion Fund;
  - Providing a more favorable taxation environment.
- Coherent policies for the development of SE should be provided by adopting a strategy for its development with clear objectives, targets, means and indicators for monitoring progress.

- Good practices of support to SE and good examples of social enterprises should be promoted.
- The entrepreneurial capacities of managers and persons employed in SE sector need to be improved.
- Networks of representatives of SE sector and regional cooperation should be encouraged and strengthened.
- Regional dialogue and cross-border initiatives should be further encouraged by introducing some coordination mechanisms that will enable establishment of regular communication and exchange practices. Also, a database on social enterprises and networks in the region should be established.
- Establishment of a regional web portal will make it possible to exchange information on social economy sector, forms of support, available funds, and where calls to join initiatives, invitations to join partnerships or plan joint activities will be published and accessible to networks of social enterprises and individual social enterprises.
- Space for exchanges, awards, visits, all practices that contribute to the promotion and networking of SE should be established as well as regional level conference on SE that will gather researchers and academic stakeholders, practitioners and decision-makers in order to analyze, review the current situation and suggest improvements.

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## 5.7. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

### 5.7.1. Background review

The development of SE in FYR of pre Macedonia is significantly influenced by the characteristics of post-socialist transition. The democratic potential of civil organizations and their contribution to the public good in FYR of pre Macedonia, as well as in other SEE countries has been recognized through numerous research studies. Nevertheless, these organizations still face many challenges pertinent to the financial aspects of their sustainability, depending on project funding, and lacking income generating activities. On the other side, the Government faces challenges in establishing a supportive environment to foster development of the sector.

The current economic situation in FYR of pre Macedonia is characterized by a stable monetary system (low inflation), a very strict fiscal policy and a flat tax rate system. Given the large number of people on low incomes, it can be noted that fiscal policy particularly affects vulnerable groups in society.

Table 20: General economic indicators

	2008	2009	2010	2011	2012	2013
GDP real growth rate	5.0%	-0.9%	2.9%	2.8%	-0.4%	n/a
GDP (total) mill EUR	6,720	6,703	7,057	7,473	7,454	n/a
GDP per capita (in EUR)	3,283	3,269	3,434	3,630	3,616	n/a
Social Expenditure (in EUR)	937,500	1,012,200	1,036,000	1,091,300	1,131,800	1,205,900
Social Expenditure (%of GDP)	1.1%	1.2%	1.2%	n/a	n/a	n/a
FDI (%of GDP)	6.0 %	2.1 %	2.3%	4.5%	0.9%	3.3%
Active business entities	63,193	70,710	75,497	73,118	74,424	71,290

As can be seen from the general economic indicators, the rate of growth is unstable. One of the factors is low inflow of FDI in recent years, accompanied by the global economic crisis. To attract FDI, the Government has proposed stronger measures in order to open the economy to foreign capital and to support employers (0 wage taxation and salary subsidies). However, regardless of this,

FYR of pre Macedonia has been considered unattractive to foreign direct investments compared to other countries of the region<sup>61</sup>. It is believed that the economy of FYR of pre Macedonia generates 17,000 new vacancies per year, which is not enough to solve the problem of 300,000 unemployed (Mojsosjka Blazevska, 2011).

The simplification of procedures for opening businesses increased motivation to set up new businesses as is shown by 2009 and 2010 data. In 2011, there was a decline in their number due to low liquidity, especially for SMEs. Through its active employment measures, the Government provided a credit line (3,000 EUR maximum) to unemployed persons to open new businesses. However, the procedures were very rigid and as such not stimulating. Basically, grants were very low to start a sustainable business.

Table 21: Employment, unemployment and poverty rates

	2008	2009	2010	2011	2012	2013
Employment rate	37.3%	38.4%	38.7%	38.9%	39%	40.9%
Employment to population ratio	36.5%	37.6%	37.8%	38.0%	38.0%	-
Unemployment rate	33.8%	32.2%	32.0%	31.4%	31.0%	28.6% (last quarter)
Activity rate	56.3%	56.7%	56.9%	56.8%	56.5%	57.3%
Employment rate - Male	45.7%	47.5%	47.5%	47.0%	47.1%	49.9%
Employment rate - Female	28.8%	29.4%	29.8%	30.9%	30.8%	31.9%
At-risk-of-poverty <sup>62</sup> rate	28.7%	31.1%	27.3%	27.1%	-	-
Gini coefficient	44.20	43.17 <sup>63</sup>	40.8%	39.2%	-	-

Sources: State Statistical Office - Labor Force Survey, World Bank, 2013

61\* In the period when FDI were the highest (2006-2008) they were at 8.7%. In 2010 they were at 2.6% of the GDP or 290 USD per capita, unlike Bulgaria and Croatia with 1.300 USD in the same period.

62\* According to World Bank data

63\* Data provided by IndexMundi, URL: <http://www.indexmundi.com/facts/macedonia/gini-index>

Until 2008 the employment rate was very low (approximately 40%) and this level has been regained in 2013. A significant decrease in unemployment was recorded in 2013, but it still remains worryingly high. Being granted the status of a candidate country for EU integration (2005), the Government has already created strategies, national action plans for employment and various other programs, however their application in practice is patchy. In 2013 the Employment Agency imposed a new methodology for recording the unemployed. It introduced two categories of unemployed: active jobseekers (which must strictly be recorded each month at the exact time) and passive jobseekers. Many unemployed were eliminated from the register of unemployed, because of these strict procedures.

The low activity rate of the population in FYR of pre Macedonia can be explained by low participation of women in the labor market, especially women from rural areas and minority groups (Albanians and Roma). Also, considerable numbers of FYR of pre Macedonia's citizens who are of Albanian origin are working in foreign countries, which can be proved by the remittances (clearly visible in national accounts). The data on employment shows a clear gender gap which was at 23.6% in 2010. The gender gap in relation to economic activity is significantly pronounced among the Albanian population (11.3% of women compared to 62.3% of men). A distinct characteristic of unemployment in FYR of pre Macedonia is long-term unemployment which is running at over 80%. However, the picture of unemployment would not be complete if we omitted data on grey economy. The latest statistics (2012) show that informal employment accounts for 22.5% of total employment in the country.<sup>64</sup>

FYR of pre Macedonia has been an EU-candidate country since 2004. The impact of the EU is particularly evident in the normative area. The EU is playing a major role in the affirmation of the concept and practices of SE in FYR of pre Macedonia. Almost all activities which have been undertaken to affirm this concept were initiated through EC-funded projects. Another noteworthy initiative is the translation of the SEE 2020 Strategy into Macedonian (issued in Macedonian language in January 2014).

Since FYR of pre Macedonia is facing problems of high unemployment, the Government has paid great attention to the promotion and construction of a social model based on the active measures of European social policy. At the initial phase of EU candidacy the first National Action Plan for Employment (NAP 2004-2006) was developed.<sup>65</sup> Currently the third NAP for Employment 2011-2013 is active, based on the Employment Strategy 2010. Major popular measures recommended for increasing employment include strengthening youth employment, particularly stimulating self-employment and other measures exclusively market-oriented. Long-term unemployed people, especially vulnerable groups that can be integrated into the activities of SE are included in these active measures.

### 5.7.2. Institutional and legal framework

Many changes have been introduced in Macedonian legislation relevant for SE since 1990. As a consequence, there was a significant increase in the number of foundations, associations and other CSOs. On the other hand, the number of cooperatives decreased as a result of failure to politically recognize their economic

64\* Compared to 2003 when informal employment accounted for 38% of total employment in the country. This reduction partly results from the reforms of gross salary which have reduced the labor cost, and the increased control through integrated collection of social security contributions and personal income tax.

65\* Issued by the Ministry of Labor and Social Work. It is important to notice that experts from universities and civic associations acting in these domains were included in the development of the strategies and recent national documents.

and social function and their contribution to SE. This legal institutionalization of certain SE organizations gradually improved during the transition period. Associations and foundations are the most widespread organizational form.

There is no specialized institution or government body in FYR of pre Macedonia in charge of development and promotion of SE sector. Currently the Ministry of Economy is in charge of implementation of the SEE 2020 Strategy which emphasizes SE as a separate area.<sup>66</sup> The Ministry of Labor and Social Policy (MLSP) also plays an important role in the field of SE with its experience in developing strategies and programs to regulate and develop different social activities. The Employment Agency is among the main institutions authorized to develop and implement programs and strategies for greater employability. The Agency was completely restructured and reorganized in 2006 and now operates according to modern procedures for registration of the unemployed. The MLSP and Employment Agency are the main actors which promote active employment policies. Taking this fact into consideration, it can be concluded that there is high level of centralization with weak participation of local communities and others entities (CSOs, trade chambers, trade unions). Although MLSP has a list of 50 CSOs that collaborate in developing their social programs and strategies, this cooperation should be more actively encouraged. The concept of SE is more intensely promoted and developed by CSOs than the Government, and it still needs to penetrate to mainstream policy.

Associations and foundations are the most widespread organizational form recognized in the legislation. Given the fact that there is a significant number of registered and active CSOs, certain institutions are created purely for developing collaboration between governmental institutions and CSOs. Among the first was the Unit for Cooperation with CSOs acting within the framework of General Secretariat of the Government. This semi-governmental organization was established in 2004 to prepare and maintain a strategy for cooperation with CSOs, preparing a review of legislation on CSOs, proposing initiatives in order to initiate changes in legislation related to civil society sector, allocating financial resources, administering and evaluating project proposals submitted by CSOs. Among its objectives the Strategy for Cooperation between the Government and Civil Society 2012-2017<sup>67</sup> highlights the need for stronger participation of CSOs in economic and social development, as well as social cohesion, civil activism and community support. This Strategy is considered very ambitious, requiring strong commitment from the Government and considerable resources.

The Commission for Organizations of Public Interest was established by the Unit for Cooperation with CSOs in March 2012 (including representatives from

66\* There are many institutions which collaborate in this area: the Agency for Promoting Entrepreneurship in FYR of pre Macedonia, the National Council for Entrepreneurship and Competitiveness and SMEs, and many local agencies and entrepreneur centers for promoting entrepreneurship and innovation at universities and trade chambers.

67\* This is a second strategy which follows the Strategy for Cooperation between the Government and Civil Society Sector (2007-2011)

relevant ministries and two CSO representatives) and is strictly targeted to regulate the activities of public interest organizations.<sup>68</sup>

Public debate on the Law on Social Entrepreneurship which is expected to be passed in June 2014 was held over the past months. The analysis of the draft version of the law showed that this Law would encourage the development of social entrepreneurship. In particular, it would more clearly regulate the status of the organization and its governance. However some felt that the Law would not respond to the needs of vulnerable groups and would be misused by profit entities because of the fiscal benefits offered. There has already been bad experience with the misuse of the PWD Employability Law.<sup>69</sup>

The Law on Citizens' Associations and Foundations (LCAF) simplifies the establishment of CSOs and offers the possibility for CSOs to conduct income generating activities (production, social services and other types of service), hire employees, have revenue and turn a profit (Article 12). However, it is explicitly stated that profit should be reinvested in the social mission and used for the sustainability of organization. According to this Law, political parties should not influence the activities of citizen's associations, however the opposite has been observed in practice.

