



**Social Economy in Eastern Neighbourhood
and in the Western Balkans**

Country report – Serbia

-
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Social Economy in Eastern Neighbourhood and in the Western Balkans

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Country report – Serbia

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LIST OF ABBREVIATIONS

COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
EaSI	EU Programme for Employment and Social Innovation
EBRD	European Bank for Reconstruction and Development
EFSE	European Fund for Southeast Europe
EMES	Research Network for Social Enterprise
LLC	Limited Liability Company
NES	National Employment Service
OCCS	Office for Cooperation with Civil Society
OECD	Organisation for Economic Co-operation and Development
SE	Social Enterprise
SENS	Social Enterprise Network Serbia
SIPRU	Social Inclusion and Poverty Reduction Unit
SME	Small and Medium-sized Enterprise
SORS	Statistical Office of Republic of Serbia
PwD	Persons with disabilities
RBF	Responsible Business Forum
WB EDIF	Western Balkans Enterprise Development and Innovation Facility
YSB	Yunus Social Business Balkans
East Neighbourhood	
AR	Armenia
AZ	Azerbaijan
Blr	Belarus
GE	Georgia
MD	Moldova
UK	Ukraine
Western Balkans	
AL	Albania
BA	Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
XK	Kosovo*
MK**	The former Yugoslav Republic of Macedonia
ME	Montenegro
RS	Serbia
WB	Western Balkans

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

** Provisional code which does not prejudice in any way the definitive nomenclature for this country, which will be agreed following the conclusion of negotiations currently taking place under the auspices of the United Nations

1. EXECUTIVE SUMMARY

As Serbia moves inextricably towards EU accession, it has had to deal with significant economic and social structural challenges. Notwithstanding, social entrepreneurship does very much exist, predominantly in the form of organised cooperatives, associations and enterprises employing people with disabilities. Although no legal definition exists in Serbia, which would enable to make a formal classification, it is estimated that there are currently 1200 social enterprises. The serious institutional, legal and economic challenges have impeded the optimal development of the sector. Nevertheless, vibrant social enterprises have been established and have grown in the recent years. While most of them are still in their start-up and validation stage of development, there is a growing number of SEs that are prepared to scale-up and are looking for commercially viable opportunities to grow their business.

In the latest developments, the new draft Law on social entrepreneurship which was originally scheduled for 2017 has been pushed back to form part of the 2018 program. Previous versions of the law provided a narrow view on the sector with the focus being on the work integration of Persons with disabilities (PwD) and other vulnerable groups as well as limitations to the legal entities to be recognised as social enterprises. This limited scope would limit the full potential of the sector. The legislation seems to be driven more by the need for regulating the sector and controlling it, as opposed to an enablement and support to the sector's growth. In such circumstances, SEs themselves are concerned that the law could create additional barriers. On the issue of incentives, it is recognized that a range of incentives might be appropriate. Options such as reserved public procurements, subsidisation of employment and a portfolio of potential tax incentives are being considered.

The CSO and SE stakeholders increasingly advocate for the development of a national strategy and action plan for the sector and for the introduction of viable support measures that would support sector growth prior to the introduction of the proposed new law. It is recommended that they should be accompanied by careful consideration of targeted legislation that will recognise the full spectrum of social enterprises regardless of their legal status and of the economic sectors in which they operate. To achieve this, technical assistances need to be provided to the institutional stakeholders especially the designated Ministry to build the capacities necessary to properly understand, legislate for and support the growth of the SE sector. Greater trust needs to be built between all the actors, in order to encourage sharing and proper leveraging of vital information; much of which already exists in the market.

Unlike other countries in the region, the Serbian SE sector benefits from a range of innovative financing models; albeit in pilot stage. Banks are trying out hybrid finance solutions designed to reflect the unique dynamics of the sector and the private sector is actively engaged through CSR activities which include both technical support and providing access to commercial markets. It is clear however that the entire SE sector requires technical assistance, grant and non-recoverable capital sources, in the first instance and in the second instance, more comprehensive financing infrastructure to kick-start growth in the sector. Existing SE in the market need financial capacity building to support their growth and prepare them to be investment-ready; while the increasing number of start-ups will most likely continue to require grants and donations. Proper legal recognition of SEs will support further scaling of the SE sector as it will provide clarifications of the concept for the various stakeholders beyond the sector and will streamline and horizontally integrate the support efforts.

Civil society has been the primary driver behind the existing SE ecosystems. Two SE networks have been established (The Coalition for the Development of Social Entrepreneurship and the Social Economy Network of Serbia) which articulate the interest of the sector and advocate for enabling policies in the area. Strategic support to the networks is needed to strengthen their role as key counterparts to the institutions in the SE policy development. Beyond the networks, support is needed for decentralised support infrastructure to stimulate SE growth in smaller towns and rural areas.

2. INTRODUCTION

Situated at the crossroads between Central and South Eastern Europe Serbia is a landlocked country with a population of 7,058 million people. From 2000-2008, the country enjoyed a period of sustained economic growth underpinned by privatisations, infrastructure investment and strong domestic consumption. The global economic crisis of 2009 revealed the structural weaknesses of the Serbian economy, an incomplete privatisation program, coupled with a sharp decline in Foreign Direct Investments (FDI) led to a period of sustained economic decline. Despite this, Serbia has committed to the path of EU integration and gained the candidate status in 2012. There is ongoing significant structural change as the country moves towards a more sustainable economic model. GDP has almost doubled from EUR 16,024 mil in 2008 to EUR 34.05 mil for 2016¹. GDP per capita has grown gradually to USD 5,340 (EUR 4,539)² with an official average salary of EUR 386 per month as of March 2017.

Government strategies have focused on austerity, infrastructure and increasing exports, while insufficient attention has been paid to active employment and social inclusion. Social service provision has effectively collapsed and the social economy as a whole operates in an environment with limited structural support. High poverty rates, high unemployment, dominance of the state in the economic activities, and rampant corruption have led to an economy in which state paternalism is perceived as the arbiter of economic success. As a consequence, the young generation is increasingly marginalised, with many having the sole ambition of being employed within the public sector in order to achieve financial security³.

There is limited private sector growth as SMEs struggle to access financing. Excessive state influence in key manufacturing sectors slowing down modernisation and essential structural changes coupled with the fragmentation of the traditional Yugoslav markets have led to stagnation of the industrial activity, agriculture, construction and retail trade growth. Overtime, the service industry (in particular insurance, telecoms and finance) has become the driver of GDP at 60%, with industry 31% and agriculture 8% (down from 20% in 2000)⁴.

As the economy began to recover, unemployment has gradually fallen to 11.8%⁵ as of June 2017 with most of the newly created jobs being in the informal sector. The economy is marked by low labour force participation; with 54.5% in 2017⁶, and with youth unemployment at 28.9%. Gender inequality is prominent with substantial portions of the population working in vulnerable employment or not working at all. These groups include Roma, people with disabilities, low qualified workers, forced migrants, young people (15-24) and the older population between 50 and 64.

People with disabilities (PwD) still remain on the margins of the society; even though they benefit from subsidies for employment and tax breaks for employers, and are actively engaged with / by the CSO & SE sectors. Other remaining barriers notably include the lack of basic infrastructure, limited access to public services, and failure of integration into the education system. NGO figures suggest that the Roma population is comprised between 300-460,000 as opposed to the 147,604 recorded in the 2011 census, suggesting that Roma represent up to 5% of the population and thus magnifying the scope of support potentially required⁷. According to UNHCR figures as of 2012 there were 70,707 refugees and a further

¹ World Bank 2017

² Ibid

³ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

⁴ Trading Economics Website 2017

⁵ Ibid.

⁶ Ibid.

⁷ Boosting social entrepreneurship and social enterprise creation in Republic of Serbia, Local Economic and Employment Development (LEED) Programme of the Organization for Economic Co-operation and Development and SIPRU, 2012

228,215 internally displaced people in Serbia. These figures have been significantly increased by the 66,428 asylum seekers who arrived in 2015⁸.

This study is dedicated to social enterprises and the social economy in the Serbia. It is implemented in the framework of the “Social economy in Eastern Neighbourhood and in the Western Balkans: Preparing a methodology/toolbox for EU Delegations” project, funded by the European Commission – DG NEAR. The main objective of this assignment is to identify the conditions and the modality of support to efficiently develop social economy and social entrepreneurship in the Enlargement and Neighbourhood East countries.

More specifically, this report provides an analysis of the social economy and social entrepreneurship ecosystem in Serbia. It includes an assessment of the state of play of the social economy in the country, including an assessment of its nature, size and key sectors, as well as an overview and analysis of the regulatory framework, the institutional support, the financing options and the available support structures.

The methodological approach is based on a mix of desk research, qualitative interviews and documentary analysis. An assessment mission in Serbia took place between 16th and 18th of October 2017 with online follow-up by the end of October 2017. Formal and informal interviews were conducted with all of the main stakeholders during the mission. The list of interviews is indicated in Annex II. The mission was conducted by Ms. Nikica Kusinikova.

3. STATE OF PLAY OF THE SOCIAL ECONOMY IN SERBIA

3.1. Nature and size of the social economy sector

Even with an unfavourable legislative, economic and institutional framework, Serbia has developed an emerging but notable social economy sector whose principal actors, by their volume, are the cooperatives which also employ the greatest number of people working in SE⁹. From a legal point of view, only those that deal with integration of people with disabilities into the economy might be defined as social enterprises and therefore benefit from tax concessions and state subsidies. The remaining social enterprises operate in a wide variety of legal forms falling broadly under the CMAF (co-operatives, mutuals, associations, foundations) definition. The study¹⁰ identified that there are 1196 social enterprises in the country represented in several legal forms:

- Cooperatives representing 65,64% of SEs and employing 58.6% of all employees in the sector.
- Associations representing 23,67 % of SEs and employing 14.0% of SE employees.
- Companies for employment of people with disabilities (PwD) 3,77% of SEs and employing 20,2% of SE employees.
- Others (including Development Agencies 2,68%, Foundations 1,93%, Business Incubators 1,51% and others at 0,9%) collectively employing 7.2%.

Overall, the sector contributes to 0,2% of the total GDP (75% from cooperatives), and employs 10,326 people or 0,60% of all employees along with around 23,836 volunteers¹¹. The majority of the people employed in the social enterprise sector as a whole are men (62.3%) and half of them belong to categories that have difficulty finding work (35.7% older than 51 and 14.3% younger than 30)¹².

⁸ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

⁹ Economic impact of Social Enterprises in the Republic of Serbia, Statistical Office of the Republic of Serbia in cooperation with Group for Development Initiative SeConS and Group 484, Belgrade, 2014

¹⁰ Ibid

¹¹ Ibid

¹² Ibid

The geographical distribution of SE is imbalanced. 45,8% of social enterprises are registered in and operate in Vojvodina (with the largest share of cooperatives and associations), with just 10,5% operating in Belgrade (highest concentration of foundations). The enterprises for employment of PwD are most prevalent in the region of Sumadija and West Serbia.

Cooperatives in Serbia operate under a wide range of legal forms and in a wide range of economic sectors including construction, agriculture, youth and student cooperatives, housing, crafts, health and consumer cooperatives etc. However, not all of these cooperative forms fulfil the SE criteria. Namely, some do not complete broader social mission (construction and housing cooperatives), are not engaged in the production of goods and services (health and consumption cooperatives) or do not offer wider membership and include them into governance (youth and student coops)¹³. Thus, cooperatives included in the spectrum of social enterprises are the agricultural and crafts cooperatives as well as other cooperative forms. Even in the case of agriculture and crafts cooperatives one can argue whether all of them pursue explicit social mission as they are mostly focused on advancing the economic interests of their members (albeit often vulnerable category of the society) and don't earmark significant portion of income to social purpose¹⁴. Even though the cooperatives represent a significant part of the SE sector, social cooperatives are represented only to a very small extent.