The Law on Donations and Sponsorships for Public Activities (April 2006)<sup>70</sup> provides incentives to companies and individuals that support CSOs which promote the public interest. The Law prescribes harmonization between domestic and foreign donors with respect to VAT exemption eligibility. However, a small number of companies cooperate with CSOs under the provisions of this Law.

The Law on Volunteering, adopted in 2007, recognizes volunteer practice as valid work experience within the paid employment sector, personal tax exemption for the costs related to volunteering, and the continuance of unemployment rights for unemployed persons who volunteer. This Law aims to encourage voluntarism and is potentially of great benefit to CSOs and the nonprofit sector. The Government created the new legal framework to develop a favorable environment for volunteering. This is part of the Strategy for Promotion and Development of Volunteering (2010), the National Council for Development of Volunteering (2011) and the Strategy for Cooperation between the Government and Civil Society 2012-2017.<sup>71</sup>

The Law on Local Self-Government<sup>72</sup> envisages civil initiatives, citizens' assemblies and other forms of civic activism; however, the Law has no provisions specifically

68\* Their establishment is initiated by the Law on Citizen's Associations and Foundations (2010)

69\* OG of the Former Yugoslav Republic of Macedonia , 44/2000

70\* Law on Donations and Sponsorships for Public Activities, OG of the Former Yugoslav Republic of Macedonia No. 47/2006, 86/2008, 51/2011

71\* OG of the Former Yugoslav Republic of Macedonia No. 85/07, 161/08

72\* OG of the Former Yugoslav Republic of Macedonia, No. 54/02

for SE. Financial support from local government to the social activities of CSOs is negligible. There are some cases where the local community has supported risk groups (long-term unemployed, women, Roma, the elderly, etc.). The Ministry of Local Government has decided to co-finance projects for CBC with Greece and Albania. However, good practices in successful implementation of long-term projects are still insignificant.

Another law relevant for SE is the Social Welfare Law which allows associations (but not foundations) to provide certain social protection services, if they are registered to provide services of social nature (for individuals, families and groups of citizens at social risk) and for the development and promotion of volunteering in the community.<sup>73</sup>

The Law on Agricultural Cooperatives<sup>74</sup> has undergone changes over time in terms of the objectives of cooperation, rights and obligations of members and understanding of the basic function. The original version of the Law<sup>75</sup> defined a cooperative as an association of persons with the aim of facilitating agricultural production and establishing better conditions for carrying out the work. The new amendments of 2013 expanded and qualitatively (essentially evolutionarily) enhanced this definition. The first change is in the perception of cooperative - it is defined as a voluntary association of agricultural holdings aimed at meeting their economic, social, cultural and other interests and needs while performing agricultural work. Further amendments define rights and obligations under the principle of one member, one vote and introduce principles that define good business: openness, transparency, regular information and training of members, collaboration with other groups and sustainable development.

As was mentioned before, there are no documents that directly refer to the SE. However, a number of recent strategies, programs and measures are related to it. The National Strategy for Poverty Reduction and Social Exclusion 2010-2014 (revised 2010-2020) includes elements of SE by recognizing social groups at high risk of poverty, and enumerating factors that influence poverty and social exclusion. Also, some measures are mentioned in the Strategy that could provide favorable conditions for SE: boosting entrepreneurship through the creation of employment zones such as incubators, local and regional development agencies which facilitate access to material resources for economic activities and advisory services to CSOs as tentative service providers in the field of social inclusion.<sup>76</sup> Other documents relevant for SE development are: National Agenda for Social Responsibility of Enterprises in FYR of pre Macedonia issued by the Coordinating Body for Social Responsibility

73\* OG of the Former Yugoslav Republic of Macedonia, No. 79/09

74\* OG of the Former Yugoslav Republic of Macedonia No. 116 /2010 and 2/2013, (Amendments)

75\* OG of the Former Yugoslav Republic of Macedonia, No. 11/2002

76\* Ministry of Labor and Social Policy of the Former Yugoslav Republic of Macedonia [http://mtsp.gov.mk/WB-Storage/Files/revidirana\\_str\\_siromastija.pdf](http://mtsp.gov.mk/WB-Storage/Files/revidirana_str_siromastija.pdf)

of Enterprises; National Employment Strategy (2015) and Calendar for Active Measures (2014); Operational Plan for the Implementation of Active Measures of Employment 2012-2013 in FYR of pre Macedonia (Ministry of Labor and Social Policy); Program for Competitiveness, Innovation and Entrepreneurship (Ministry of Economy); Action Plan on Youth Employment, Review of Progress, 2013 (Ministry of Labor and Social Policy); Program for Subsidizing the Employment of Welfare Recipients (Ministry of Labor and Social Policy, 2013); Action Plan for Reduction of Informal Economy in FYR of pre Macedonia for 2014 (Ministry of Labor and Social Policy). The funds for creating jobs and stimulating entrepreneurship are usually distributed centrally.

### 5.7.3. Analysis of financial incentives and support mechanisms

SE organizations still face many challenges pertinent to the financial aspects of their sustainability where foreign donors are the predominant source of funding; income generating activities and local social enterprise initiatives are lacking; and the mechanism for government support remains underdeveloped. Financial sustainability is obviously critical for SE organizations. Generally, there are four main sources of income available to SE organizations in FYR of pre Macedonia: government funding (central and local level); income generating activities (fees from services, sales, membership fees, rents, investments, SE ventures, etc.); international donors (EU funds, in particular); and philanthropy (financial donations and in-kind support from volunteers).

There are significant problems with data related to financial incentives and support mechanisms. Generally, this type of data is unavailable or not systematized in order to define the financial constraints of SE organizations in FYR of pre Macedonia. The LCAF provides opportunities to gain revenue from the donations of individuals and businesses and also provides tax exemption for donations destined for projects of public interest. According to the World Index Donations scale (2012), FYR of pre Macedonia is ranked 72nd (out of 146 countries). Regarding donations, there are administrative procedures that the private sector finds difficult to follow and therefore can be seen as one of the barriers for donations.

A small percentage of budget is allocated to financing certain civic associations (organizations providing services to PWDs). This money has been provided from the national lottery (50% of lottery payments should be allocated to these organizations)<sup>77</sup>. This in fact amounts to 120,000 EUR annually (only 9% of their whole revenues).<sup>78</sup> The Code of Good Practices (2007)<sup>79</sup> was developed to define procedures for using budgetary funds in a transparent manner.

77\* Budget of the FYR of Macedonia in 2013, Official Gazette, No. 167/2013

78\* The decision to deploy the proceeds from the national lottery (games of chance and entertainment games) in 2013 for funding of program activities of national disability organizations, associations, associations for the fight against domestic violence and the Red Cross of the FYR of Macedonia, Official Gazette of Former Yugoslav Republic of Macedonia, No. 147/2013

79\* Created by the Unit of Cooperation between CSO's and Government

Budgetary funding of CSOs has its basis in the State Budget Execution Law, Law on Associations and Foundations, decisions and procedures for allocation of state budget funds to associations and foundations, and other laws and regulations of relevant ministries. However, in the last three years, only 463 organizations have received financial support to the tune of 4,000,000 EUR (MCIS, 2014)<sup>80</sup>.

There are many tax laws that directly or indirectly deal with the activities of civil sector organizations. Recent analysis has highlighted the need for changes in the tax system. The tax system is not harmonized. For example, the Law on Trade Societies and the Law on Profit Tax treat enterprises and CSOs equally while the Law on Donations and Sponsorships for Public Activities includes financial incentives. The administrative procedure for securing tax incentives is complicated, long and charged to the donors as highlighted in the analysis (MCIS, 2014). In practice, CSOs are not exempt from payment of personal income tax, nor material or travel costs. Activities of public interest are in general exempt from tax, however, when purchases are made, the vendor seldom agrees to apply this exemption, because the administrative procedure to reclaim the tax is very complex and takes a long time. 43% of CSO's activities are associated with companies, but it is not known whether they have requested the refund.

The first annual program for financing the activities of associations and foundations started in 2009. Every year, the Unit for Cooperation with CSOs announces project grants to citizen's associations. The total amount per year is 195,000 EUR (MCIS, 2014). Although the instruments are developed (institutional and legal framework), distribution of budgetary funds should clearly refer to proposed measures. In terms of objectives, no special importance is given to promotion of SE.

European funds are now the most important source of support to CSOs related to development of SE. The EU grants that CSOs may apply for are: IPA, EIDHR, Cross-border Cooperation (IPA 2), IPA Civil Society Facility, Progress Program, Europe for Citizens 2014-2020, Competitiveness and Innovation Framework Program.

The current EU funding opportunities are relatively difficult to access for the majority of CSOs. The principal reason for this is the relatively high threshold of available grants, which require proof of strong financial management capacities, as well as the level of co-financing that should be provided. In addition, there are views within CSOs that the EC grant applications are very complicated (technically) which adds substantially to the administrative burden on staff. They

80\* This amount is also allocated to the trade unions, political parties, religious and other organizations that are not defined as civic associations.

impose many financial and administrative requirements on organizations which many lack the capacity to meet.

A number of other financial institutions are active in financing SMEs and other small ventures. The Horizons Program of the Catholic Relief Services targets potential entrepreneurs and those operating in the informal sector, enabling them to gradually formalize their activities. The program also provides microfinance through group loans (up to 2,500 EUR, 6-9 month repayment period). Around 10,000 loans have been issued thus far. The Commercial Financial Fund for SMEs, financed by USAID, has capital of 1.5 million USD. CFF finances short-term working capital for SMEs. Also, Moznosti savings bank has branch offices in 6 cities (Kocani, Kicevo, Kumanovo, Strumica, Bitola and Ohrid). This microfinance institution is a savings bank originating from the USAID-funded Opportunity International program. FULM savings bank has branch offices in Skopje, Tetovo, Strumica, Kavadarci and Bitola. This former USAID program was established through the World Council of Credit Unions and provided microloans to its clients. The Business Angels initiative invests directly into enterprises in their personal capacity. A conference on the Business Angels concept was organized by the SME Forum in November 2006 and the SME Program 2007–2010 foresees the creation of a Business Angels Network (located in Trade Chamber) matching potential investors with enterprises.

In terms of SE and social entrepreneurship, the grants provided by the Swiss Agency for Development and Cooperation through the Civil Society Support Facility – CIVICA Mobilias are of particular importance. The second phase is about to start (2014 -2018) with a total budget of 6.5 million EUR. The program will focus on social change.

Many enterprises donate ad-hoc upon a certain request for donations. Usually, donations are made in the area of health, disabled persons (16%) and child protection (14%). Although enterprises declare that they are open to providing donations, only small percentage of enterprises (14%) is prepared to ensure long-term support (TACSO, 2014). There is no sensitivity to social dimension with small and medium-sized businesses. Perhaps this can be attributed to a general lack of liquidity among SMEs.

#### 5.7.4. Analysis of the current situation within the sector

The social economy is a relatively new concept in theory and practice in FYR of pre Macedonia. The most prominent topics related to SE are 'social entrepreneurship'

and 'social responsibility' (corporate responsibility). Social entrepreneurship has been the subject of many systematic studies and debates that explain the forms it can take (CIRA, 2011). Taking into consideration the existing national references<sup>81</sup> on the concept and practice of social entrepreneurship, the general conclusion is that interest in the subject increased significantly in 2013, but there was insufficient research on the number of social enterprises existing in FYR of pre Macedonia. In the last three years some activities have been noticed related to the social enterprise topic such as student competitions for the best social entrepreneurial idea, many conferences, workshops held together with CSO, etc.

The most important form of social economy in FYR of pre Macedonia is the citizen's association. In practice, different terms are used in this domain relating to CSOs. Under the 2010 Law, CSOs are called citizen's associations. Political parties, trade unions and trade chambers are excluded from this definition. According to statistical data, more than 13,000 such organizations have been registered since 1991; however, the number of those which were active was 2500. The main problem citizen's associations face is their sustainability, since their activities depend on donations. Moreover, most of the organizations have no specialization in one field. The number of citizen's associations providing social services in FYR Macedonia is estimated at one hundred.<sup>82</sup>

According to data from surveys conducted in this domain only 24% of citizen's associations perform economic activity (MCIC, 2014). Economic activities often undertaken by citizen's associations include: research activities, delivery of training, consultations, preparation of documents, equipment rent, leasing business premises and others services. Income generating activities such as production and sales are lacking.

The activities of citizen's associations are beginning to assume an economic dimension thanks to the revision and broadening of the Law on Civic Associations and Foundations. In this regard, the quintessential publication was prepared by the Macedonian Centre for International Cooperation (MCIC), titled: Economic Activity: Acting as a Civic Organization. This text refers to the basic regulations of the Law regarding the undertaking of economic activities by CSOs. The Handbook gives an overview of the legal framework which differentiates economic activities of CSOs and those of private and public companies (income, taxation, type of economic activity). It also gives examples of what could be considered a service provided by an organization for every economic field in the marketplace.

Certain CSOs in FYR of pre Macedonia are actual representatives acting in the field of SE. For example, the Centre for Institutional Cooperation (CIRA) has built

81\* The list provided at the end of this Report.

82\* According to the National Strategy for Poverty Reduction and Social Exclusion 2010-2020

a systematic approach to introducing the concept of social entrepreneurship. Since 2010, CIRA has conducted workshops, debates, conferences and training for social entrepreneurship. MCIC can be included in the same category it is considered a large CSO in the national context and influential in SE in FYR of pre Macedonia, and also at regional level, being part of a wider network of organizations. MCIC strongly influences the working environment of CSOs with its involvement in the preparation of legislation related to this field, research it conducts, data it generates and the funds it makes available for the support of other organizations.

In order to provide the necessary information to the public, CIRA created a website (URL: [www.socialenterprise.org.mk](http://www.socialenterprise.org.mk)). However, despite the intention to promote this concept to the general public, it appears that the initiatives undertaken in this regard have not spread to the wider society but rather remained within a small circle of the topmost organizations. Periodic reports in the mass media have done little to promote this concept adequately.

A systematic approach towards social entrepreneurship has been developed through the activities undertaken by TACSO. At the beginning of 2014, this organization held the workshop: Social Entrepreneurship – New Perspective for CSOs. The CSOs which promote and develop the concept of SE, often mentioned as pioneers in affirmation of this practice, are: Izbor, CIRA, ORT, Mladi-info, SD Peoni, RBC, Hera, Konekt, Foundation Open Society - Macedonia and several others, but not more than ten such organizations. According to some SE experts, Pokrov – a project implemented by the citizen association Izbor, is a good model to be followed by others. There are also other good examples of social enterprise and cooperation with the business community which could be further developed and enriched. The social enterprise Izbor located 5km from Strumica, on 7 hectares of land, provides re-socialization and reintegration to people who have suffered from drug abuse, alcoholism, and other forms of addiction. Military buildings from the former Yugoslav army were renovated with the support of donor community, Strumica Municipality and local business community. Currently, they have a small factory for production of bricks and a farm for production of special types of cherries to be exported to Greece. The social enterprise is also in the process of producing solar energy, initially for its own consumption needs, and also with the prospect of increasing production and selling solar energy to the national power company. These businesses will be used to create work opportunities and increase skills of people involved in the program.

In respect to social entrepreneurship, it is important to mention the role of BIs which inspire social innovation and provide other forms of support

towards establishing and developing small firms (the use of business premises and equipment personnel training). At this moment, there are eight active incubators. The first BI was created in 1997 and was initiated and supported by the WB.

Although the unemployment rate in FYR of pre Macedonia is very high, CSOs have no advantages in terms of employment compared to other employers. In the national unemployment policies, CSOs are not perceived as a potential source of employment and should be more integrated into related government measures. In 2013, the total number of employees in the civil sector in FYR of pre Macedonia was 1,839.<sup>83</sup> However, for young people CSOs are still not an attractive sector for employment.

The bad image of cooperatives among people in FYR of pre Macedonia is as a result of the misuse of this form of association by the communist state after the Second World War. The Law on Cooperatives is only related to agricultural cooperatives. The Government of FYR of pre Macedonia is using various measures to stimulate the creation of agricultural cooperation (financial, organizational, awareness raising). This constitutes powerful support to agricultural production and offers solutions to the problem of unemployment, particularly rural youth unemployment. 18% of GDP is generated by agriculture. There is a small number of legal entities (farms, only 4% from all the legal entities) in this economic sector with fragmented ownership of land and an average of 2ha per agricultural entity. This is why agricultural cooperatives have the potential for development in the SE. Despite Government efforts to create an environment conducive to establishment of cooperatives, such as renting state land to individuals, providing funding for managers, and other benefits, to date only 15 cooperatives are operating in FYR of pre Macedonia<sup>84</sup>.

Another area where Social Economy could be developed is craft associations. There are 7000 registered craft organizations in FYR Macedonia and the law governing their activities provides the possibility for creating cooperatives in this economic sector.

#### 5.7.5. Summary with recommendations

To ensure SE development in FYR of pre Macedonia it is important to provide an environment that enhances the role of SE organizations and encourages stronger linkages between these organizations, local authorities and other actors while acknowledging the important role of the users of SE organizations.

83\* According to Central Registry of the FYR of Macedonia

84\* Information provided by the Macedonian Association of Cooperatives, URL: <http://www.mazz.mk/>

Some recommendations for stimulating further development may include:

- Public awareness on SE and social entrepreneurship should be raised and induced into public debate about the role and importance of SE in terms of addressing social and environmental problems.
- Existing legislation concerning various SE entities should be harmonized.
- A financial framework for SE support, including regular financial schemes and tax incentives should be more stimulating.
- A Strategy for Social Economy should be developed as a comprehensive approach to institutional support for the development of social economy sector.
- Social economy organizations should be more integrated into major policy documents and activities, especially those concerning employment and the fight against poverty and social exclusion.
- Special funds that will provide financial support to social economy entities should be established.
- The role of local authorities to create special local financial schemes and build partnerships with local social economy organizations should be more encouraged.
- Education programs, training and knowledge transfers, both in formal and informal education, should be developed in order to increase capacities for social economy activities.
- Regional cooperation should be promoted through exchange of good practices and experiences.
- Development of an intermediary sector aimed at providing non-financial support to social economy organizations should be more supported.
- Inter-sectoral partnerships are encouraged since they may bring together government institutions, private sector and social economy organizations.

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## 6. CONCLUSIONS AND RECOMMENDATIONS

This report has identified the main features of SE in the region and the challenges this sector faces today. The conclusions and recommendations that follow reflect a synthesis of the national reports' findings, together with incentives and impediments identified in the analysis.

The concepts of SE and social entrepreneurship are still not widely understood or fully recognized, either by the general public or even among the key stakeholders in the countries of SEE region. In general, the existing legislation enables SE through various types of legal forms – associations, foundations and cooperatives, being the most frequent options. Although the legal frameworks were largely assessed to be inconsistent and not particularly stimulating, the existing laws nonetheless enable SE and social entrepreneurship through hybrid forms and combinations of nonprofits and commercial companies. Cooperatives are probably the type of organization with the most unfavorable legislation, and in most countries of the region they remain the most neglected. Some countries though show slight trends of revitalizing the cooperative sector towards something more in keeping with modern understandings. In particular, cooperatives should be encouraged in areas other than agriculture.

The prevailing perception of the institutional frameworks is that they are inadequate and non-stimulating. The main deficiency is the total absence of institutions or bodies responsible specifically for coordination of SE sector as a whole. Governments in the region have established various institutions or bodies in charge of some aspects of SE – mostly for civil society or the nonprofit sector, employment, social welfare or entrepreneurship. However, unclear coordination between institutions and a significant lack of cooperation between sectoral institutions result in slow progress towards a supportive institutional environment. A fragmented approach to SE deepens the current prevailing understanding that fails to see SE as a multi-sectoral, however unique sector.

A lack of awareness of the important role SE plays in social development and economic recovery results in a lack of political commitment to creating a stimulating environment for it. In general, there is a perception that the development of social economy has little or no support from government and government institutions. Attempts at creating a legal framework for social entrepreneurship are recognized and welcomed, however stronger political will in this process is required.

Currently, most of the limited financial incentives available to SE are provided through funding schemes for civil society organizations or through active labor market measures based on EU funds, in particular IPA Programs and ERDF. Besides this, much of the financial resources for social economy development come from international donors, most commonly the USAID, UNDP, WB, British Council, ILO and others.

Financial mechanisms provided by private financial sector are rare, sporadic and insufficient. The most lacking are initial funding, start-up capital, loans, micro-credits and various financial tools designed for the needs and specificities of SE sector, which is often perceived by financial institutions as low-profit and high-risk.

Existing assessments of social economy sector show its low capacities in entrepreneurial skills, in particularly managerial and financial skills. In addition, weak cooperation with the business sector does not contribute to the exchange of knowledge and skills. It also affects the weak market position of SE products and services.

The most important impetus for SE development comes from the sector itself. SE actors and activists play a fundamental role in the promotion of SE and social entrepreneurship by providing support to newly established organizations and establishing bottom-up networks for transfer of specific knowledge on SE.

Although a weak entrepreneurial culture slows down the growth of SE and social entrepreneurship, there is huge potential in social capital, most visible only at times of natural disaster, which needs to be tapped into in the creation of sustainable socio-economic development of local communities as well. Values such as solidarity, cooperation and trust have always been the fundamental principles of SE. Revitalizing those values means a great push forward for SE and vice versa – with the development of SE, social capital increases even more. Therefore, SE may play an important role as a driver of regional dialogue and cooperation.