In terms of governance, the majority of SEs (around two thirds) include their employees and/or members in the decision making process. This practice is less prevalent in the enterprises for employment of people with disabilities where almost half of them do not include participative decision-making processes.

3.2. Key sectors for social economy and phases of development of social economy players

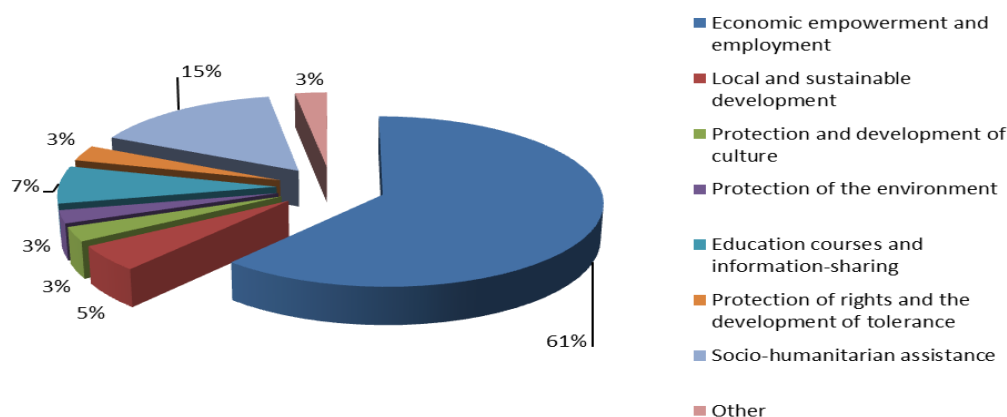
The social enterprise sector in Serbia provides a variety of products and services, most commonly serving agricultural producers, people with disabilities, women and youth as well as other disadvantaged groups such as elderly persons, Roma etc. Although there are research and reports on social economy in the country, there is limited relevant data on the target groups and direct beneficiaries of social enterprises.

Serbian social enterprises are focused on 8 crucial issues as a core of their social mission (Graph 1)¹⁵. The prevalence of economic empowerment and employment is consistent with the fact that a significant part of the sample is composed by the cooperatives and enterprises for employment of PwD. On the other hand, it is surprising that only a limited number of all social enterprises indicate environmental protection or sustainable development as their core mission; especially among those related to agriculture.

¹³ Ibid

¹⁴ Cvejic S., Social impact of social enterprises in Serbia, 2014

¹⁵ Economic impact of Social Enterprises in the Republic of Serbia, Statistical Office of the Republic of Serbia in cooperation with Group for Development Initiative SeConS and Group 484, Belgrade, 2014



Source: Statistical Office of the Republic of Serbia, Group for Development Initiative SeConS and Group 484, 2014

Social welfare and education are one of the top priorities for the associations. It is also confirmed by recent research of Smart Kolektiv¹⁶ where 85% of the sample are associations. The value of social services provided by SEs is rather modest and mostly ranges up to 30.000 EUR per individual SE¹⁷.

Considering the potential for employment of vulnerable groups, only 184 (16.8%) of 1196 social enterprises employ people from vulnerable groups¹⁸. Although representing a significantly higher share than the national average, it is less than it should be expected given the sector. Most of them are people with disabilities targeted by the enterprises for employment of PwD, while the potential for integration of other vulnerable groups lies among associations and other forms of SE. Cooperatives are less represented for the employment of vulnerable groups as they mostly provide self-employment opportunities for members and do not directly employ; their impact in this area is indirect. This aspect needs to be taken into consideration when measuring the overall impact of SEs on employment.

Overall, the social impact of SEs is quite limited; in line with their financial success. SEs with the major impact (such as employment of PwD) are the ones subsidised by the Government. The direct social impact of cooperatives remains limited due to the lack of commitment for reinvesting the profits for social purpose.

The economic sectors where SE engage differ depending on the type of SE. For cooperatives, the predominant sector is agriculture (commodity production and sale), wholesale and retail sale¹⁹. The enterprises for employment of PwD are mostly engaged in manufacturing and services such as printing. The predominant economic sectors for associations and foundations are services such as: education and training, tourism and catering and culture and arts. Besides services, they also engage in production (32.5%) and agriculture (12.5%)²⁰.

Unlike other countries in the region, social enterprises in Serbia are more equally represented in all four stages of development with an important number of SEs ready to scale-up or in a growth phase. The recent survey of Smart Kolektiv²¹ identified that: 1) 15% of social enterprises are in the start-up phase; 30% of social enterprises are in the validation phase, testing their business model; 37.5% of social enterprises are in the scaling/growth preparation phase and 4) 17.5% of social enterprises are in the scaling/growth phase.

¹⁶ Social investment market in Serbia: Current state and potential for the development, Smart Kolektiv, Belgrade, 2017

¹⁷ Ibid.

¹⁸ Economic impact of Social Enterprises in the Republic of Serbia, Statistical Office of the Republic of Serbia in cooperation with Group for Development Initiative SeConS and Group 484, Belgrade, 2014

¹⁹ Economic impact of Social Enterprises in the Republic of Serbia, Statistical Office of the Republic of Serbia in cooperation with Group for Development Initiative SeConS and Group 484, Belgrade, 2014

²⁰ Social investment market in Serbia: Current state and potential for the development, Smart Kolektiv, Belgrade, 2017

²¹ Ibid.

3.3. Funding and financial tools social enterprises use

The lack of financing has been identified (SORS and Smart Kolektive) as one of the key obstacles for social enterprises development in Serbia. For the Limited Liability Companies (LLCs), cooperatives and enterprises for employment of PwD, outstanding receivables are also a major issue which influence their financing structure.

The majority of social enterprises functioning as associations used grant support from donors to start their activities. Spin-off enterprises established by associations also benefited from donation support. Beyond this initial grant funding, SEs face significant hurdles in raising financing to support their growth. The bulk of funding comes from donor sources, aid agencies and the private sector. Regarding the sources of funding (according to the 2017 Social Investment Market in Serbia survey conducted by Smart Kolektiv), 65% of social enterprises used public sector grants, 55% grants from foreign donors and foundations, 52.5% grants from national donors and foundations, and 37.5% grants from companies. Incomes from membership fees were generated by 25% of social enterprises, income from sales of products and services by 85% of them, while 15% generated income from the provision of social services²². The enterprises for employment of PwD have benefited from public subsidies on salaries and purchase of equipment and raw materials²³. Associations and spin-off companies have also received support in free-of-charge use of business premises.

The predominant dependence on grant funding is evident among the SEs functioning as associations. For example, 55% of the surveyed SEs generate less than 5.000 EUR from economic activity and only 10% generate over 50.000 EUR.²⁴ Higher incomes are generated by SEs involved in production activities in comparison to those engaged in service provision. Compared to the total generated income, 35% of the surveyed SE generate over 50% from economic activities, and 15% of the SEs over 90% of their annual income. Cooperatives and enterprises for employment of PwD generate most of their income through the market activities.

Both non-repayable funding and a mix of funding instruments are the most needed financial tools for the SEs. 87.5% of the SEs identified the need for grants while 50% praised donations in equipment and raw materials²⁵. Linking-up with companies is also an important aspect for 57.5% of the surveyed SEs. Only 10% identified the need for financial banking services. Financing needs of SEs are tightly connected to their development phase. Namely, 30% of the SEs require funding in the range of 10.000 – 25.000 EUR (mostly in validation stage), 17.5% from 25.000 – 50.000 EUR while 40% require financing ranging from 50.000 – 100.000 EUR. Most of the funds would be invested in purchasing fixed assets (70% of SEs), but also for product development (65%) and marketing and promotion needs (62.5%)²⁶.

An increasing number of SEs are ready to absorb loan funding or other commercially available methods of financing; as confirmed by the research as well as the consultations with the SEs. 55% of the SEs would be interested to take a loan: 30% of SEs are interested in loans ranging from 10.000 – 35.000 EUR. 35% of them could obtain collateral and are willing to pledge it against the loan. In Serbia, SEs favor long-term loans, with a grace period and favourable investment rates. Overall, SEs have identified the lack of suitable funding beyond the initial start-up and scaling-up phase.

3.4. Monitoring and evaluation of the financial and social return

Official data about the scope and makeup of the SE sector is available thanks to the Agency for Business Registry and SORS. They regularly collect data on all legal forms of SE including their yearly

²² Ibid

²³ Economic impact of Social Enterprises in the Republic of Serbia, Statistical Office of the Republic of Serbia in cooperation with Group for Development Initiative SeConS and Group 484, Belgrade, 2014

²⁴ Social investment market in Serbia: Current state and potential for the development, Smart Kolektiv, Belgrade, 2017

²⁵ Ibid.

²⁶ Ibid.

financial reports. It provides insights into their turnover and other traditional profit and loss figures coupled with employment data.

There is no reliable data about the impact of social enterprises on the vulnerable groups that they seek to serve. This is due in part because of the reporting structures within the SEs themselves that are under developed or inefficient and also because of the little attempt made to verify their social impact.

Social enterprises mostly use internally developed monitoring tools to measure their outputs. They measure their impact mostly through cumulative effects on their beneficiaries and documenting cases of changes at the individual beneficiary level. However, because no standardisation has been implemented for data collection, aggregating social impact data is challenging.

4. THE ECOSYSTEM FOR SOCIAL ENTERPRISE DEVELOPMENT

4.1. Relevant policies, regulatory and institutional framework

4.1.1. The legislative and regulatory framework related to social economy

Social economy is a poorly understood concept among public authorities in Serbia. The legal, institutional and policy frameworks which should provide the basis for building a vibrant social economy are weak and require significant financial and technical resources as well as the corresponding political will to be developed.

There is no law on the SE sector, nor there is a national strategy and approved policy documents. Overall, the experts can assert that the existing legal framework is more restrictive than empowering for the SE sector²⁷. This has not prevented the sector from experiencing a gradual development under different legal structures (LLCs, cooperatives, associations, NGOs, companies for the disabled and foundations); all of which are subject to different prevailing laws. The only statute law which mentions social enterprises is the Law on Professional Rehabilitation and Employment of People with Disabilities²⁸. As its name suggests, this law is written specifically for companies created to employ people with disabilities and is not intended to provide a general framework for SEs. The law allows the establishment of enterprises for the employment of PwD by various legal entities (including associations) as long as they employ at least 5 PwD or PwD represent at least 50% of their workforce. They are also obliged to reinvest part of their surplus income for the integration of PwD. However, the law fails to provide clear guidance on reinvestment rules²⁹.

The first new law that has a notable relevance to the SE sector is the Law on Associations³⁰ from 2009, which gives associations the right to undertake income generating activities which should be related to the purpose of the organisation, be 'small scale' and limited to generating funds to support the purpose of the association. It specifically bans the distribution of profit among members. The economic activity has to be registered in the Serbian Business Registries Agency. However, it does allow associations to establish separate commercial entities but it does not properly define the relationship between the association and the newly formed company. The earned profit is subject to profit tax when it reaches above 3,250 EUR. Due to the ambiguities on what constitutes a purpose-related activity, small-scale and taxation issues, many associations have decided to create limited liability companies. This enables them to access a wider range of financial products and simpler, clearer taxation.

²⁷ Strategic study on the social economy development in the context of the South-East Europe 2020 strategy, Regional Cooperation Council Secretariat, 2015

²⁸ Zakon o profesionalnoj rehabilitaciji i zapošljavanju osoba sa invaliditetom, Sluzbeni glasnik RS No. 36/2009 and 32/2013

²⁹ Strategic study on the social economy development in the context of the South-East Europe 2020 strategy, Regional Cooperation Council Secretariat, 2015

³⁰ Zakon o udruzenjima, Sluzbeni glasnik RS No. 51/2009

Similarly, the Law on Endowments and Foundations³¹ allows these legal entities to conduct economic activities in relation to their mission as long as it is not the core activity of the foundation. Another potential limitation of the law relates to the governance principles as it allows increased direct control over assets to the founders which would not be in line with the SE principles. In general, this legal form has not been utilised widely by the existing SEs.

The Law on Cooperatives from 2015³² allows members to pursue not only economic, but also social, cultural and other interests which opens a space for the establishment of social cooperatives. The law specifically defines that social cooperatives can engage either in: a) pursuing social, economic and employment inclusion as well as serving other needs of vulnerable groups or b) pursuing general interest of the local community. It stipulates that at least half of the surplus income has to be re-invested in the advancement and achievement of the social goals.

The Law on Social Protection³³ defines the framework for the creation of institutions for social protection and until a more appropriate law is passed, it constitutes the first law establishing a viable framework for the creation of social enterprises in the field of social protection.

The first indication of political will to address the issue through public policies was the Strategy for Cooperation of the Government with the Civil Society Sector (2012-2017) identifying the development of social economy as one of the Strategy's objectives. The measures included the adoption of a law on social entrepreneurship by 2016. Subsequently, the law on social entrepreneurship was integrated in other policy documents such as the Government programme (2014-2018) and the National Employment Action Plan (2014-2015) as a measure to improve social inclusion and fight poverty.

The process of drafting the law on social entrepreneurship was commissioned by the Ministry of Labour, Employment and Social Policy in 2012. The resulting draft fell short of the expectations for the majority of the stakeholders. In fact, the Coalition for the Development of Social Entrepreneurship (non-formal network of organisations)³⁴, with the support of other social enterprises objected to it in the Parliament. The draft had a number of significant gaps such as the fact that it would have reduced social entrepreneurship to the employment of vulnerable groups. The renamed Ministry of Labour, Employment, War Veterans and Social Affairs drafted a new proposal for the law in 2015, which although significantly better than the first, still sought to define social enterprises as limited to the employment of vulnerable groups and gave a significant role to municipal authorities. As a result of the parliamentary elections in 2016, the subsequent presidential elections and the reorganisation of ministries the final drafting of this new law will likely take place only in 2018.

Efforts to provide preferential treatment to social enterprises in public procurement tenders have been somewhat reflected in the Law on public procurement where social criteria are formally one of the criteria; but it has been used almost exclusively for enterprises with PwD employees. SE stakeholders are keen to actively engage with the Ministry of Finance not only in better coordination of available funding but also in the drafting of the Law on Social Entrepreneurship.

4.1.2. Institutional framework

From an institutional point of view, the Ministry of Labour, Employment, Veterans and Social Affairs is assigned with responsibilities related to the legislation on social entrepreneurship. Other institutions such as the Ministry of Economy, Social Inclusion and Poverty Reduction Unit (SIPRU), Office for Cooperation with Civil Society (OCCS) etc. are members of the working group for drafting the law. Nevertheless, it seems that the predominant public policy discourse is that SE should be tools for the

³¹ Zakon o zaduzbinama i fondacijama, Sluzbeni glasnik RS No. 88/2010

³² Zakon o zadrugama, Sluzbeni glasnik RS No. 112/2015

³³ Zakon o socijalnoj zastiti, Sluzbeni glasnik RS No. 24/2011

³⁴ <http://www.emins.org/english/coalition-for-social-entrepreneurship>

social inclusion and employment of vulnerable groups. Thus, institutions such as Ministry of Economy do not take a proactive role in addressing SE through their policies. Institutional horizontal coordination should be improved to achieve broader perspective for public policies on SE.

The National Employment Service (NES) is a key actor both at a national and local level in the drafting and implementation of programs for active employment. Of particular relevance is its role in supporting the employment of vulnerable groups (in particular people with disabilities) through subsidies. The NES also provides technical assistance in the form of training, provides support for the implementation of public works projects and perhaps most crucially financial support for start-ups.

The SIPRU (Social Inclusion and Poverty Reduction Unit) was formed by the government in 2009 and mandated to build governmental and institutional capacities to foster an environment of positive legislation for social inclusion, in part by reviewing best practises across the EU. SIPRU therefore plays a central role in bringing together the variety of government actors in an attempt to coordinate actions, and then provide the relevant feedback. Its support to the creation of the Coalition for Development of Social Entrepreneurship suggests that it recognises the valuable role that the sector can play in fostering social inclusion and real economic empowerment.

SIPRU is the main institutional actor in supporting of SE and continues to partner the Coalition for the Development of Social Entrepreneurship on public policy issues and the promotion of social enterprises. SIPRU commissioned a detailed assessment of social entrepreneurship both in relation to market applicability and potential. Carried out by the OECD³⁵ in 2012, the report's recommendations were never adopted. Having in mind the cross-cutting nature of social entrepreneurship which incorporates aspects of economy, social and labour market inclusion, sustainable development, environment, agriculture, innovation etc., effective coordination by SIPRU could have significant and beneficial impact on leveraging full potential of the sector. Nevertheless, in the recent years, SIPRU has not been actively engaged in SE policy development and is mainly focused on promoting social innovation.

The Office for Cooperation with Civil Society (OCCS) is created as an institutional mechanism for cooperation of the Government with the civil society. OCCS is a member of the working group for drafting the Law on social entrepreneurship and is taking a proactive role in ensuring adequate representation of SEs established by CSOs in the public policies on social entrepreneurship.

In addition to the sectorial Ministries, the institutional framework includes the Budget Fund which draws its income from penalties leveraged on companies that fail to comply with their statutory obligation to employ a minimum percent of people with disabilities. The Budget Fund provides direct funding through calls for proposals and makes funds available to other institutions such as the National Employment Service. Priority is given to organisations for the disabled or those employing unemployed people with disabilities (salary refunds and improvement of work processes, workplace modifications and working conditions).

Municipalities play an increasing role in supporting social enterprises. Several SE have reported support from the municipality in obtaining premises, purchasing the products of SEs etc. In the case of the SE "Radanska ruza"³⁶, the Municipality of Lebane has been co-founder of the social enterprise together with a local organization.

4.1.3. Links with existing Social Protection and Social Inclusion systems

³⁵ Boosting social entrepreneurship and social enterprise creation in Republic of Serbia, Local Economic and Employment Development (LEED) Programme of the Organization for Economic Co-operation and Development and SIPRU, 2012

³⁶ <http://radanskaruza.rs/>

The Law on Social Protection from 2011 aimed at conducting a reform of the heavily-centralised social protection sphere. Among others, the law strives to create bottom-up approaches to social services and involve many different actors in the provision of services. The law allows other actors such as associations and companies to provide certain social services subject to licencing.

The National Strategy for Employment 2011-2020 identifies social entrepreneurship as a flexible and innovative business model that is largely underutilized and should be encouraged through establishing and strengthening networks of SEs. The strategy sees SEs as a vehicle to increase employment and social inclusion of various vulnerable groups. It is mostly foreseen through the development of new, integrated services at the local level which will support the transition from recipients of social welfare to productive employment. In these lines, the strategy declaratively commits to support the establishment of cooperatives and other social enterprises.

4.2. Key stakeholders and existing coordination mechanisms

Table 1 shows already identified Social Enterprise Ecosystem stakeholders within the Western Balkans Mapping Study 2017 ©NESsT, updated for the purposes of this study. The coordination among stakeholders belonging to civil society are formalised in the two networks (SENS and the Coalition). The other actors are not engaged in structured coordination and are mostly committed through working groups and different meetings of stakeholders.

Table 1: Key Stakeholders in the Social Enterprise Ecosystem in Serbia

Organization	Role
Policy Makers	
Ministry of Labour, Employment, Veterans & Social Affairs	<ul style="list-style-type: none"> • Designated institution for drafting the law on SE • Manages Budget Fund for vocational rehabilitation and promotion of employments of PwDs • Supports enterprises for PwD through the lottery fund
Social Inclusion and Poverty Reductions Unit (SIPRU)	<ul style="list-style-type: none"> • Mandate to strengthen government capacities to develop and implement social inclusion policies • Supported the founding and work of the Coalition for the Development of Social Entrepreneurship • Commissioned SE research • Advocated direct EU support to social enterprises and for adding a social component in public procurement bids
National Employment Agency	<ul style="list-style-type: none"> • Defines and implements active employment programmes • Provides training and financial support for start-ups, SMEs, self-employment and implementation of public works
Ministry of Economy	<ul style="list-style-type: none"> • Provides start-up grants to entrepreneurs, support to SMEs and supports employment of youth
Ministry of Finance	<ul style="list-style-type: none"> • Draws up and implements the government's fiscal policy and support mechanisms
City Centre for Social Entrepreneurship of Belgrade	<ul style="list-style-type: none"> • Public Institution • Provides educational and training programmes for employment of vulnerable groups potentially through SE
Funders	
Budget Fund/via National Employment Service	<ul style="list-style-type: none"> • Supports companies for employment and vocational rehabilitation of people with disability, offers subsidies
Delta Foundation	<ul style="list-style-type: none"> • Provides grants, capacity building and support in product placement to social enterprises in agriculture through the Plantation for the Future programme
The Development Fund	<ul style="list-style-type: none"> • Provides credit for businesses and start-ups (SMEs, crafts etc.) • Channel public institution funds on national and regional level

	<ul style="list-style-type: none"> • Offers start-up loans for new entrepreneurs
Erste Bank Serbia	<ul style="list-style-type: none"> • Provides loans and technical support to SE through the ‘step by step’ programme • Purchases SE products and promotes SE among the businesses • Provides grants to young people, individuals, groups and organisations developing socially responsible projects through the “Superstep” programme
European Commission	<ul style="list-style-type: none"> • Supports sustainable socio-economic development, rural development, social inclusion, the development of social services and social entrepreneurship through IPA • Runs programmes targeting CSOs and small business, including the “WB EDIF” which provides financing solutions for SMEs implemented by EBRD and EIB Group as well as targeted policy interventions and advisory services for SMEs • Runs several other support programmes that could benefit SE
Henrich Boll Foundation	<ul style="list-style-type: none"> • Supports social entrepreneurship initiatives that build awareness and promote the strengthening of the sector
UniCredit Bank	<ul style="list-style-type: none"> • Pilot loan programme for social enterprises in 2012 • Provided grants and capacity building through the “idea for a Better Tomorrow” programme • Purchase products from social enterprises
United States Agency for International Development (USAID)	<ul style="list-style-type: none"> • Supported youth entrepreneurship in the Sustainable Development Local Development Project (SLDP) • Supports CSOs and social enterprises through grant schemes
Yunus Social Business (YSB)	<ul style="list-style-type: none"> • Supports social enterprises through investment readiness programme YSB Balkans Accelerator for social enterprises from the Balkan Region
GIZ	<ul style="list-style-type: none"> • Provides support to SMEs and SEs that employ youth
Support Organizations and Institutions	
Coalition for the Development of Social Entrepreneurship –	<ul style="list-style-type: none"> • Non-formal network of the following organisations: Initiative for development and cooperation³⁷, Smart Kolektiv³⁸, Trag Foundation³⁹, European Movement Serbia⁴⁰, Group 484⁴¹, and SeConS – Development Initiative Group⁴² • Advocates for enabling SE environment including legislation • Promotes concepts to key stakeholders • Provides research and analysis of the ecosystem • Initiated Belgrade Declaration on the Development of the Social Entrepreneurship
SENS – Social Economy Network Serbia	<ul style="list-style-type: none"> • National network of social enterprises gathering 26 different members • Promotes social entrepreneurship and its members • Provides networking and learning for its members
Smart Kolektiv	<ul style="list-style-type: none"> • Non-for-profit organization • Offers comprehensive support to SE, including start-up and incubation • Provides learning opportunities and partnership with business sector • Promotes the concept among businesses and other stakeholders • Organises annual regional Social Innovation Forum • Members of the Coalition and Co-administers SENS network with IDC