*The following are recommendations for creating an enabling environment for SE development:*

### *1. Improvement of legal framework*

The legislation should ensure clear understanding of SE, its parts and characteristics. It should define specific features that distinguish SE organizations from commercial companies, particularly emphasizing the added value they produce that is visible in their social, economic and environmental impact on local communities. There is a perception that the existing legislation may function well with certain adaptations, even for social entrepreneurship. To become truly supportive, however, it should enable a larger scale of entrepreneurial activities for social economy organizations, at the same time distinguishing them from commercial business.

In addition to drafting and adopting a law on social enterprise, the need for better promotion of cooperatives, particularly in areas other than agriculture, is recognized as an even more important step towards development of SE sector. Cooperatives could be stimulated through amending and drafting laws and by dealing with the issue of their frozen assets. Along with other incentives, this would stimulate their transformation into modern and effective actors of SE in many sectors.

The legal framework should address the nature of SE organizations rather than prescribe specific legal and organizational forms. Each country is encouraged to develop its own form of legal framework that would best suit their respective SE sector's needs based on the country's specificities, political, socio-economic and cultural factors. However, it is important to note that stimulative legislation for SE includes the adoption of tax regulations, public procurement laws and employment regulations towards greater inclusion of SE organizations as important providers of goods and services.

### *2. Improvement of institutional framework*

The establishment of a single umbrella government institution or body responsible for coordination, promotion and development of SE sector as a whole is to be highly recommended. It would provide a unified approach and eliminate fragmentation and inefficiency over a widespread of programs and uncoordinated activities of various government institutions.

Social Economy should be included in the governments' agendas as one of the priorities in socio-economic development. Adoption of the Strategy for Social Economy should be the basis for development of coherent policies and supportive measures, but more importantly, those measures should be accompanied by budget allocation and strong commitment to their implementation.

The institutional framework should reflect a broader understanding of SE as an important generator of social innovation, production and services in various economic sectors and avoid the risk of reducing it to a tool for the employment integration of vulnerable groups or the provision of social services, as is often the case.

### *3. Development of financial incentives and support mechanisms*

The most important aspect that should be prioritized is the development of a supportive financial framework. This framework should provide sustainable funding opportunities for SE organizations and develop systematic and regular public incentives, as well as public-private mechanisms for the development of new SE organizations. These would include start-up grants and soft loan schemes and would also offer financial mechanisms to scale up economic activities of SE organizations. In addition, other supportive subsidies should be enabled such as tax benefits and exemptions for specific types of organizations and activities.

Public procurement needs to include SE organizations and acknowledge their privileged access to public contracts for the provision of services and goods according to the added value they provide.

Governments should also facilitate access to financial resources through development of specific funds for SE and by supporting organizations such as ethical banks and social investment funds, as well as bottom-up initiatives such as crowd-funding and incubators.

### *4. Increase of capacities for SE*

The low level of capacity in SE should be increased through development of cross-sectoral networks or support centers as engines for transfer of knowledge and technology, exchange of ideas and share of best practices.

Both the government and the business sector can assist SE sector by providing non-financial incentives, mentoring and administrative services, as well as consulting support.

A lack of managerial and entrepreneurial skills should be overcome by establishing formal and informal educational programs in collaboration with the academic sector, and also by including entrepreneurship in the curricula of vocational education and retraining programs.

SE should take an important part in curricula. Besides specific education in entrepreneurial skills for those already involved in SE activities, integrating this specific knowledge into formal education system means raising new generations of future social entrepreneurs and individuals who may create responsible and inclusive economy. Part of the capacity building activity could be achieved through different programs of mentoring, exchanging practices in developing skills with business sectors and strengthening cooperation with business community. Education should raise awareness on the importance of SE and its role in creating common benefits. It should focus not only on entrepreneurial culture but also on the creation of a 'social entrepreneurial culture'.

### *5. Support to SE effective advocacy*

We need an extra effort in raising broader awareness, primarily among government and decision makers, that the SE may play an important role in economic recovery, while remaining based on social and environmental responsibilities as integrated principles. In addition, one should see this sector as an important generator of social innovation and innovative ways of re-using locally available resources for creating sustainable ways of addressing social needs and increasing employment.

Greater visibility and awareness can be achieved through various activities: promotion of good practices of SE; examples of efficient support to SE; establishing annual awards for SE or social entrepreneurship; initiating media channels and social media platforms; and developing partnerships with media and educational institutions, including motivating and introducing young people and students to the concept of SE.

### *6. Establishment of information system on SE*

The establishment of a comprehensive register of SE organizations and the development of a methodological approach and data collection that would

enable systematic monitoring and analysis of SE sector should be one of the priorities. This would provide precise information on the size and structure of the sector and also enable insights into its impact and efficiency.

### *Recommendations for strengthening regional dialog and cooperation in the Social Economy*

The Belgrade Declaration on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey, adopted in March 2014 and currently signed by more than 460 organizations from all the countries of the region, has been recognized as an important step in creating a regional platform for SE development. Although this is a huge impetus to strengthening the regional dialog, it should be accompanied by stronger commitment and financial support from regional governments.

Some of the key recommendations for fostering regional initiatives include the following:

#### *1. Establishment of regional 'infrastructure' that would enable and facilitate communication and cooperation, including:*

- Establishment of a regional umbrella organization as a coordinating mechanism and advocacy body aimed to promote SE in the region and advocate the adoption of strategic measures and regulatory frameworks in the national contexts;
- Development of a web portal as a media platform offering information on SE organizations, activities, funding schemes, available financial and non-financial support, best practices, requests for partnerships, etc.;
- Establishment of some sort of a register or database which would provide information on active SE organizations in the region.

#### *2. Improvement of knowledge transfers through:*

- Establishment of regular mechanisms for regional knowledge transfer such as networks, visits, awards, conferences, internships and other practices that can contribute to the exchange of knowledge and specific experiences in establishing and managing SE projects and organizations;

- Organization of inter-sectoral regional events involving key actors from the government, private, nonprofit and academic sector aimed at serving transfer of knowledge and increase of SE capacities;

- Promotion of good practices for cross-border initiatives and cooperation, as well as sharing good models of existing partnership;

- Promotion of innovative services, mechanisms, methodologies, organizational forms etc. with potential for SE development to be applied regionally, in other countries;

- Initiation of research networks for conducting comparative research in the region.

#### *3. Development of support mechanisms for regional initiatives, including:*

- Establishment of a regional fund to support projects of regional cooperation among SE organizations or of inter-sectoral cooperation promoting SE. The fund may also function as a provider of support or a guarantee in use of EU funds.

- Encourage private financial and banking sector and further support initiatives coming from this sector (such as Erste Foundation, Unicredit, etc.) to develop financial mechanisms to support regional SE projects and initiatives.

## STORIES FROM THE SOCIAL ECONOMY SECTOR

This part of the report presents examples of SE organizations, projects and initiatives from different countries in the region. In order to provide a broader overview of the variety in the SE sector and the multidimensional nature of its impact in local communities, the chapter consists of three parts. The first part gives examples of successful SE organizations or projects, organized according to various types of legal forms or combination of forms, emerging in different sectors, and focused on different social needs and target groups. The second part presents examples of good practice, specifically organized to tackle SE development. These could be recognized in support mechanisms, financial instruments, networks, research methodology or assessment tools, policies or inter-sectoral partnerships and cooperation. The third part gives an insight into the completed SE projects intending to provide useful lessons as to the challenges and impediments SE organizations most often encounter and to emphasize the crucial support mechanisms that might assist SE sector to efficiently enhance its development.

The examples include general overview of the project or initiative, including the background information on the organization, mission and objectives. The descriptions give insight into how and why the projects were initiated, how many people were engaged or employed, how they were funded and whether they were financially sustainable. This approach helps demonstrate the multiple levels at which such initiatives impact local communities by contributing to social inclusion, employment, work integration of vulnerable groups, environmental

protection, social capital and sustainable local development. Finally, the cases will show how SE initiatives may impact regional development by strengthening cross-border cooperation, networking or partnership. This is particularly important for recognizing the potential of SE sector in regional dialog and the creation of a collaborative and safe environment for inclusive socio-economic development.

This chapter will fulfill its purpose if it manages to demonstrate how SE may be a successful and innovative actor in tackling social, economic and environmental issues that our societies face nowadays. The examples presented here use different models in achieving their social mission, which is always prioritized over gaining profit for personal interest. All of them have huge potential to be replicated in other communities or at least to serve as an inspiration for the development of new initiatives in SE sector across the region.

# INSPIRING SOCIAL ECONOMY ORGANIZATIONS

## Green Philanthropy

Partners Albania, Center for Change and Conflict Management  
Albania, Tirana

[www.partnersalbania.org](http://www.partnersalbania.org)

### *Geographical scope:*

National and regional

### *Legal and organizational form:*

Nonprofit Organization

### *Mission and main objectives:*

Green Philanthropy aims to support initiatives that promote social inclusion (through integration and employment) and local economic development through environmentally friendly ideas. The main objectives include: integration and employment of disadvantaged and marginalized categories, increase of awareness on environmental protection, stimulation of the role of philanthropy in support of innovative green ideas.

### *When did the project start? How did it start? Who initiated it?:*

The initiative was launched by Partners Albania (PA) in June 2012 as part of the project: Development of Philanthropy in Albania funded by Rockefeller Brothers Fund (RBF). PA organized the Green Ideas contest, an open call to individuals, organizations and small business ventures to present ideas that were friendly to the environment, based on the use of local human and material resources. At the end of the contest, PA selected three ideas to compete among 12 other ideas from FYR of pre Macedonia, Kosovo\*, Serbia and Montenegro in the Philanthropy for Green Ideas regional competition at the 3rd Annual Forum on the Development of Philanthropy in the Western Balkans organized by the Rockefeller Brothers Fund. The best three ideas won in this regional competition and were granted support of 10,000 USD from the RBF. Using the same model, PA organized the 1st and 2nd National Green Philanthropy Competition in 2013 and 2014.

This national competition was a first-time competition in Albania and was organized in partnership with local businesses as an innovative model which supports initiatives that promote integration and employment through environmentally friendly ideas. The best three ideas resulting from this competition were partially funded by the Rockefeller Brothers Fund and Balkan Trust for Democracy, and partially from local businesses.

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### *How many people are engaged on the project? Among them, how many are employed?*

### *How many volunteers? How many people from vulnerable groups are employed?:*

PA provided seed funding for the implementation of 8 winning ideas: two winning ideas in the 3rd and 4th Annual Forum on the Development of Philanthropy in the Western Balkans organized by RBF, and six winning ideas in the 1st and 2nd National Green Philanthropy Competition organized by PA in 2013 and 2014 respectively. Over 150 people are engaged in the implementation of these initiatives and among them about 100 are employed. Most of the employees are part of marginalized or vulnerable groups including: the Roma community, youth at risk (orphans, young people living in families with low income), women, retired persons, etc.