³⁷ <http://idcserbia.org/en/>

³⁸ <https://www.facebook.com/smart.kolektiv>

³⁹ <https://www.tragfondacija.org/pages/en/home.php?lang=EN>

⁴⁰ <http://www.emins.org/english>

⁴¹ <http://grupa484.org.rs/en/campaign-in-loznica-exhibition-common-denominator-and-the-accompanying-program/>

⁴² <http://www.secons.net/>

Junior Achievement (JA) Serbia	<ul style="list-style-type: none"> • Non-for-profit organization, the only accredited provider of entrepreneurship education services in Serbia, member of Junior Achievement Worldwide, a global organization founded 1919 in the USA • Promotes and support youth entrepreneurship and social entrepreneurship in high schools • Provides educations in the field of entrepreneurship, financial literacy and work readiness • Organises student competitions, trade fairs and online contests
Responsible Business Forum	<ul style="list-style-type: none"> • Network of socially responsible companies, registered as a non-for-profit organization • Promotes the concept and good practices of responsible business • Provides free access to knowledge and expertise offered by large companies

4.3. Existing funding strategies for social economy

4.3.1. National public funding schemes

National public funding lacks a targeted approach to support the social enterprises. Funding for different legal forms of SE are available through the active employment measures, grants for CSOs and SME support measures.

Social enterprises registered as associations can potentially benefit from the state funding to CSOs under the Regulation on the changes and amendments of the *Regulation on funds for existing programs of public interest that associations produce*. The funding from several budget lines (481 – Grants for civil society organizations, 472 – Compensations for social protection, 423 – Contract services, 424 – Specialized services) is distributed via open calls through various public institutions⁴³. In 2016, CSOs utilised around 64.5 million EUR from the budget line 481, 11.6 million EUR from 472 and 1.1 million EUR from 424. Efforts are made to improve transparency and accountability of CSO funding by the State⁴⁴.

Under the 2004 Law on Games of Chance, the *Lottery Fund* reserves a portion of its revenue to support social projects within 5 areas: youth & sport, disability, social protection (via municipalities), rare diseases and the Red Cross. No official numbers on funds distributed based on Law on Games of Chance are available for 2016. Overall, the stakeholders state that the distribution of Lottery fund lacks transparency and is available only to a limited scope of organisations⁴⁵.

The *Budget fund for vocational rehabilitation and promotion of employment of persons with disabilities* on the other hand distributes funds levied from employers as penalties for failing to meet the legal quota for employment of people with disabilities. By the end of 2013, this fund had raised over 35 million euro. These funds are then used primarily to refund salaries and support the improvement of working conditions for the disabled employees. They are mostly used by the enterprises for the employment of PwD and are not available for the employment of other vulnerable groups.

The State funded *programmes for the active employment* offer a number of subsidy models as well technical support to enterprises, individuals and other employers to support the employment of people facing labour market barriers. NES's activities are focused on active employment measures for PwD, long term unemployed and other beneficiaries of welfare and other disadvantaged groups. As a measure of the organisations level of engagement, NES disbursed 3,368 self-employment grants in 2017 (by the end of October)⁴⁶. In addition, it provides training and financial support for start-ups indirectly

⁴³ Monitoring Matrix on Enabling Environment for Civil Society Development: Country report for Serbia 2016, Balkan Civil Society Development Network, Civic Initiatives, 2017

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Bulletin of NES, No. 755 from 13.12.2017

including SEs who actively use its facilities. The information received during the interviews as well as the public calls indicate that many of these measures are not available to associations.

Several *State-funded credits and other financing for SMEs* are available through the *Ministry of Economy and the Development fund of R. of Serbia*. The measure targeted at beginner entrepreneurs includes a combination of grants (up to 30%) and low interest loans (1.5-3% interest rate) of between 3,200 and 25,000 EUR. A combination of grant (25% up to 21,000 EUR) and loan (70%) is also provided to SMEs and cooperatives for purchasing equipment. Larger investments (up to 0.5 million EUR) are also available to SMEs and cooperatives through similar mechanisms (20% grant, the rest loan). These funding are not available to the SEs registered as associations. The Ministry of Economy has not considered yet expanding the scope of the beneficiaries.

The *Innovation Fund* established in 2011 supported early-stage innovation activities and research and development (R&D) for SMEs in Serbia. Through the EU/IPA funded “Innovation Serbia Project” administered by the World Bank the Fund invested a total of 6 million EUR in 52 projects. It also provides mini- and matching grants to SMEs. It is potentially available to SE registered as LLC.

4.3.2. European Union funding

The European Commission has been supporting social enterprise sector in all its guises. There is a number of funding activities in place that could be suitable to support the development of social entrepreneurship and social services. The primary funding tools to date has been the Instrument of Pre-Accession IPA (2007-2013) which was then augmented with funds from the European instrument for Democracy & Human Rights, ERASMUS (for University students), EaSI (Employment & Social Innovation), COSME (Competitiveness of Enterprises and SMEs), WB EDIF (Western Balkans Enterprise Development and Innovation Facility and the Civil Society Facility all of which are based in Brussels.

In principle, the EU has not yet defined clear guidelines on how to support SE in the country. This is combined to a lack of Government’s demand and can explain why the topic remained on the margins of the country programming. Available grant funding have been mostly available to associations through grant schemes for social inclusion (under IPA) and human rights (such as EIDHR). These mechanisms have been used for a direct support to several social enterprises. A striking example was the *Social Innovation fund* which functioned from 2003-2010 and disbursed around 7 million EUR to almost 300 projects⁴⁷. An ongoing initiative (not yet in place), by the Social Inclusion and Poverty Reduction Unit of the Government of the Republic of Serbia, could see this model replicated via the creation of a new Social Inclusion Fund targeting the SE sector and managed by an inter-ministerial body. It is expected that this will be supplemented by the Instrument for Pre-Accession (IPA) as part of the EU accession process⁴⁸. SIPRU has also managed to provide targeted EU support of 1 million EUR for social enterprise development through the IPA 2013 programme⁴⁹. The ongoing SE regional project “*Smart Start*” co-funded by the EU through the *Civil Society Facility* and *Media Programme 2014-2015* is also implemented in Serbia by the Centre for Development of Non-Profit Sector⁵⁰. However, it seems that the project is not very visible and local stakeholders have not identified it as major supporter for SEs in the country.

The EU funded project “*European Union Support to Inclusive Society*”, is providing support to projects for community – based care for vulnerable groups such as elderly, children, minorities including Roma etc. In total, 4.3 million EUR provided grant support to 28 projects in 36 municipalities by the end of 2017. Grant beneficiaries include public and private legal entities and could include social

⁴⁷ Strategic study on the social economy development in the context of the South-East Europe 2020 strategy, Regional Cooperation Council Secretariat, 2015

⁴⁸ Ibid.

⁴⁹ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

⁵⁰ <http://www.crnp.org.rs/>

service based SE. Examples include the project “Osnaziti” implemented by the Public communal company Krusevac, Krusevac municipality and the CSO Treehouse which aims at integrating Roma informal scavengers into the official garbage collection and recycling system as well as to involve vulnerable groups in a model of “village recycling operators”.

EaSI 2014-2020 and COSME funds have been accessible to Serbian organisations since 2016. The COSME program makes low interest loans accessible to organisations by providing securitisation facilities for SMEs. These facilities are also available through the European Investment Fund. Together, 60 million EUR for up to 3,000 organisations will be made available from the project partner Bank Intesa. EaSI on the other hand focuses on actions to facilitate financial market access for SEs. At the moment, Smart Kolektiv in partnership with Erste Bank and Oksigen Lab are implementing the following project: Social Enterprise Financing in Serbia – Building Partnerships and Models for Sustainable Development of Social Finance Market funded within the EaSI (2014-2020) – Actions. It aims to boost the demand and supply of the finance market for social enterprises.

The European Investment Bank (EIB) makes funding available (primarily through the Western Balkans Investment Framework) to support a range of priorities. Of particular relevance to the SEs are programmes such as JEREMIE which provides funds targeted at start-ups, technology & innovation, microcredits etc.

The financial products available to SMEs through the European Bank for Reconstruction and Development (EBRD) could also be considered by SE which are registered under the Company law. The financing is available through the commercial partner banks or through direct financing instruments. Nevertheless, until now, these financial products are not suitable to the needs and absorption capacities of the existing SE. However, based on the recent mapping research on the social economy sector⁵¹ contracted by the EBRD, there might be programmes targeted for social enterprises in the future.

4.3.3. Social Investors, Social Impact Funds and other socially driven financing institutions

In Serbia, unlike most of the other countries in the region, besides the regional players, the local social investors are emerging to support social enterprises through diverse funding mechanisms.

Smart Kolektiv (SK) is perhaps the most high-profile organisation actively working to promote and develop social entrepreneurship. Operating since 2010, SK has provided support through financing, facilitation of networking, capacity building, and business linkage. SK has been particularly successful in engaging with partners to build effective programmes. Some examples are listed below:

- “*Smart Academy*” a capacity building and financial support programme for SEs which provides a year of trainings, consultations, mentoring, business partnering, promotion and finance, in similar ways to an incubator programme. The most successful academy graduates are provided with up to 10,000 EUR of financing either as start-up funding or to support their growth. The academy provides its incubated projects with exposure to a variety of high profile stakeholders that may be able to provide support and sustainability options for these projects beyond their involvement within the academy. It has benefited to 100 SE so far.
- The “*Academy of Business Skills*” provides free access to the brain trust of some of Serbia’s largest socially responsible companies and organisations. Its partnership with the Responsible Business Forum (RBF) has given opportunity to over 100 SE sector players to pitch for funding and partnership activities with organisations. According to Smart Kolektiv, RBF members

⁵¹ Ibid.

have supported partnering projects of CSOs and SEs with more than 10 million EUR in 2016, supporting 743 organizations⁵² and continue to do so.

In November 2016, *Erste Bank* has launched "*Step by Step*", a Social banking support programme for start-ups, social enterprises, civil society organisations and low income private citizens. In Serbia, on the basis of a guarantee agreement with the European Investment Fund under EaSI, the bank manages a loan fund of up to 5 million Euro for a period of 5 years aimed at supporting 850 micro-enterprises with attractive loan terms, as well as aimed at providing access to training and mentoring support via Smart Kolektiv and Start Up Alliance. Support to CSOs and SEs was launched in July 2017 and until now the bank has invested around 100,000 EUR for five SEs.

"*Step by Step*" is a pilot programme and the first structured commercial finance product for social enterprises. With loans ranging up to 25,000 Euro for partially secured loans, to 35,000 Euro for those with 100% securitisation – usually in the form of a 'Menica' (personal guarantee). Repayment periods range from three (for working capital) to five years (for investments) with a one-year grace; during which the SEs are mentored. The interest rates range between 5.8% and 8.5%. The pilot programme is expected to provide insight into how well accepted this type of financial instrument will be by the SE and whether their social missions and business plans can pass banking risk assessment criteria. The initial plan is to increase the loan amount up to 100,000 EUR.

Yunus Social Business Balkans (YSB), a non-profit venture fund (part of Yunus Social Business) is based in Tirana. Initially open to social businesses in Albania, it has expanded its activities throughout the Western Balkans region. YSB provides financing as well as business support to SE. The financing instrument consists of flexible loans with no collateral. Equity stake of up to 25% serves as security until the loan is repaid. The loans range between 80.000 – 500.000 EUR for a period of 6-7 years on average, with interest rate comprised between six and eight per cent and a grace period of up to 5 years. The finance facility is coupled with advisory support through training, mentoring, expertise and networking opportunities.

Together, the EIB & EBRD provide facilities through the *Western Balkans Enterprise Development and Innovation Facility (WB EDIF)*. The WB EDIF is designed to offer a range of measures to improve access to finance for SMEs and foster economic development. It provides direct and indirect financing according to the development stage of the SME, supports the general SME business environment by policy interventions and advisory support. While the WB EDIF does not explicitly target SE, its support can be accessed by the SE operating as LLC.

The *European Fund for South East Europe (EFSE)*⁵³ aims at fostering economic development and prosperity in the Southeast Europe region and in the European Eastern Neighbourhood region through the sustainable provision of additional development finance, notably to micro and small enterprises and to private households, via qualified financial institutions. EFSE Development Facility programme partnered with Partner Lending Institutions (PLIs) to achieve their goals. In Serbia, they are present through the regional office of the partner Finance in Motion.

4.3.4. Private sector

There are a number of initiatives involving the private sector in the financing of social enterprises; mostly through Corporate Social responsibility platforms. The *Responsible Business Forum* is a network of companies wishing to be actively involved in supporting social economy. The RBF members provide a variety of support activities designed to encourage social entrepreneurship; crucial amongst which are access to market and in-kind donations. An example of corporate partnership with SEs is IKEA, which is sourcing from Serbian social enterprises providing sewing services and organic products for its restaurants. Another CSR platform is the *UN Global Compact Network Serbia* which

⁵² Bolji biznis za bolje društvo, Doprinos kompanija članica Foruma za odgovorno poslovanje održivom razvoju u 2016. godini

⁵³ <https://www.efse.lu/>

gathers 57 business and non-business participants. Some of the network members are active in supporting SE and it is expected that with the uptake of Sustainable Development Goals (SDGs) this engagement will increase.

Another prominent example of corporate support to SE is the “Plantation for the future” (*Zasad za buducnost*) a project from the *Delta Foundation* (2015), part of Delta Holding. The program seeks to support SEs in agriculture to create employment, reduce poverty and support the local communities in which they operate. In the period of 2015/2016, the Plantation for the Future provided grants to 12 social enterprises ranging from 2000 to 15,000 EUR (totalling 198,500 EUR), access to education and markets. The programme provides expert advice and mentoring to social enterprises by Delta Holding employees and is implemented with the technical support of the Trag Foundation.

Regarding the rest of the region, banks (predominantly owned by larger international institutions) are conservative in their approach; in part because they lack an understanding of the sector and because the legal forms of the majority of SEs makes lending technically difficult. High lending rates and collateral ratio requirements for organisations often operating with donor funds and generating little revenue mean that banks have little direct involvement in the SE sector. There are however signs that the banks are exploring ways to more actively engage with the SEs.

The Erste bank has undertaken significant a strategic step forward in supporting the development of the SE sector described above. Another example of bank commitment to supporting SE is *UniCredit Bank* which initially created and disbursed first loan instrument of maximum 5,000 EUR to social enterprises as part of a pilot scheme. The bank provided loans to eight social enterprises under preferential terms (24 month repayment, low interest). What made these facilities particularly noteworthy was the fact that collateral was provided by the UniCredit Foundation. However, after the piloting period, the bank decided that the market could not fully absorb this kind of loan support and switched to grants. The grants ranging from 5,000 – 8,000 EUR are disbursed through the programme “*Idea for a better tomorrow*” implemented in partnership with Divac Foundation and Smart Kolektiv. UniCredit also financially supported the creation of the Social Economic Network Serbia (SENS) through its support of SENS founders, Group 484.

4.3.5. Microfinancing

Although three micro-financing organisations operate in Serbia and have extended more than 19,000 loans, the level of business they carry out is limited by the fact that the law obliges their loans to be disbursed via commercial banks. It inevitably makes the interest rates higher than they may otherwise be, increasing the cost to the end user. As a result, micro credit products are not yet available to SE under favourable conditions. Up to 50 million EUR could be available by a combination of existing and potential micro-finance investors if a law based on best practises was enacted; according to the Microfinance Working Group for Serbia⁵⁴.

4.3.6. Development Aid Agencies

International donors and agencies have played an important role in supporting the development of the SE sector in Serbia, with key players such as USAID, United Nations Development Program (UNDP), International Office of Migration (IOM), International Labour Organisation (ILO), the EU and the British Council (the latter being focused on skills and capacity building). In various mandates mostly through project funding, they have supported the establishment of several SEs thus contributing to the development of the emerging sector. The single largest source of funding to the SEs is the EU through a variety of instruments.

⁵⁴ Boosting social entrepreneurship and social enterprise creation in Republic of Serbia, Local Economic and Employment Development (LEED) Programme of the Organisation for Economic Co-operation and Development and SIPRU, 2012

Several programs historically provided different types of support, varying from the USAID program of creation of Youth Business Serbia to actively support young entrepreneurs as well as other vulnerable groups, then the UN supported project of the employment of youth and migrants as well as program implemented in cooperation with the British Council, UNDP and the Business Innovation Program providing trainings, mentoring and grants ranging between 5000 - 7.000 EUR for social entrepreneurs.

The Henrich Boll Foundation which supports social entrepreneurship by providing grants ranging from 5,000-10,000 EUR is still active. They support the Serbian street paper Liceulice as well as the monthly social entrepreneurship newsletter produced by the SENS network. Together with Smart Kolektiv, they have been providing communication and marketing skills training course, and supporting the European Movement in conducting stakeholder meetings. These meetings will be focused on developing policy and advocacy initiatives in part aimed at creating a framework for governance and self-regulation.

Over the recent years, the *German International Cooperation (GIZ)* supported projects to increase employment especially among young people. The newly launched *Youth Employment Promotion* project in cooperation with Smart Kolektiv provides consultancy, networking and potentially financial support to SMEs and social enterprises that employ young people.

4.4. Type of additional non-financial support to social economy

4.4.1. Business Development Services

The advisory support infrastructures in Serbia are vibrant, and are supported by a combination of international donors and local business angel groups like the Responsible Business Forum. A broad stream of activities and service are available to support social enterprises and their creators.

The already mentioned *Smart Academy* operated by Smart Kolektiv provides access to know-how and coaching by some of Serbia's leading organisations to SEs on a pro-bono basis.

The *City Centre for Social Entrepreneurship of Belgrade*⁵⁵ was established as a public institution by the City of Belgrade to provide educational and training programmes for the development of local social enterprises. Founded in 2013, it sees social entrepreneurship mainly as vehicle for the employment of vulnerable groups. The Centre has focused the majority of its efforts on active employment programmes; as opposed to the development of entrepreneurship.

Co-working spaces and hubs are also available to nascent entrepreneurs. *Impact Hub Belgrade* provides co-working, networking and capacity building opportunities to entrepreneurs and business which contribute to social, environmental and cultural changes. *Rural Hub Vrmdza* was established by the *Centre for socially responsible business (CDOP)* to create a community of individuals and innovative organisations that seek to explore, build and connect its urban and rural knowledge in a sustainable way. CDOP also developed the board game *Trip*⁵⁶ which guides the players through the experience and the process of establishing social enterprise.

The EBRD addresses the needs of the SME sector via its *Advice for Small Business* facility, which co-finances technical support activities for companies to engage consultants to help improve business practises and performance. These consultancy services typically encompass areas such as finance, management processes and information systems, process and quality management, human resources, export promotion etc. The facilities are open to SEs performing registered commercial activities. In addition, the EBRD runs the *Women in Business Program* for women-led or majority owned SMEs which provides skills courses, business advice, mentoring and access to finance.

⁵⁵ <http://www.gradskicentar.rs/web/?lang=lat>

⁵⁶ <http://cdop.rs/trip/>

4.4.2. Local/national and/or Regional Networks

The main driver and promotor of the development of the ecosystem for social enterprises are the CSOs networks. Two of the leading players are the *Social Economy Network* and the dynamic *Coalition for the Development of Social Entrepreneurship*. Both bodies actively connect active social enterprises and other actors in the sector.

The *Coalition for the Development of Social Entrepreneurship Serbia (CDSES)* is a network of leading SE support and advocacy organisations. It counts amongst its founders, the European Movement in Serbia, Group 484, the Trag Foundation for Community Initiatives, SeCons and Smart Kolektiv. CDSES dedicates itself to the development and advancement of the social economy, engaging with stakeholders at every level, providing vital insights into the environment and legal framework, offering direct support to SEs and advocating for the development of social enterprises.

The *Social Economy Network Serbia (SENS)* is the only national network to bring social enterprises together and provides a platform for member promotion and networking. SENS wants to highlight success stories and best practise insights. It has 40 members from all over Serbia, bringing together CSOs, LLCs, cooperatives and organisations for the vocational rehabilitation of PWDs. In essence, SENS is a network of social enterprise practitioners.

Other initiatives of interest include the *Social Innovation Forum*, a regional conference for fostering social entrepreneurship (since 2014) organized by Smart Kolektiv as well as partnerships offering connectivity to The Global Social Entrepreneurship Networks, Euclid Network, Global ProBono Network, the European Venture Philanthropy Association and Youth Business International.

Razlivaliste is a CSO which has been running a *Social Impact Award Programme* since 2015. Targeted at students, the programme seeks to promote the concept of social enterprises and provides support for them to create their own.

4.4.3. Academia

For now, the education system in Serbia has failed to fully grasp the potential behind social entrepreneurship and more broadly offers limited entrepreneurship education opportunities for all.

Entrepreneurship has been introduced into the secondary school curricula and it is one of the key employability competences within the Standards for cross-curricular competences for the end of Secondary education. Courses on entrepreneurship have been introduced in the Vocational Education and Training system (VET) and currently, the subject of entrepreneurship is taught in around 50% of the VET schools in Serbia.⁵⁷

Junior Achievement (JA) Serbia works with 286 schools (primary and high-school) from 90 municipalities offering best practises education on the market economy and the development of entrepreneurial skills⁵⁸. Its activities include trade fairs and online competitions. Its programmes are nationally accredited and internationally verified by JA Worldwide. These programmes are delivered as part of the school curriculum and in after school courses. Launched in 2005, JA claims to have engaged with over 60,000 students since its launch in 2005.

The higher education sector faces an array of systematic challenges, with academic and vocational programmes which are strong on theory but do not reflect modern practical realities. These gaps could be filled by private Universities not burdened by legacy systems; however they face the challenge of an accreditation system that does not function effectively. Consequently, university graduates are

⁵⁷ SME Policy Index: Western Balkans and Turkey 2016, *Assessing the Implementation of the Small Business Act for Europe*, OECD, 2016

⁵⁸ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017.

coming into the labour market without an entrepreneurial mind set or skillset, with little understanding of alternative business models, which, as acknowledged by all relevant stakeholders, has a knock-on effect on the SME sector. The majority want the assumed comfort of employment in public administration or alternatively in the commercial sector. The *Social Impact Award programme* is working towards introducing the concept of social entrepreneurship to students in partnership with the Belgrade University, the Faculty of Economy, the Faculty of Organizational Sciences and other Faculties.