### *How is project/organization funded? What percentage of financial resources comes from economic activities? Is the project financially stable and sustainable?:*

The Green Philanthropy Initiative novelty in Albania consists in bringing together private philanthropic funding such as RBF and in-cash and in-kind contributions from Albanian businesses. During the three years of Competition, participation of businesses was very important in terms of ensuring financial sustainability and fostering relationships between social enterprises and businesses. The private donor contributions stand at around 60%, business contribution at 25% and PA at 15%. PA has been successful in attracting pro-bono business assistance in the form of training and mentorship for new enterprises/green projects.

### *What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

The projects implemented showed to have an impact on social inclusion through increase of awareness, employment and integration of people from marginalized communities or groups at risk, and also on environmental protection mainly through recycling of waste, objects, plastic and wood. The projects are also working strongly and show to have impact on public awareness on recycling and environmental protection and on integration in labor market and social inclusion of persons from disadvantaged groups.

### *What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

The Green Philanthropy in Albania is an initiative implemented at national level. PA and other organizations and individuals in the region who work on the development of philanthropy participated at the Annual Forums on the Development of Philanthropy in the Western Balkans, organized by RBF, and shared experiences and innovative ideas implemented at the local level. These ideas can serve as a model for implementation to other countries in the region.

## Miresia Factory

Albanian Disability Rights Foundation (ADRF)  
Albania, Tirana

[www.adrf.org.al](http://www.adrf.org.al)

### Geographical scope:

National

### Legal and organizational form:

Nonprofit Organization

### Mission and main objectives:

The ADRF mission is to promote equal opportunities and protection of the rights of PWDs with a view to improving the quality of life for them and their families. Its main objectives are to help change the concept of disability, underlying the human rights approach, and facilitate and promote cooperation, exchange of information and experiences, with the view of promoting and influencing changes in policy and legal framework to the benefit of PWDs in Albania. As part of ADRF activities, Miresia factory produces wheelchairs and other assistive devices to meet the needs of mobility means across the country for all age groups or categories of PWDs.

### When did the project start? How did it start? Who initiated it?:

ADRF is a nonprofit organization founded by OXFAM GB in 1994. Since January 1996, the ADRF has been functioning as a lead agency in the establishment, organization, management and financial administration of Miresia factory, which is the first and currently the only service for production and distribution of wheelchairs in Albania. Production of Miresia wheelchairs was established by the OXFAM Disability Unit (now ADRF) in collaboration with Motivation UK, a British agency specialized in the design and manufacture of wheelchairs for developing countries. The Miresia Factory Project launched its activities in response to the requests of NGOs operating in the field of disability which had identified the need for this service.



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*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

The factory is fully run and managed by local staff. The staff consists of seven technicians, five of them PWDs and two wheelchair users. Many people including PWD family members, university students, etc., volunteer in the organization and offer their contribution in various activities organized by ADRF.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

The organization and the factory are mainly funded by donors including Oxfam, USAID, EU, Civil Rights Defenders, International Foundation for Election Systems (IFES), NUON Company, as well as Open Society Foundation in Albania, Vodafone Albania Foundation, etc. Other financial resources for the organization are governmental grants, service fees, profit reinvestment, philanthropy and subsidies. The factory and the organization are not self-sustainable yet. In order to continue their activities they need both grant support and financial resources generated by the production and sales in the factory.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.):?*

Since its establishment, ADRF has functioned as a coordination center for undertaking major initiatives to impact the improvement of the quality of life for PWDs in Albania. The organization activities have great impact on social inclusion of PWDs and their employment as well. More than 3500 wheelchairs have been produced and distributed by Miresia factory. Beneficiary of Miresia mobility aids are PWDs from all over the country, registered on the waiting list at ADRF. ADRF had also undertaken or contributed to many legal initiatives, public awareness and advocacy campaigns for the rights of PWDs and continuously monitors and promotes legislation implementation.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

The factory contributes at local and national level, so there is no regional impact. Nonetheless, the ADRF experience has been widely promoted at cross-border level, EU and wider. In addition, the organization is part of a number of networks and has established several partnerships in the country and beyond.

**Mozaik Foundation**  
Bosnia and Herzegovina

www.mozaik.ba

*Geographical scope:*  
Regional

*Legal and organizational forms:*  
Association of Citizens, Limited Liability Company

*Mission and main objectives:*  
Mozaik Foundation runs one of the biggest youth programs in the region and owns two social businesses. Mozaik's aim is to create economically sustainable solutions for social issues. Its mission is to identify, facilitate and accelerate the development of enterprising young leaders, so they can achieve their full potential, and to access untapped resources for the purpose of social and economic development of BH.

*When did the project start? How did it start? Who initiated it?:*  
In 2008, Mozaik Foundation began the structural development of Mozaik social enterprise. With the support of local and international donors, Mozaik has established two successful social businesses (registered as LLC) – EkoMozaik for agricultural production and MaSta Agency for the promotion of social responsibility. Each social business has its own separate governance structure. Mozaik Foundation is the sole owner of both enterprises and the profits are reinvested to create more jobs and support their developmental nonprofit programs. Start-up capital for EkoMozaik was provided by the Ministry of



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Agriculture of the Czech Republic and the Municipality of Sekovici (public-private partnership). Using its own funds, Mozaik Foundation founded MaSta Agency with the aim of promoting CSR. Financial objectives of Mozaik social enterprise are to cover overall operating costs in line with market values. Start-up capital from several sources is used to established social businesses which are able to operate independently without additional financial, material or volunteer support.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

Through Mozaik's social model (two programs: YouthBanks and All Inclusive), over 3000 youth have been engaged in over 40 municipalities per year. Total around 3,000 volunteers have been actively engaged to make their cities and villages a better place for youth and the community. Social enterprise Mozaik created 36 sustainable full-time jobs and seasonal engagement for over 100 women in rural parts of BH.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

Financial objective of Mozaik social enterprise is to secure its financial sustainability by securing 25% of the total annual budget together with two self-sustainable social businesses (EkoMozaik and Agency MaŠta). Financial indicators for 2013 show that MaŠta Agency is self-sustainable and operated with a net profit of 20,000 EUR as opposed to EkoMozaik, which in 2013 recorded a loss due to fluctuations in the market. In 2014, EkoMozaik will export its total production of berries to the international market.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

Mozaik Foundation runs one of the biggest youth programs in the region – YouthBanks. It is a unique way of involving young people in grant-making within their communities through grant-making committees run by young people. Supported projects are designed and run by young people who address the issues relevant to the community as a whole. YouthBanks are not just about grant-making, they build trust and provide personal development opportunities. In BH, YouthBanks have been operating since 2008 in 31 municipalities. From 2008 to 2013, YouthBanks program achieved the following results: 965 projects supported; 1,794,798 EUR invested in projects; 969,190 contributions of communities (54 %); 12,847 volunteers who have made 234,322 volunteer hours and 518,082 beneficiaries.

*Social Cooperative Humana Nova*  
Croatia, Čakovec

[www.humananova.org](http://www.humananova.org)

*Geographical scope:*  
Regional

*Legal and organizational form:*  
(Social) Cooperative

*Mission and main objectives:*

The mission of the social cooperative Humana Nova is to encourage employment of persons with disabilities and other socially excluded people through production and sale of quality and innovative textile products made from ecological and recycled fabrics for the needs of domestic and foreign markets. In this way, the Cooperative actively contributes to the sustainable development of local community, poverty reduction and nature conservation.

*When did the project start? How did it start? Who initiated it?:*

Social cooperative Humana Nova was established in 2011 due to the project ESCO - Education for Social Cooperativeness – new opportunities for the disabled persons, financed through IPA OP HRD. The initiator was a non-governmental organization Autonomous Centre - ACT located in Čakovec which was the lead partner responsible for ESCO implementation. Although the cooperative was founded in 2011, it started its activities in February 2012.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

Social cooperative Humana Nova has fourteen employees – thirteen women and one man. All employed are from vulnerable groups: four of them are PWDs, two members of national minority groups, three are elderly women and all of

them were long-term unemployed. Also, Humana Nova has twenty members (NGOs focused on PWDs, cooperative employees and other natural persons). Fifteen members of the Association for Persons with Mental Disabilities spend the day in Humana Nova, working in the warehouse as part of their rehabilitation process.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

Humana Nova is financially stable due to its own economic activities (collecting, sorting out and recycling textiles, sowing their own products, organizing workshops on textile recycling, etc.). Actually, 60% of financial resources come from cooperative economic activity. In addition, Humana Nova received grants from different sources and programs in order to invest in enhancing their production and promotion. One of the economic goals the Cooperative is pursuing is reaching financial (self) sustainability in 2015.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

Humana Nova has an impact on local community due to its focus on social and environmental issues. Humana Nova employs marginalized groups; all of the employees were long-term unemployed. Due to their active involvement (as members and owners of cooperative) and work in the cooperative, Humana Nova has a great impact in terms of social inclusion. Also, its impact on environmental protection is very important. For example, in the last years the amount of collected and recycled textile was around 200 tons.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

The social cooperative Humana Nova has a regional impact due to three existing branch offices located in Međimurje County, Zagreb County and Koprivnica-Križevci County. There is a huge potential for cross-border action as there is interest shown by Slovenian and Serbian institutions focused on social inclusion and environmental protection. There is a plan to establish regional reuse centers, with at least 100 new employees, which will enhance and strengthen the current cooperative's positive effect on social inclusion and environmental protection.

Rodin Let Ltd.  
Roda Association  
Croatia, Zagreb

www.roda.hr

**Geographical scope:**  
National

**Legal and organizational form:**  
Limited Liability Company (owned by an Association of Citizens)

**Mission and main objectives:**  
From its very beginning, the social enterprise has been closely linked to Roda's core values and working principles. The Mission of Roda company is to motivate customers to consciously choose socially responsible manufactures and products whose added value enriches communities and returns part of these values to the same community; encourage customers to think about the effects of their choices on health and environment; and de-motivate consumerism by offering products that can be reused, recycled and/or handed down while not generating a need for new products where one does not naturally exist. The vision and main objective of Roda company is to be the leading regional social enterprise which successfully coexists with other CSOs whose products and services allow target groups to actively make choices based on knowledge and information.

**When did the project start? How did it start? Who initiated it?:**  
Initiated by Roda Association members, the company Rodin Let was founded in December 2012 after spending six years as part of Roda Association involved in manufacturing, promoting and selling cloth diapers and additional products. From its very beginning, the social enterprise acted as a form of self-financing for Roda Association and was closely linked to the Association's values and principles; however the enterprise results outgrew the Association's framework and it currently functions as a separate legal entity.

**How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:**

In the current organizational model, the management of Rodin Let is responsible to the Association's Assembly and the Board of Directors and all strategic

issues and decisions are made by Roda's Board of Directors. Rodin Let has two employees, one from vulnerable groups. It manufactures cloth diapers in sheltered workshops that employ vulnerable groups - PWDs. Roda Association volunteers are numerous and they are largely engaged in the activities of both organizations.

**How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:**

Roda company was founded with 103,400 HRK (around 13,500 EUR) in capital stock paid in full through a transfer of stock fabrics from the Association to the business (as a result of the business working within the Association to that point). Roda company began its operations at the beginning of 2013 and to date has functioned (day to day business, manufacturing and development) without using any lines of credit or loans. From the very beginning, Roda project, as well as the company, is financially stable and sustainable.

**What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:**

Firstly, societal influence is achieved by increasing the number of direct users included in the social enterprise. Secondly, by increasing the number of customers, the number of children who will be diapered in cloth during their first years of life also increases. Furthermore, part of Rodin Let revenues is directed to Roda as the founder of the social enterprise. These funds are used for the Association's regular activities. Thirdly, the use of cloth diapers has a significant effect on environment. By selling cloth diapers Rodin Let makes a significant contribution to protecting the environment as cloth diapers are not disposed of at landfill sites.

**What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:**

Roda has motivated thousands of people in the region to use cloth diapers. It has also been a good practice example for several similar businesses in the region. When Roda realized that they own know-how, the association launched a regional educational think-tank project with the objective of strengthening social enterprises in the field of regional cooperation, networking and partnership with other social enterprises in the region. Rodin Let objective is to become a regional social enterprise with a model that coexists with CSOs and to become an instigator and partner to similar CSOs in creating similar social enterprises in the countries of the region.



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*Our ID Card*  
Nova Šansa u Novom  
Montenegro, Herceg Novi

[www.novasansaunovom.com](http://www.novasansaunovom.com)

*Geographical scope:*  
Local

*Legal and organizational form:*  
Association of Citizens

*Mission and main objectives:*

An Association of parents of youth with disabilities Nova Šansa u Novom (New Chance in Novi) is focused on providing assistance and support services to persons with disabilities and developmental disorders in their integration into the society. The mission of the organization is to show to the society the unjustly neglected potential of PWDs, that they can and want to do more, i.e. they want respect of their rights and equality for all, regardless of the differences that characterize them. The vision of the organization is for the children and youth with disabilities to have more accessible education and social services in the field of social protection in order to achieve their best and become useful members of society.



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*When did the project start? How did it start? Who initiated it?:*

The project: Our ID Card, a digital printing house, was launched in 2009 in Herceg Novi by the association of parents of children and youth with disabilities. The idea was initiated by a mother of a young man with elements of autism who finished primary school. His love for computers and games has been transformed in professional design expertise. In the meantime, he succeeded in graduating in graphic design from the IT Academy in Belgrade and completed two English courses. In addition, another five persons with disabilities and mental disorders have been involved since the beginning of the project. All of them were beneficiaries of the Employment Agency as persons with different degrees of remaining work capacity. Nowadays, they all work in printing design and processing of different printed materials.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

Currently, the project engages four PWDs and the project leader. Also, the project has seven or eight regular volunteers. Until a year ago, the project employed six PWDs whose wages were funded by different projects.

*How is project funded? What percentage of financial resources comes from economic activities? Is the project financially stable and sustainable?:*

Until the end of 2012, the project was funded through projects (by the Fund for Active Citizenship -fAKT and Cooperating Netherlands Foundation (CNF), Foundation Open Society Institute Representative Office Montenegro (FOSI ROM), USAID ORT, Commission for the Reallocation of Lottery Funds, Employment Agency – through public works). The project is now sustainable due to subsidies from the Fund for Professional Rehabilitation of PWD which covers 75% of gross salaries of each employed PWD, while the project leader's salary, raw materials and other costs are covered from other sources. Only 15-20% of funds come from economic activities while other funds are provided through implementation of different projects.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

The project impacts employment of PWDs and their inclusion in the society. Their employees are now fully integrated into their community, accepted by majority of citizens in Herceg Novi, fully independent, some of them have even started independent living.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

The project has both national and regional impact. Due to the success of this project, some other parental associations in Montenegro started similar activities. Also, the idea for the project Our ID Card emerged from similar activity implemented by the Association of Special Educators from Sombor (Vojvodina, Serbia). Knowledge transfer has been achieved with the association Ray of Hope from Pljevlja with fourteen PWDs trained in digital printing business and succeeded in becoming operational. The biggest result of this is that the training was provided by a PWD with elements of autism who is a member of Nova Šansa u Novom. Nowadays, the organization is preparing for know-how transfer in a cross-border project with the association Friend from Metkovići (Croatia).

*Textile Recycling to Sustainable Solutions*  
SOS Hotline for Women and Children Victims of Violence  
Montenegro, Nikšić

www.sosnik.org

*Geographical scope:*  
Regional

*Legal and organizational form:*  
Association of Citizens

*Mission and main objectives:*  
SOS Hotline Nikšić aims to help the positive development and implementation of capacities and potentials of children and women in the family and society through enhancement and protection of women and children's rights in order to build a dedicated, responsible and open community. The main goals of SOS Hotline Nikšić are to combat male violence against women and children in Nikšić and to improve the socio-economic position of women members of vulnerable groups.

*When did the project start? How did it start? Who initiated it?:*  
Implementation of the project began in April 2014 and will last for 15 months, i.e. until July 2015. The project was prepared for the Second Call for Proposals for CBC between Serbia and Montenegro and is implemented by SOS Hotline Nikšić, Women Center Užice and Zlatibor Regional Development Agency, in partnership with two national employment agencies – Employment Bureau Nikšić and Serbian Employment Agency - Užice branch. The initiative was launched by the Women Center Užice, and SOS Hotline Nikšić decided to participate in the initiative since it is in accordance with the strategic objectives and activities of the organization.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

The team responsible for the project in Nikšić consists of six people: three are employed by SOS Hotline Nikšić, one by the Employment Agency – Employment Bureau Nikšić and two are volunteers at SOS Hotline Nikšić. It is planned to train

twenty women in Nikšić to produce products from recycled textiles. In the last month of project implementation, it is planned to have ten women engaged in textile recycling. Participants in the training program are women who are registered with the Employment Agency in Nikšić as women coming from vulnerable groups: with long-term unemployment, age 45 and above, with only completed primary or secondary education, who are PWDs or single mothers.

*How is the project funded? What percentage of financial resources comes from economic activities? Is the project financially stable and sustainable?:*  
SOS Hotline is an organization largely funded by international donations. The organization owns its own office space and technical equipment and is currently in the process of building a shelter for women and children victims of violence. The organization also owns industrial machinery for textile production. Through the project, the organization will get the needed equipment for textile recycling and will renovate its own premises to be used for the training for women and later for the manufacturing process of recycled textiles. The project will also increase the managerial capacity of the organization for operating in the market. The EU provided 60% of the total funding for this project while the organization will provide the remaining 40%. Since the production process and sales are planned at the end of the project, at the moment it is not possible to estimate how large an income will come from economic activities.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*  
The project is essentially inclusive and its main objective is to contribute to creation of conditions for employment of vulnerable groups in Serbia and Montenegro by increasing their competitiveness through establishment of a system for collection, processing and distribution of recycled textiles. The target group consists of poor, disempowered and discriminated women.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?*

The project is regional and it can later be replicated in other communities in the region. Since the project is being implemented in two local communities: Nikšić (Montenegro) and Užice (Serbia), it is expected to become a good practice case for solving multiple social problems in an efficient way: social employment, environmental and sustainable development. The organization is a member of several national and international networks and coalitions such as the Women Against Violence Europe (WAVE) network and Stop Violence Against Women (VAW), focused on strengthening women.



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## Nova Perspektiva

Serbia, Pirot

### Geographical scope:

Local

### Legal and organizational form:

Agricultural Cooperative

### Mission and main objectives:

The mission of the cooperative is to contribute to poverty reduction, inclusion of vulnerable groups and sustainable farming. The main objectives include economic empowerment of its members, increase in employment, modernization of agricultural production and environmental protection.

### When did the project start? How did it start? Who initiated it?:

Nova Perspektiva (New Perspective) was founded by ten families in December 2010. Each of these families deals with some form of individual agricultural production and owns their own agricultural holding. At the very beginning, the Cooperative had 0.5 hectare under lease and today that area has grown to 10 hectares, which was accompanied by a remarkable growth in operating income ever since the first year (2011) which it ended with surplus income. The chairman of the Cooperative Assembly was a long-time trade union activist and this experience played an important role during the start-up period. The Cooperative has good cooperation with Pirot municipality and some local institutions and services.

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### How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:

Currently, the Cooperative employs two persons, with short-term contracts and engaged through the National Employment Service programs. Among its founders, the Cooperative includes Roma, refugee and internally displaced persons and families.

### How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:

The business development and plans of the Cooperative are firmly tied to agricultural production and processing of agricultural commodities. Other than the land leased by the Cooperative and the tractor it received as a donation, the Cooperative members own another 20 hectares of arable land and four more tractors. Some members of the Cooperative, and now the Cooperative itself, have useful contracts with some of the top domestic producers of seeds and fertilizers (and similar resources that are needed), including contracts on test fields. They have also established two important sponsorships so that an insurance company financed the production of their promotional materials while a glass factory donated diverse glass packaging.

### What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:

Besides their members and employees, the Cooperative has a developed network of farmers and people picking wild fruits and berries. It also plans to hire people registered with the National Employment Service as workers in production and technologists to manage processing. It sees its chance in organic production and plan to lease suitable arable land and obtain certification. In addition to this, the Cooperative also has plans for cattle breeding and milk production. Nonetheless, it plans this development carefully and is not trying to expand abruptly but rather projects gradual growth and stable business operations based on the verified quality of its products.

### What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:

There are ideas and initiatives to establish CBC with Bulgarian agricultural cooperatives.

Naša kuća (Our Home)  
Serbia, Belgrade

www.nasakuca.org

*Geographical scope:*  
Local, national

*Legal and organizational form:*  
Association of Citizens

*Mission and main objectives:*

The mission of this social enterprise is to contribute to social inclusion and employability of young people with intellectual difficulties. The main objective is to provide better conditions for social inclusion of children and young people with some kind of disability.

*When did the project start? How did it start? Who initiated it?:*

The social enterprise Naša Kuća (Our Home) manufactures paper bags and cardboard packaging, provides screen printing services and in addition to this, it also prepares and distributes meals. It was registered in 2011 as an association, but it already had three years of experience as an informal grassroots group. The Association was founded by a group of parents of children with disabilities. The Day Care Centre for Youth was the first service developed within the Association.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

The Association currently employs six persons and has a permanent team of volunteers. The social enterprise is currently engaging a permanent group of ten young persons with mild intellectual disabilities in work. There are also

labor coaches who work with them and one psychologist. Significant efforts have been put into building the motivational and training system. There are individual work plans that are prepared on a daily basis, while an assessment is done during the work.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

For the time being, the Association is not investing surplus income into further development but rather use it to cover the current costs of the Association and the Day Care Centre. All the development so far has been based on donor (project) support and support from the local government, as well as support through other means. Support from the local budget covers some of the office costs. When the Association organized the first premises for manufacturing paper bags, the municipality helped (with smaller financial contributions) in their reconstructing and equipping. It has recently received business premises of around 200 m<sup>2</sup> which it will renovate and use as a new kitchen with larger production capacity.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

All current business activities of the Association are linked to employment of persons with intellectual difficulties and enabling employment in an open setting and at different tasks. Also, there is a plan to establish a sustainable housing service with support in the form of a housing cooperative or an endowment.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

The experience of this social enterprise could easily be shared and possibly replicated through regional networking. Generally speaking, the Association has learned a lot along the way (including how to reach its clients) while having significantly changed its approach and started to think as real entrepreneur as a result of its cooperation with the business sector. Now it pays much attention to the development of business contacts and hope people from business sector will recognize it as serious partner which can primarily offer good quality products and good quality services, and with whom it is possible to cooperate on development of philanthropy and socially responsible business operations.