Both the National Employment Service and the National Agency for Regional Development offer specialised programs to foster entrepreneurship amongst women and young people. In addition, they offer a variety of direct and indirect support mechanisms for SMEs as well as training and education courses on effective self-employment and entrepreneurship. The work of the national agencies is augmented by 15 regional agencies which play a significant role in educational and skills development.

4.5. On-going and planned initiative addressing social economy issues

Funds from the IPA programming for 2013 and 2014 were originally allocated for youth employment initiatives but were only actually made available as from 2017-18 via the National Employment Service. The IPA 2016 and 2017 programming, provides programmed support for institutional development including the creation of a body for gender equality. IPA 2018 and or 2019 is expected to include actions to support women's organisations and to promote economic empowerment of women⁵⁹.

As a benefit from the ongoing EU accession process, Serbian Social enterprises can apply for a number of European investment readiness programmes. These funds tend to offer investments comprised between 150 to 500,000 EUR which is significantly higher than the vast majority of even the most investment ready SEs can absorb. There is therefore a need to fill-in the gap between traditional grants schemes ranging up to 15,000 EUR and the significantly larger figures proposed by investment funds.

As highlighted above, the private sector is taking an increasing and targeted role in providing not just financial resources but also the commercial relations critical to making social enterprises sustainable. In addition to the *Step by step* program, Smart Kolektiv is initiating social impact investment fund based on the venture philanthropy principles. The aim is to collect 500.000 EUR in the course of 2018 and provide support of up to 70.000 EUR for 5 SEs in the next three years. The funding will be accompanied with comprehensive technical support. The initiative is supported by EVPA via education, consultant advice and access to business angel support.” The Delta Foundation continues with the program Plantation for the future with a modified approach focused on targeted professional expertise in marketing, branding, production, management etc. to bring the existing beneficiary SEs to the next level of business development. While Delta Holding is buying out most of the primary production products, they have realised that in order to include the secondary production goods in their supply chain, they need to obtain relevant standards such as HACCP. Thus, the company's efforts in the year to come will be to support SEs in improving the quality of their products, standardisation and larger penetration in the supply-chains.

The *Chamber of Commerce and Industry of Serbia* plans to undertake a mapping of social enterprises and potentially support them through the regional SENSES project⁶⁰ funded by the EU Interreg Danube Transnational Programme.

4.6. Best practices in the country and replicable models

The *Social Enterprise Radanska Ruža doo*⁶¹ was founded as a public - private partnership with the Women's Association RUŽA Lebane owning 60% of the share and the municipality of Lebane owning

⁵⁹ Varga, E. Social Enterprise Ecosystems in Croatia and the Western Balkans, A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia, NESsT, 2017

⁶⁰ <http://www.interreg-danube.eu/approved-projects/senses>

⁶¹ <http://www.radanskaruza.rs/>

40%. The company was established with support of the EU and the Government of Switzerland. It produces homemade preserves such as ajvar, jams, spreads, etc. using traditional methods and with no preservatives. The SE employs women with disabilities and single mothers, as well as other women belonging to vulnerable groups. Raw materials are purchased from registered farms from the passive rural areas in Lebane which until two years ago produced only for household needs. The SE currently employs 22 people, out of which 11 are women with disabilities, 6 are single mothers and 2 are women older than 50. While not being able to provide subsidies, the municipality supports the social enterprise through the purchase of promo packages, which are shared as gifts from the municipality of Lebane. Radanska Ruza is recipient of a loan for investment and funds for working capital provided by the Erste Bank Step by Step program. It plans to expand their business by purchasing coolers, vehicles etc.

*Optimist Bosliegrad*⁶² is a CSO that delivers a programme for economic empowerment of Roma families. It successfully supported 43 families in Bosilegrad together with local authorities and donors; providing them with 80,000 EUR in land, greenhouses, irrigation systems, seeds, and expertise to allow them to successfully grow strawberries. Optimist Bosilegrad has guaranteed the purchase of the entire subsequent harvest. It provided the beneficiaries with a total income of 123,000 EUR. This cooperation has grown in skill, to the point where Optimist Bosilegrad built a processing plant for fruit and vegetables. The resulting operation employs 3 women over 50 years of age from vulnerable groups and provides profit sufficient to finance some of the operations of the CSO itself.

5. GAP ANALYSIS AND NEEDS ASSESSMENT

5.1. Macro-social factors determining the sector

Serbia faces a multitude of problems rooted in its recent history. The transition from its socialist economy into a model which supports integration into the wider world economy was disrupted by the global economic crisis of 2009. The level of entrepreneurial activity is low and the government and public sector organisations dominate the economy. Social enterprises point out that the context which is unfavourable for SMEs is even more debilitating to their survival and growth. Low levels of employment and relatively high long-term unemployment, particularly amongst the vulnerable groups have been somewhat addressed with labour market measures but they are insufficient as the welfare system remains weak. The EU integration process is expected to improve the overall economic and social context and policies.

The existing environment tolerates rather than it encourages the development of social entrepreneurship. Although well intentioned, the majority of government activities and policies, which perhaps on paper are targeted at the SE sector, are in fact targeted at PwDs given that they are the only organisations currently legally recognised as SEs; even though the majority of the social economy players are involved in other activities. There is little institutional understanding of the SE sector among the key designated institutions and even less engagement. The topic is on the margins of the political agenda. In the public discourse, it is mostly seen from the social policies point of view and not as a cross-sector theme. Thus, it is almost invisible to public policies related to entrepreneurship and sustainable development. SEs have reported challenges with an outdated legislation in many economic sectors which restrict innovation in their entrepreneurial activities and creates legislative barriers. While the Law on public procurement includes the social criteria as an added value in the evaluation of tenders, the legislation on inclusive social contracting is yet to be adopted in line with the EU Directive 2014/24.

Positive trends such as the introduction of social cooperatives in the law on cooperatives are to be noted. Nevertheless, they have not been further recognised and included in any support measures and policies. While SE have had impact and demonstrated the significant potential beyond the labour market inclusion of vulnerable groups, the narrow legal definition in the draft versions of the law on social

⁶² <http://www.optimist.org.rs/socijalno%20preduzetnistvo.html>

entrepreneurship fails to recognise their potential and does not support the growth of social entrepreneurship as a way of driving the broader sustainable development agenda. The proposed definition also fails to recognise the different legal forms under which SE operate. This raises concerns among the stakeholders that the law will not benefit them; that it will be used to create new, mostly artificial structures rather than promote and stimulate the existing spectrum of social enterprises. Furthermore, due to concerns of potential misuse, the existing drafting efforts are inclined more towards regulation and control of the sector rather than enabling it. There is an apparent need for building trust between the policy authorities and the SE actors in order to develop enabling long-term policies on social entrepreneurship.

As a result, social enterprises and support organisations have been advocating for the adoption of a national strategy on social entrepreneurship and piloting support measures prior to introducing a targeted law on SE. Nevertheless, a supportive legal framework is one of the crucial tool to develop a supportive eco-system for SE. The key challenges in defining social enterprises remains; regardless of which policy instruments are selected. As indicated in the EU mapping study by European Social Enterprise Law Association (ESELA), the lack of legal recognition limits governments in introducing targeted support and incentives for SE and is thus inhibiting their development⁶³. It also limits the potential for systematically monitoring the trends, the visibility and the building of specific SE identity.

Policies to support the development of the social enterprise sector are being drafted and are expected to be adopted in 2018. The existence of organisations such as SIPRU which operates on the level of the Government can play a significant role in supporting social enterprise development. Previous research, including the EBRD funded regional mapping survey by NESsT, as well as the work of SENS and the Coalition, has built an initial database of SEs active in Serbia. Its findings can be used to help design a coherent policy approach to SE support. It is important that all policies recognise the same three key aspects; as in other Balkan countries; 1) the potential scope of impact of social economy beyond labour market and social welfare; 2) cross-cutting character of SE across the sectors of economy, labour, environment, agriculture etc.; and 3) the need for horizontally integrated legislation to properly recognise, promote and boost the development of SE rather than the perception that it is designed to control and over-regulate SE.

5.2. Access to finance

Access to finance has been identified as the biggest challenge for the social enterprises in Serbia. Although the SE sector in Serbia has existed for a number of years and shows signs of real promise, many of its component organisations are young and financially and technically unprepared for sustainable growth. Grants are the main component of the start-up capital for all organisations, but access to debt or equity financing is challenging for many SEs as these organisations are not prepared for commercial realities (inexperienced management, lack of assets to back up debt financing and the general lack repayment capacity). 40% of the surveyed SEs do not have available collateral while additional 20% are not willing to pledge it against a loan. Grant and/or subsidy funding is clearly the preferred form of early stage funding for SEs; some of which may be better utilised to fund the development of feasibility analysis and commercial viable business plans. Grant dependency is mostly evident among the SEs functioning as associations which is partly due to the limiting legal provisions on the economic activities of the associations.

Nevertheless, unlike the other countries in the Western Balkans region, there is an increased number of SEs in Serbia that are willing and able to absorb hybrid and loan funding (over half of the surveyed SEs). A second round of funding would ideally consist of structured low interest debt financing with either extended grace periods of a portion of forgivable debt. A public private partnerships model for impact

⁶³ Social Enterprise in Europe: Developing legal systems which support social enterprise growth, Prepared by Bates Wells & Braithwaite London LLP on behalf of ESELA © European Social Enterprise Law Association, October 2015

investment may represent an alternative to debt. Their repayment capacity is still low and the vast majority would opt for monthly repayments of below 500 EUR (with half of them below 250 EUR).

Even though there is a concern of declining grant funding, most of the existing SEs have identified a financing gap between the start-up phase funding (usually grants) and scale-up phase funding (over 150,000 EUR) and a further lack of financial instruments in the 30-100,000 EUR scale. The recommended financial offer for SEs at different stages of development includes: 1) grant as initial start-up funding accompanied with technical assistance; 2) mixed funding of grant and loan in ranges 30,000 - 50,000 EUR in the validation stage to full market integration and 3) loans, impact investments and other commercially viable financing instruments.

The SE financing market is more vibrant in Serbia compared to the other countries with pioneering efforts of Erste Bank, UniCredit, and other regional and domestic players. However, despite the success of those initiatives, there remains a lack of tailored start-up and growth funding for SE. Grants available to SE/CSOs are project-bound and dependent on foreign donor priorities, whereas the Public grant-schemes only target organisations working with PwD or job creation. The social market investors have just entered the market and are yet to tailor their offer to the needs of the existing Serbian SEs. Debt financing is expensive and is inaccessible for the majority of SE organisations. Their size and scale make them unattractive for most of the commercial banks. Due to the restrictive microfinance legal framework, microfinancing is mostly a non-available funding source. When available, their high interest rates, in part driven by the legal obligation to disburse funds via commercial banks, are out of reach for the existing SE. There is a lack of incentives for private institutions to do more on the topic of social entrepreneurship although a number of the larger companies are actively engaged.

5.3. Lack of relevant skills to access market

Endemic in the region, it appears that the SE sector shows a relative shortage of project management and sector-specific experience (planning, budgeting and process management) and a lack of business management skills/experience necessary to plan for and manage financial, legal, and marketing processes - identified by the OECD LEED⁶⁴ as key sets of skills critical for the SEs. It should be noted that multiple research projects into the sector as well as the SE funders and support organisations have recognised the SE leaders lack the financial and economic literacy necessary to build and run successful operations and that they need education and technical assistance. SEs often lack standardized and sound business model focused on sustainable market model; rather they still think in terms of projects. Many lack sufficient commitment to the sales, focus on established goals and set indicators they monitor.

To bridge the entrepreneurial skills gap and their strengthen management capacity, SEs require technical assistance. It requires that SEs have a full access to SME training and mentoring programs; whether governmental, CSR run or via donor partnership. This could be done more effectively if the relevant legislation and policies would be inclusive for social enterprises. Initiatives to bridge the skills gap within the SEs are ongoing through mentoring and training activities of organisations such as Smart Academy. Within its loan program, Erste Bank is also providing mentoring to their client SEs. The “Plantation for the future” program of Delta Foundation is providing capacity building by Delta Agrar staff and external experts to bridge the shortage of knowledge on agricultural production processes and standards.

SE have expressed a need for long-term expert support and mentoring rather than one-month training courses. They have also recognised the benefit of creating strategic partnerships with mainstream companies in specific aspects of their business such as branding, promotion etc. where they might lack knowledge.

⁶⁴ Boosting social entrepreneurship and social enterprise creation in Republic of Serbia, Local Economic and Employment Development (LEED) Programme of the Organisation for Economic Co-operation and Development and SIPRU, 2012

SE face challenges in accessing both the public and private sector market. As indicated above, public procurement procedures and policies are not conducive to support SE access to public and commercial markets. Consumers remain largely price-driven and socially responsible consumerism has not taken ground yet. There is lack of awareness about the concept of social entrepreneurship among the business sector. Beyond the CSR-related programs, companies lack flexible and SE-friendly policies in their regular business. Their usual requirements and contract conditions for suppliers are too rigid and do not suit the realities of SE.

5.4. Opportunities and key drivers boosting the development and scaling up social economy

In addition to legislative and financial barriers, the sector faces a number of structural gaps, not least of which is public scepticism and suspicion of social ownership, a legacy from the countries socialist heritage. Despite the numerous challenges, the potential for Serbian SE sector is significant. The number of CSOs seriously embarking on SE to sustain their missions and serve target groups is increasing. There is an existing local expertise which when properly connected into a holistic eco-system can support the development of the sector. Further political, financial and technical support is needed to use the momentum and boost the development of the sector.

There are a number of promising initiatives for public-business-CSO partnerships and collaboration (as led by organisations such as Smart Kolektiv) in addressing societal challenges and providing the financial, technical and know-how necessary to nurture social enterprises to sustainability. The business sector actors have been actively engaged in the Corporate Social Responsibility agenda, and in some cases have integrated the concept into their strategic business operations. International donors continue to play a major albeit reducing role, providing grant funding and technical support to the SE. As their counterparts in neighbouring countries, successful SE face real challenges in scaling up their service offerings, especially in terms of access to finance. Nevertheless, some SE are already considering exports and would benefit from financial support for the promotion and marketing on fairs and foreign markets.

The established SE networks are an important part of the infrastructure that can support the need for structured and effective coordination between the relevant key stakeholders. As expressed by the SEs, they would appreciate networks which would function on two levels where SEs can focus on the ground work, whereas the network leaders and support organisations would translate their needs into policy recommendations and would advocate in front of the authorities.

Social entrepreneurship has the potential to make a notable contribution to the Serbian economy through welfare services, rural development, building of social capital which will positively impact social cohesion and inclusions and of course through work integration. The improvements made through a wide ranging and ongoing institutional reforms is positively contributing to the environment for social entrepreneurship. However, until work is completed on legislative reform only organisations for people with disabilities enjoy legal recognition and have the support necessary to thrive. The other forms of legal entities working within the SE sector continue to face difficulties and limited opportunities.

6. CONCLUSIONS AND GENERAL POLICY RECOMMENDATIONS

Social enterprises in Serbia operate against a background of economic austerity, structural reforms, institutional reforms and notable cultural barriers. Even though the actors in the social economy face serious challenges related to legislation and access to markets, existing social enterprises have showed remarkable determination and resilience. While most of them are still in the start-up and validation stages of development, there is a growing number of SEs that are prepared to scale-up and are looking for commercially viable opportunities to grow their business. The domestic social investment market is

nascent and only targeted private grant and loan schemes have been piloted. Nevertheless, the development of the sector is hampered by the narrow public policy discourse with the focus being on the work integration of PwD and other vulnerable groups; which limits the potential of the sector. The EU can support the development of social economy in Serbia by providing much needed technical assistance as well as direct support in building a sustainable SE eco-system.

- **Legislative and policy framework**

The frameworks necessary to create, nurture and sustain an environment of social inclusion are being actively developed but yet the only legally recognised form of social enterprises are the company registered by or for the employment of PwDs. The other legal structures for social entrepreneurship are yet to be properly defined and recognised by the law; and subsequently face many challenges. SE should be higher ranked on the governmental and institutional agenda as part of their strategy for sustainable and equitable development. Policies on the SE sector should be embedded not only in the employment and social policies but also as part of economic development, environmental and sustainable agriculture agenda. Targeted SE policies are needed and should be built through wide consultations integrating local expertise and the experience of existing SE actors. Public procurement policies should be adapted to include social impact in the selection process. Despite the existence of SIPRU and its efforts, there is clearly a scope for vertical and horizontal integration of policies linked to social economy. It is recommended that SIPRU's scope should be expanded to negotiate with relevant responsible bodies and then oversee the implementation of agreed strategies.

These public policy stakeholders could benefit from further investment in technical assistances to develop their policy positions, procedures and human capacities that are a prerequisite for effective institutional support to social economy. Policy makers need to be exposed to relevant EU and regional experiences and best practices. The EU can play a crucial role in strengthening the Government's commitment to the principles of social entrepreneurship as developed by the EU's Social Business Initiative (SBI) as well as through technical assistance projects.

- **Access to finance**

Implemented by Erste Bank (on the basis of a guarantee agreement with the European Investment Fund) and supported by the EU programme for Employment and Social Innovation, "*Step by Step*" is a pilot financial facility specifically designed to address the needs of SE. This low-cost debt facility makes financing more accessible as well as provides access to training and mentoring support for start-ups, social enterprises, and civil society organisations.

The success of innovative programmes such as *Step by Step* could pave the way for structured long-term financing of the social economy; removing many of the bottlenecks experienced by social entrepreneurs until now. The implementation of a programme which should highlight the best practise learnt from *Step by Step* and adopt some impact investment project assessment criteria could help to gradually nurture the SE from their dependency to grant funding and help them to move towards sustainability.

On the strategic level, the SE funding community should increase coordination and develop funding approaches that engage with institutional stakeholders making them active participants in the funding criteria and therefore ensuring a vested interest in the success of the sector. In a coordinated way, the various actors should create funding opportunities that suit short- as well as long-term financing needs to the SEs in all stages of development.

Removing the obligation of micro finance organisations to disburse funds via commercial banks could potentially lower the cost of the financing and increase the uptake of the facilities; which could directly benefit some of the most disadvantaged members of the society.

Another alternative mechanism for finance support for SE is the concept of repayable grants. This 0% interest instrument where the principal is repaid in tranches on the basis of reached milestones, typically affect to the financial performance (positive cashflow) and social impact (i.e. the number of

disadvantaged people recruited or trained). The term ‘Grant’ is used purely from an accounting and taxation point of view.

Given the proven appetite of private sector organisations to engage with the social enterprise sector, the creation of local/national social investment funds managed by successful business practitioners, could be encouraged through fiscal measures designed to financially motivate companies to donate portions of their corporate social responsibility budgets into these funds. Municipalities should be encouraged to participate in these initiatives by making vacant public property in exchange of low rents.

- **Other support infrastructure**

Besides from the need for financing solutions, 42.5% of the social enterprises expressed a need for technical support. While several support organisations and private companies provide capacity building and mentoring programs, further support is needed to: a) sustain and expand the existing efforts and b) decentralise the capacity building and support services to better serve SEs in smaller towns and rural areas. The EU could provide valuable input through direct support to intermediary organisations as well as encourage public-private-CSO partnerships in building SE support infrastructure all throughout the country. The potential of existing SME infrastructures should be further explored.

Recognition schemes for SE could provide the much needed visibility and awareness about social enterprises; especially among consumers and the business sector. These schemes are more efficient when linked to the public policy/legislative recognition and should be promoted as integral part of the SE policies.

Finally, the existing networks of social enterprises and SE support organisations are important segments of the support infrastructure. They should be further supported to take on equal “sit on the table” as key counterparts to the authorities and the EU in the development of public policies and the promotion of the social enterprise sector.

6.1. Priority sectors for country level intervention

The priorities in each area of support below are listed in such a way as to show the urgency and the sequencing of the needed interventions. It emerges that the most urgent support needed is within the **policy, legal and institutional framework** and the **coordination mechanism** which needs to be established. Further support is needed in **capacity building** through different approaches and modalities.

In parallel the need for increased and more streamlined **funding** will be necessary. With regards to this the coordination among various stakeholders and funding institutions should be established to maximise the impact and better prioritisation.

The table below shows the areas of intervention, priority areas and possible modality of support.

Areas of intervention in order of importance	What needs to be covered - priority areas	Modalities of support
<u>First area of intervention:</u> Policy, legal and institutional framework	<i>Priority area 1:</i> Revision of national policies and public procurement procedures to broaden scope and/or understanding of SE. <i>Priority area 2:</i> Capacity building of policy makers based on relevant EU and regional	Bilateral envelopes (technical assistance, grants, CFP, twinning,

	<p>experiences and best practices.</p> <p><i>Priority area 3: Help in creating fiscal measures designed to financially motivate companies to donate portions of their CSR budgets into SE funds.</i></p>	<p>direct award etc.)</p>
<p><u>Second area of intervention:</u></p> <p>Skills and access to market</p>	<p><i>Priority area 1: Capacity building</i></p> <ul style="list-style-type: none"> • Develop support measures for intermediary organizations. • Enable SEs to have full access to SME training and mentoring programs. • Create long term capacity building or mentoring support to SEs, rather than one-month trainings. • Decentralize the capacity building and support services to better serve SEs in smaller towns and rural areas. • Further capacity support to existing networks. • Support to Municipalities in boosting SE sector by making vacant public property in exchange for low rents. 	<p>Bilateral envelopes (technical assistance, grants, CFP, twinning, direct award etc.)</p> <p>Regional programmes (technical assistance, grants, etc.)</p>
<p><u>Third are of intervention</u></p> <p>Coordination</p>	<p><i>Priority area 1: Coordination among SE actors and state institution in raising recognition of the SE sector.</i></p> <p><i>Priority area 2: Establish partnerships</i></p> <ul style="list-style-type: none"> • Encourage creating strategic partnerships with mainstream companies in specific aspects of their business such as branding, promotion. • Encourage further public-private-CSO partnerships in building SE support infrastructure all throughout the country. 	<p>Bilateral envelopes (technical assistance, grants, CFP, twinning, direct award etc.)</p> <p>Regional programmes (technical assistance, grants, etc.)</p>

<p><u>Fourth area of intervention:</u></p> <p>Funding</p>	<p><i>Priority area 1: Coordination related to funding</i></p> <ul style="list-style-type: none"> • Coordination of various actors to create funding opportunities that suit short- as well as long-term financing needs of the SEs in all stages of development. <p><i>Priority area 2: Funding</i></p> <ul style="list-style-type: none"> • Introduce the concept of repayable grants. • Support the creation of local/national social investment funds managed by successful business practitioners. • Remove the obligation of micro finance organisations to disburse funds via commercial banks. 	<p>Bilateral envelopes (technical assistance, grants, CfP, twinning, direct award etc.)</p> <p>Other support schemes (indirect management)</p>