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Therapy Community Pokrov  
Izbor  
The FYR of pre Macedonia, Strumica

www.izborsr.com

*Geographical scope:*  
National

*Legal and organizational form:*  
Association of Citizens

*Mission and main objectives:*

The Association was established for counseling, treatment, re-socialization and reintegration of persons with problems due to drug abuse. The main goal is to create and develop effective programs, structures and support services through professional interventions in prevention and education, treatment and harm reduction among injecting drug users. The intention is also to simultaneously develop a therapeutic community through the rehabilitation and reintegration of people with drugs abuse problems. Finally, it plans to employ former drug addicts through social entrepreneurship.

*When did the project start? How did it start? Who initiated it?:*

The social enterprise Izbor located 5km from Strumica on a land of 7ha offers re-socialization and reintegration of people that have suffered from drug abuse, alcoholism, and other forms of addiction. The land was donated by the Ministry of Defense to the Macedonian Orthodox Church and later on given to Izbor Association on long-term free of charge lease of 30 years. Military buildings from the former Yugoslav army were renovated with the support of donor community, Municipality of Strumica and local business community. Izbor has also invested its own money in the establishment of social enterprise as it wanted to respond to the urgent need of employing people with drug problems. Currently, the Association has Flower Garden Pokrov, a small farm, small factory for the production of bricks and farm for production of special types of cherries to be exported to Greek market. The social enterprise is also in the process of producing solar energy, initially for its own consumption and also with the prospect of increasing production and selling solar energy to the national grid. These businesses are used to create job opportunities and increase the skills of people involved in the program. The revenues are used to increase the capacity of therapeutic community and launch new programs for women victims of violence and other vulnerable groups. Due to its expansion, Pokrov is becoming a local employer



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for one of the most marginalized people - injecting drug users. According to their needs, Pokrov has also engaged experts - doctors and agricultural engineers.

*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

Currently there are fifteen people employed by Izbor social enterprise and all are former drug users. Before being employed, they first receive 18 months of psychosocial help, medical treatment and work therapy in order to stop taking drugs and learn about their responsibilities and ways to reintegrate into society.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

Izbor Association receives donations from different international donors such as the Global Fund to Fight HIV, Tuberculosis and Malaria, Organization for Security and Co-operation in Europe (OSCE), Swiss Development Cooperation Agency, etc. Izbor also receives donations from the private sector, local authorities, faith-based organizations and national foundations such as the Macedonian Orthodox Church, Strumica Business Community, Strumica Local Authorities, Open Society Institute, etc. All the income generated is reinvested into the economic activities the Association is developing, so that more vulnerable people could be employed. Izbor may become a fully sustainable social enterprise in a year or two, if their commercial activities based on organic food production start to generate more income.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

Izbor has good cooperation with the local authorities, local business community, faith-based organizations, CSOs, international donors and state institutions. This offers an example of horizontal cooperation between different stakeholders who can all work on solutions to social inclusion problems, addressing unemployment among vulnerable groups, and at the same time protecting the environment through an organic approach to agriculture.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

Izbor organizes exchange of experience with other CSOs, local study visits and action research projects and holds training activities for local and international actors. It is already part of regional and international social enterprise development networks. Therefore, these experiences help create partnerships and alliances across borders, generate and disseminate know-how and knowledge and contribute to bringing innovative strategies and approaches into the policy arena regarding social economy development in a particular area.

# PRACTICES IN TACKLING SOCIAL ECONOMY DEVELOPMENT

Cluster for Eco-Innovation and Development – CEDRA HR  
Croatia

[www.cedra.hr](http://www.cedra.hr)

*Geographical scope:*  
National

*Legal and organizational form:*  
Association of Citizens

*Mission and main objectives:*

CEDRA HR's main objective is to promote and support eco-social innovation, entrepreneurship and development, i.e. foster a society and economy based on triple bottom line (people-planet-profit) principles and values. CEDRA HR's main activities include awareness raising, information and education activities regarding the concept and practice of eco-social innovation, entrepreneurship and development in Croatia, the EU and globally. The main aim is to raise awareness that these concepts and practices are the most cost-effective tools and solutions to the challenges we face in the quest for smarter, more sustainable and inclusive societies and economies. The intention is also to enable sharing and exchange of best practice models and build the capacities of individuals, organizations and communities to apply these principles and practices in their own specific socio-economic context.

*When did the project start? How did it start? Who initiated it?:*

As an idea, CEDRA HR was developed at the end of 2011 at the initiative of several NPOS. These organizations have been providing support to CSOs on social entrepreneurial projects for long time and were also working to development their own social enterprise models and experiments in different legal forms. On 20 December 2012, CEDRA HR formalized its activities by establishing an association with its headquarters in Zagreb. CEDRA HR was established to promote, develop and improve eco-social economy and eco-social entrepreneurship.



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*How many people are engaged on the project? Among them, how many are employed? How many volunteers? How many people from vulnerable groups are employed?:*

There are around 85 people engaged in the CEDRA HR network: 24 employees, 21 volunteers, 40 consultants/trainers in six support centers in larger Croatian cities: Čakovec, Split, Osijek, Rijeka, Dubrovnik and Zagreb.

*How is the organization funded? What percentage of financial resources comes from economic activities? Is the organization financially stable and sustainable?:*

The organization is funded by several sources: membership fees, economic activities, donors, national and EU funds. Twenty-five percent of financial resources come from economic activities. The organization is financially stable and sustainable at the moment.

*What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

CEDRA HR founders launched several regional initiatives aiming to develop a wide and self-sustainable eco-social economy support network based on the concept of social innovation and eco-social entrepreneurship clustering and smart specialization: eco-social entrepreneurship incubator; innovative solutions for social inclusion of disabled persons as eco-social start-ups; work with marginalized groups, especially long-term unemployed women and youth; as well as initiatives in rural development.

*What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

CEDRA HR strengthens regional cooperation, networking and partnership through advocacy and policy-level involvement. This includes support to the National Strategy for Social Entrepreneurship, creation and optimization of legislation, and improvement of recognition of these terms, tools and concepts among crucial decision-making stakeholders at the local, regional, national and international level. The aim is to support establishment of an enabling eco-system for eco-social innovation, entrepreneurship and development initiatives in Croatia and the wider region.

## SENS

Initiative for Development and Cooperation  
Serbia

[www.sens.rs](http://www.sens.rs)

### *Geographical scope:*

National

### *Legal and organizational form:*

Informal network of 35 organizations

### *Mission and main objectives:*

SENS is committed to the development of a strong and sustainable social economy in Serbia. The network aims to provide education, advice and promotion to its members in all phases of starting and running businesses. Because of the opportunity to network and share knowledge and experience, social enterprises become stronger, more visible and influential.

### *When did the project start? How did it start? Who initiated it?:*

SENS was founded in 2011 by Group 484 with the support of Italian UniCredit Foundation, which has a long tradition of funding and supporting social entrepreneurship sector throughout SEE. SENS currently has 35 members from all over Serbia, including citizens associations, enterprises for vocational rehabilitation of PWDs, LLCs and cooperatives.

### *What is the project impact on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

By connecting people and ideas, SENS contributes to the development of new joint strategies for development of social entrepreneurship. It is connecting social enterprises in Serbia, promoting social enterprises and raising awareness on their importance, providing the most relevant information in the field of social entrepreneurship to its members and offering educational materials, business training and study tours in the country and abroad. SENS is providing social enterprises with business and development support through training and needed services, lobbying for social entrepreneurship among stakeholders from the public and private sectors, promoting social enterprises to potential buyers of their products and their beneficiaries, providing advice and assistance in securing new sources of funding and organizing meetings, conferences and lectures.

### *What is the project impact on the region? If the project is not regional, does it have potential for regional implementation? How could the project strengthen regional cooperation, networking, partnership?:*

SENS aims to establish regional cooperation. It takes part in regional networks and supports its members in networking.

**sens**

MREŽA SOCIJALNE EKONOMIJE SRBIJE

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## EXPERIENCES & LESSONS

*Association for Children with Disabilities Sunce  
Bosnia and Herzegovina, Pale*

*Geographical scope:*  
Local

*Legal and organizational form:*  
Association of Citizens

*When did the project start? How did it start? Who initiated it? What was its mission and objectives?:*

At the beginning, Sunce Association was focused on providing support to youth with disabilities. In 2000, the Association established a Day Care Center which, over time, was faced with the need to create employment and provide occupational therapy to its adult members. In accordance with the mission and statutory goals, Sunce Association started up an occupational workshop with the intention to provide vocational rehabilitation to adult members of the Association. The Association set up a business activity for producing metal staples. The business activity was integrated as a profit center or enterprise department within the existing NPO. The relationship between the business activities and social programs was synergistic, adding financial and social value to one another.

*When the project ended? How it ended?:*

Two years after the establishment of workshop, it did not become sustainable. Sunce Association decided not to close the workshop, however, since it depended on donor funding, this caused a drop in the intensity of production. Since the workshop products did not have a secure market, the production was stopped.

*What were the project potentials or impacts on local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

Employers faced with economic crisis and a large number of workers seeking employment on the open labor market showed no interest in hiring workers with disabilities. The occupational workshop aimed to engage young people with special needs who had completed secondary education and were no longer in the focus of state institutions.

*How was the project/organization funded? What percentage of financial resources came from economic activities? Did it use any kind of support programs or funds?*

The project was launched in 2012, supported by international donors. Startup capital enabled the purchase of machinery and materials and renovation of business premises. The Association had an agreement with the Department for Vocational Rehabilitation and Employment of Disabled of the Republic of Srpska that Sunce workshop would be added to the product line of a plant the Department planned to open in Pale municipality.

*What are the main reasons for project ending?:*

The main reason the project failed was the impossibility to find a market for the products. Sunce Association analyzed the market, however, due to the unfair competition it failed to sell its products. Furthermore, a partnership with the Department, agreed in advance based on a joint venture, did not take hold. The lack of human capacity in the field of marketing, inadequately defined market, inadequate partnerships and lack of investment are the main reasons for the failure of the workshop.

*What would have helped maintain the project?:*

It was necessary to secure a reliable market for the products and grants to start the production. Also, Sunce Association should have invested in staff training to acquire business skills that would have enabled the successful management of workshop.