Should you need information on the suggested horizontal or regional approach see the final report for this contract (contract details on pg. 2 of this report), a very general overview is provided here:

- The analysis of SE in the Eastern Neighbourhood and in the Western Balkan countries shows that even though there are some differences, the **approach in prioritising the support in both regions could be the same.**
- Due to a **big number of stakeholders, fragmented support and lack of coordination**, it is of a paramount importance that the European Commission takes the lead in setting the **approach**, the **priorities** and in **defining the roles and responsibilities** for **EU horizontal approach**.
- When examining the needs in various countries the **current support** in terms of the format and amounts **dedicated to SE might not be adequate** or sufficient anymore.
- The analysis showed that **some areas should be covered on a country-by-country basis**, but **many priorities could be addressed through regional programmes**

7. ANNEXES

7.1. Annex 1 - Questionnaire survey

I. Questionnaire for the Delegations of the EU

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. EUDEL Country:
5. Position:
 1. What is the key responsibility of your Section? What programmes/project you carry out?
 2. Is your Section aware of the concept of social economy? If yes, can you provide your definition and/or understanding of the social economy and social enterprise concept?
 3. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate? Under whose jurisdiction social enterprises fill in?
 4. Based on your opinion, is there an enabling environment for social enterprise development in the country? Were there any changes in the perception in the past years?
 5. Does your Section have a social enterprise strategy/action plan? What are the key elements, if exist.
 6. What type of programmes or facility EUDEL provide to the Civil Society Organizations in the country? Does your Section contribute to these programmes financially or otherwise?
 7. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to women, youth, civil society? Could they be suitable for social enterprises as well?
 8. What type of capacity support exist in the country? Networks, HUBs, network of impact/patient investors, incubators, start-up competitions, mentoring, etc. Are there any synergies with existing support programs within the country?
 9. Does your Section work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?
 10. Are you aware of any special development programme that contribute to the competitiveness or sustainability of social enterprises? Please explain if positive.
 11. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover? Are you aware of any assessment of the size of the sector? If not, what do you think is the reason?
 12. What are in your opinion limitations or challenges preventing social enterprises from obtaining financing?

II. Questionnaire for the Government institutions

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Government Authority:
5. Position:

B. REGULATORY FRAMEWORK

1. What is the key responsibility of your Government Authority?
2. Is there a law on social economy in the country? Or Strategy or Action plan? If not, under what regulatory framework social enterprises operate?
3. What kind of support social enterprises may receive from the Government bodies (such as that grants, subsidies, incentives, TA). Are there any incentives for companies to employ marginalized individuals?
4. Based on your opinion, is there an enabling environment for social enterprise development in your country? Were there any changes in the perception in the past years?
5. Please assess the importance of the topic to the political and economic agenda of the country.

C. SPECIFIC SUPPORT TO SOCIAL ENTERPRISES

6. Is your Government Authority aware of the concept of social economy? If yes, can you provide your definition of the social economy and social enterprise concept?
7. Does your Government Authority have a social enterprise strategy/action plan? What are the key elements, if exist.
8. Do you support social enterprises directly or indirectly? If yes, what type of support your Government Authority provide: technical assistance, capacity building, financial, access to market, access to capital. Please provide details of such support; range of support, conditions, years of support, type of support (grant, investment, etc...)
9. Are there any support schemes that might be suitable for the needs of the social economy actors? For example, support to micro, small and medium entrepreneurs? Could they be suitable for social enterprises as well?

D. OTHER MAIN STAKEHOLDERS

10. Who are the main stakeholders in the social enterprise eco-system in the country? Are there any support organizations, what type of support they provide, do you cooperate with them in any way?
11. Who are the main donor to the social enterprises (this may include national or foreign foundations, government grant schemes, EU funding, impact investors, individual family support, diaspora, angel investors network, etc.).
12. What are your Government Authority plans for the further social economy development?

E. EU SUPPORT TO SOCIAL ENTERPRISES

13. Are there any EU programmes or facilities that benefits social enterprises in your country? Please provide details, if positive. Does your Government Authority contribute to that programmes financially or otherwise?
14. Does your Government Authority work with foreign partners implementing any social enterprise programme(s)? If not, do you think such partnership might be established?

F. STATE OF PLAY OF SOCIAL ECONOMY

15. Based on your experience what is the nature and size of the social economy sector in the country? What are the key sectors/industries they cover?

16. How would you assess the level of development of social enterprise sector in general in the country; start-up stage, validation stage, scaling stage?
17. What are the key challenges social enterprises face in the country?
18. What type of support social enterprises need? How do they fill it at the moment?
19. Please provide few examples of good practice of social enterprises in the country?

III. Questionnaire for the funders and supporters

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

1. Name:
2. Email address:
3. Telephone number:
4. Company name:
5. Position:

B. SUPPORT TO SOCIAL ENTERPRISES – SUPPLY SIDE

1. What type of support you provide to social enterprises? Please explain what products or services you offer?
2. What requirements you have in order to provide support to social enterprises?
3. What type of financing instruments you provide do social enterprises? Please explain the range of support, type of support (grant, loan, equity), typical amount, length of the support, additional capacity building attached to the financing, etc.
4. What products or services you offer to SMEs? Could they be suitable for social enterprises, if exist?
5. Do you have any future plans to create a more enabling environment for social economy development in the country or region? Who do you think should be responsible for social economy development within existing Government structure?
6. Would you consider partnering with similar organizations in order to provide additional support? Are you aware of any other support to social enterprises in the country/region?
7. How do you monitor and evaluate the progress of your support/investment?

C. SOCIAL ENTERPRISE NEEDS - DEMAND SIDE

8. What type of financing needs social enterprises usually have? What is the purpose of the support, typical amount they need, type of support they require?
9. What type of business advices, technical assistance and/or capacity building social enterprises typically have. Please explain.
10. What do you see as the key challenges social enterprises face when it comes to financing?
11. What do you see as the key challenges social enterprises face when it comes to capacity support?
12. What do you see as the key challenges social enterprises face when it comes to management and governing?
13. What are the key challenging in accessing the market for social enterprises?

IV. Questionnaire for the social enterprises

Note: Revised version of the questions was used for consultation meetings with the SEs

This survey is being carried out by AETS on behalf of the European Commission. It is designed to gather information about the social enterprise ecosystem in your country. The information you provide will be confidential and used solely for the purposes of analysis. Please answer the following questions.

A. PERSONAL DETAILS OF RESPONDENT

Name:

Email address:

Telephone number:

Social Enterprise:

Position:

B. SOCIAL ENTERPRISE INFORMATION

1. Please explain the mission of your organization/social enterprise?
2. What is your legal status of your social enterprise? How are you registered and under what law? Why did you choose that legal entity? Does it provide any benefits/subsidies?
3. What are the main social issues your organization is working on? Who are your main beneficiaries and/or clients?
4. What was the reason of establishing social enterprise?
5. What products/services your social enterprise is offering to the clients? Who are your main competitors? Who are target customers of your social enterprise?
6. How many people work in your social enterprise? Please specify how many comes from the beneficiary group, how many are full time, part time, volunteers?

C. FINANCIAL INFORMATION

7. What is your annual turnover? Did you have any profit in 2016, or years before? How do you distribute profit, if any?
8. Please evaluate the current financial status of your social enterprise:
 - a. We are losing money
 - b. We are breaking even
 - c. We are generating a profit (surplus of income beyond costs)
9. What tax you need to pay for the commercial activities within existing legal framework?
10. How did you get seed funding for your social enterprise? Please specify the source of funding:
 - a. grant (domestic or international donors)
 - b. own funds
 - c. loan from a bank
 - d. loan guarantee
 - e. support from government funding
 - f. impact investment
 - g. angel investment
 - h. equity
 - i. diaspora
 - j. other (please specify)
11. Please specify the purpose of funding and specify the amount provided including terms of funding:
 - a. operating cost
 - b. cost for the project activities
 - c. employment
 - d. start-up cost
 - e. other
12. Did you get sufficient amount of money to start your business? If not, how did you cover the rest?
13. What type and amount of funding your organization need at this stage of social enterprise development?

D. HUMAN RESOURCES

14. Did you have the necessary skills and experience to start your operations? If not, how did you obtain it? What type of support was provided?
15. What type of expertise and skills your social enterprise currently have? Do you know where you can obtain those?
16. Did you use any consulting support, capacity support, technical assistance, and networking?
17. Would you need additional consulting/mentoring/advisory support in the future? For what purposes? What specific skills your employees need?

E. OPPORTUNITIES WITHIN THE SECTOR

18. Is there an enabling environment for social enterprise development in your country?
19. Did you benefit from a membership in any social enterprise network? If yes, please specify the name of the network and type of support. What would you expect from such a network, what kind of peer support is most needed?
20. Are there any special development programs in your country supporting social enterprises?
21. Is there available EU support infrastructure for social enterprise development in your county?
22. Based on your experience what are the main challenges of social economy sector in your country.
23. Based on your experience what are the key opportunities for social economy in your country.
24. Please estimate the size of the social economy sector. Can you list some of the social enterprises in the country, giving us examples?

7.2. Annex 2 - List of Interviews

Stakeholders are divided into three main groups:

- Group 1: Representative of the public institutions
- Group 2: Representatives of support organisations and funders
- Group 3: Social entrepreneurs

Note: With some of the stakeholders were consulted over meetings and were not subject of full interview (as a follow-up of previous studies)

N	Organization	Representative Name Surname	Position
Group 1			
1	Ministry of Labour, Employment, Veterans and Social Affairs	Ms. Bojana Stanic	A.C. Assistant Minister
		Ms. Sanja Gavranovic	Head of the unit for normative, governance and supervisory affairs
2	Office for cooperation with civil society (OCCS)	Ms. Tijana Stojiljković Rolovic	Independent Adviser for communication planning of and promotional activities
3	Government of R.S. Social Inclusion and Poverty Reduction Unit (SIPRU)	Ms. Jelena Milovanovic	Deputy Team Manager Youth Employment Initiative
Group 2			
1	Delegation of the European Union to the Republic of Serbia	Mr. Dimitrije Stankovic	Economic Officer Programme Manager for EU Policies – Human Resources' Development, Social inclusion and Minorities – Operations I

		Ms. Mirjana Maksimovic	
2	Smart Kolektiv	Ms. Ivana Stancic Mr. Neven Marinovic	Program Manager Director
3	Coalition for the Development of Social Entrepreneurship Serbia SeConS	Prof. Slobodan Cvejic, PhD	Chairperson of the Coalition
4	Initiative for Development and Cooperation (IDC)	Mr. Igor Kojčić	Project Officer
5	Delta Foundation Delta Holding	Ms. Nadica Milanovic Ms. Tijana Koprivica	Senior Project Manager Chief Business Sustainability Officer
6	Erste Bank Serbia	Mr. Sreten Vranic	Head of Social Banking Department
7	Chamber of Commerce and Industry of Serbia	Ms. Milica Pavic	Senior Advisor
8	Secretariat of Global Compact Network Serbia (Chamber of Commerce)	Ms. Sanja Bunic	Head of Center for quality and social responsibility
Group 3 – Consultations with social enterprises			
1	Nasa kuca	Ms. Anica Spasov	President

2	Daj daj	Ms. Sonja Dakić	Co-Owner
3	ZaDruga	Mr. Igor Kojčić	Project Officer
4	Kobayagi	Ms. Tijana Jovanović Petrović	Founder and Manager

7.3. Annex 3 – Bibliography

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