*ESENSEE - Eco-Social Economy Network South and East Europe  
Croatia*

*Geographical scope:*  
Regional

*Legal and organizational form:*  
Association of Citizens

*When did the project start? How did it start? Who initiated it? What were its mission and objectives?:*

The project was officially launched in late 2010, however, got underway in April 2010 and was run by the Croatian association - Healthy City, in partnership with ACT and Slap. The mission of the project was to promote eco-social economy as a tool for sustainable development in the region.

*When the project ended? How it ended?*

The project officially ended in November 2012. However, the activities (mainly reporting) continued throughout 2013. Finally, it ended with a large final conference organized as part of a co-financing effort with full support of the EC Directorate General (DG) for Enlargement.

*What were the project potentials or impacts on the local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

The project had the potential to become a self-sustainable network for eco-social entrepreneurship in the region focused on supporting green and social businesses and entrepreneurs at the local, national and regional level.

*How was the project funded? What percentage of financial resources came from economic activities?*

Did it use any kind of support programs or funds?: 67% of the project was funded by the EU and the remaining portion had to be secured through co-financing from international (UNDP), public and civic sector. However, due to the crisis, public sector and even the UNDP almost completely avoided co-funding the project and the entire burden fell on the project partners from civic sector. In spite of huge efforts to secure additional funding, most of the project costs were finally co-financed by partners through economic activities (e.g. charging fees for training programs and conferences). However, not all partners were able to contribute and this created substantial operational problems for the lead partner. Project leader had to balance among demanding project and leadership tasks, partnership relationships and financial uncertainty, including cash flow issues.



*What are the main reasons for the project ending?:*

The project produced most of its outputs and outcomes, some of them were evaluated very highly, in particularly the training, however, some were not of the desired quality (e.g. the website and network were not achieving all the planned functions). Not succeeding to achieve sustainability of the regional network was the greatest failure. The reasons for this are a combination of external and internal factors. First, there was a lack of financial resources and genuine, effective support from the public sector to overcome the problems faced. Internally there was a lack of financial, organizational and managerial capacity of the project team, including leadership and all partners to cope with such challenges. Moreover, international partners were not able to create sustainable relationships due to the large differences in capacities, diversity of missions, priorities and organizational cultures. However, some of the outcomes of the project achieved long-term sustainability; e.g. project's spin-off organizations focused on providing support to eco-social innovation, entrepreneurship and development may be evaluated as very successful. This refers to establishment of the pilot trans-sector cluster CEDRA Split which is still functional and self-sustainable. It is an innovative business model with large part of its income based on services it provides to its members and clients and the national network CEDRA HR as a pilot national cluster network based on the same model. In the end, the project should not be deemed a complete failure. Still, considering the great expectations of the leadership, it must be said that the project did not achieve its mission to create a sustainable regional network.

*What would have helped maintain the project?:*

A more supportive political environment and greater diversity of co-funding options would have helped considerably. The Croatian Office for Cooperation with NGOs awarded only a small amount of co-funding regardless of the changed situation in the national and regional context and other public sources of co-financing. The introduction of regional co-funding programs for complex regional projects would have been useful, as would have been the more effective support from regional and international bodies e.g. the RCC, the UNDP offices or TACSO. Better planning and management, as well as a leadership organization and partners with more capacity would have contributed to sustainability. Also, better matched financial, organizational and cultural capacities in the project consortium with more entrepreneurial spirit would facilitate more success. Finally, a business modeling or clustering-based structure of the network from the very beginning could have helped. Following the example of the DG Enlargement, greater financial flexibility of other international and national bodies in times of crisis would be strongly encouraged. The project has brought lot of lessons learnt to the project leadership, especially among the partners in Croatia, with the new spin-off organizations now trying to apply these lessons. These efforts seem to have achieved a degree of sustainability and therefore should be recognized at the government level as a model worth supporting.

*Roma Women's Handicraft Cooperative Rukatnice*  
*SOS Hotline for Women and Children Victims of Violence*  
*Montenegro, Nikšić*

*Geographical scope:*  
Local

*Legal and organizational form:*  
Cooperative

*When did the project start? How did it start? Who initiated it? What was its mission and objectives?:*

The project was initiated by SOS Hotline Nikšić in 2008. The initiative was in line with one of the strategic programs of the organization, i.e. socio-economic empowerment of women. It also fitted with the activities and results of SOS Hotline in the field of integration of Roma and Egyptian women and children from Nikšić through projects implemented continuously since 2000. The target group included Roma women from Nikšić, who are socially excluded – unemployed, at risk of total isolation and loss of social ties, suffered from a combination of linked problems such as unemployment, poverty, low skill levels, knowledge, low income and deterioration of family.

*When the project ended? How it ended?:*

The women handicraft cooperative Rukatnice ceased its activities in 2012. The reason was that the cooperative did not succeed in becoming sustainable. Primarily, there was a lack of funds to pay the rent and utilities - electricity, water, insurance contributions, etc.

*What were the project potentials or impacts on the local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

The program for strengthening the Roma women capacities, which was implemented through the handicraft cooperative for unemployed domiciled RAE women, operating from 2008 to 2012. One of the most important achievements

included ten women who passed licensed training for textile processing and hairdressing. This resulted in setting up two business activities of Rukatnice cooperative: a hairdressing salon and a tailor shop equipped with professional equipment. Ten RAE women were employed on fixed-term contracts while eight were engaged on part-time contracts. They established cooperation with the Italian social cooperative Confini and Cassiopeia, Interland consortium and Confederation of Italian Cooperatives – CONFICOOP. Through this cooperation, they manufactured different items (such as bags or raincoats) made of recycled material (ship sails) and exported to Italian market.

*How was the project/organization funded? What percentage of financial resources came from economic activities? Did it use any kind of support programs or funds?:*

Rukatnice cooperative received support from domestic and international donors: FOSI, fAKT, UNDP and Employment Agency -Employment Bureau Nikšić. The cooperative did make some money, but ultimately this was not sufficient to obtain sustainability.

*What are the main reasons for project ending?:*

The reasons were both external and internal. Members of the cooperative did not have skills (overall management, marketing, especially financial management) and were not particularly active in fundraising. The cooperative was led by two women who also led Roma women CSO and experienced difficulties in operating fully in both fields. Throughout the process, both SOS Hotline and members of the cooperative did not succeed in finding other motivated women to act as leaders of the cooperative. Another reason lies in the fact that the number of women in RAE community with the potential, will and knowledge to lead a cooperative is very small. The cooperative had some financial gain, however insufficient to cover the basic costs. The external factors included a lack of systematic program of institutional financial support and not particularly supportive legal framework for social businesses which contributed to difficulties Rukatnice faced.

*What would have helped maintain the project?:*

SOS Hotline Nikšić has just launched the project: Textile Recycling to Sustainable Solutions. The project aims to increase the sustainability of the cooperative and project activities are expected to contribute to re-activating the work of the cooperative. Also, it is supported by important donors and a respectable and experienced organization, which regularly provide help and assistance to maintain cooperative's activities. Further education in entrepreneurial skills, as well as networking and partnerships with skilled organizations, would strongly contribute to strengthening its businesses capacities.



## Green & Clean

Group 484 and International Aid Network  
Serbia, Belgrade

### *Geographical scope:*

Local

### *Legal and organizational form:*

Limited Liability Company

### *When did the project start? How did it start? Who initiated it? What were its mission and objectives?:*

The project started in 2009 with the support of UniCredit Foundation. Two CSOs (Group 484 and International Assistance Network (IAN)) established a LLC called Green & Clean as a social enterprise with the mission to employ vulnerable people from marginalized groups (refugees, internally displaced persons and others) in the area of maintenance of indoor and outdoor greenery.

### *When did the project end? How did it end?:*

The company was supported by the project for two years. It managed to employ a couple of people; however, after four years of struggle for sustainability, the company was sold for one EUR.

### *What were the project potentials or impacts on the local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

It succeeded in engaging and employing a few people from vulnerable groups. The number varied from two-three to five-six. The company was unable to arrange fixed-term contracts for its workers, while management as well as sales and marketing were sponsored by the project from donor funds.

### *How was the company funded? What percentage of financial resources came from economic activities? Did it use any kind of support programs or funds?*

The company was established with donor support with around EUR 20,000 worth of equipment – maintenance machines. For some time, the company could sustain regular salaries from its economic activities. During this time, no other funds were used for running the company apart from the project funding received, income and loans from the owners.

### *What are the main reasons for the project ending?:*

The company was established on the eve of the economic crisis and the opportunities for maintenance of offices in business sector decreased sharply. Competition mainly operated in the area of 'gray economy', where workers were paid in cash without paying taxes or contributions. Therefore, their costs were lower and Green & Clean prices could not compete. Management was not fully committed, the leadership was missing while sales and marketing activities were underdeveloped.

### *What would have helped maintain the project?:*

Better company leadership, more devoted employers, better corporate responsibility, better cooperation with other social enterprises and better environment for social enterprises are some of the main factors that would significantly contributed to sustaining company's operations.

*Geographical scope:*

National

*Legal and organizational form:*

Association of Citizens

*When did the project start? How did it start? Who initiated it? What was its mission and objectives?:*

The Community Development Institute was the successor of the Youth Information Center (YIC). In 2000, YIC established an enterprise (under the Law on Trade Companies) and became the first enterprise acting under the title of social enterprise. This social enterprise was initiated by foreign donors. With the grants given for startup, space and computer equipment were rented to provide training to unemployed youth and other marginalized groups. Among other activities, it was engaged in transportation, consulting on implementation of self-employment programs and direct mediation in employment.

*When did the project end? How did it end?:*

YIC social enterprise was wound up in 2004. The main reason for the wound-up was the difficulties in obtaining sustainability through economic activities.

*What were the project potentials or impacts on the local community in terms of social inclusion, local development, environmental protection, employment, etc.?:*

Significant success was attained in employing vulnerable people, in particularly ethnic minorities and single mothers. Assistance was provided during the conflict in 2001, helping with medical treatment and financial support to marginalized groups. Just part of the profit was reinvested for social purposes.

*How was the organization funded? What percentage of financial resources came from economic activities? Did it use any kind of support programs or funds?:*

The company was associated with an NGO, having the same management and the same employees. It was funded through two sources – economic activities and grants or foreign donations. The social enterprise attempted to achieve liquidity through loans from a bank for small and medium businesses but this didn't yield good results as expected.

*What are the main reasons for project ending?:*

Some of the main reasons for the failure of social enterprise are internal, including the lack of entrepreneurial skills and business capacities. This resulted in management staff putting more effort into securing grants than developing economic activities to generate income. However, after the enterprise was wound up, it started a new initiative - association called Adora Tetovo which started up economic activities in rental of simultaneous interpretation equipment.

*What would have helped maintain the project?:*

Even though YIC tried hard to make the social enterprise work, it needed local support from different stakeholders, know-how and skills to improve their business activities. Therefore, the importance of social enterprise networks for sharing experiences, practices and know-how is crucial for developing and maintaining sustainable and stable social enterprises.

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