

Serbia: the long-awaited Law on Social Entrepreneurship is now on its way

ESPN Flash Report 2022/29

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JUNE 2022

In February 2022, after more than a decade of preparation, the Serbian Parliament adopted the Law on Social Entrepreneurship. The law will come into force in November 2022, except for the Council for Social Entrepreneurship, which has already been established (on 28 May 2022). The law has been welcomed by a vast number of social enterprises established in the past 20 years, but without proper institutional recognition. It officially acknowledges the potential of social enterprises and better supports them in their task of tackling social, economic and environmental challenges.

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Description

Historically, the development of social enterprises in Serbia has followed the transition paths of the socio-economic system. The agricultural cooperatives were the earliest form of social enterprises, introduced in 1895. After World War II, the “work integration social enterprises” (hereafter WISEs) were another dominant form of social enterprises. A new phase began in 2000 when Serbia launched the application process for EU membership, and pre-accession funds were directed to strengthening civil society organisations.

The term “social enterprise” was introduced officially for the first time in the Law on Occupational Rehabilitation and Employment of People with Disabilities (2009). The definition applied only to the WISEs registered as business entities which employ at least one person with a disability and reinvest part of the profit to improve the working conditions of people with a disability. Presently the most frequent type of social enterprises are citizens’ associations. Under the Law on Associations (law of 2011, amended in 2018), an association is a non-profit entity which is not entitled to distribute profit. The number of such associations has increased considerably in the last ten years: from 20,000 in 2012 (excluding sport) to 36,071 in March 2022 (most recent data available). The majority of the associations are micro (less than 10 employees) and small size organisations (less than 50 employees). In 2018 (most recent data available), they employed 7,541 persons, which was 0.3% of the total number of registered employees in

Serbia. As the number of social enterprises gradually grew, appropriate legal regulations in this area were required. In 2012 the Ministry of Labour, Employment, Veterans and Social Policies (hereafter MoLEVSP) prepared a first draft of the Law on social entrepreneurship that was widely criticised by civil society organisations. The main criticism concerned the proposed criterion for registration of a social enterprise, which stated that each entity should employ at least five employees, of which at least 80% should be from vulnerable groups (long-term unemployed, single parents, immigrants, victims of trafficking, etc.), or at least 60% should be people with a disability. The preparation of a new draft started in 2016 with support from the civil sector. The law was finally adopted on 7 February 2022; it will be applicable nine months after its publication, i.e. as of 7 November 2022.

The adopted law defines the concept of social entrepreneurship and sets out the criteria for registering a social enterprise, but not the legal status of the enterprise. The three imposed operational restrictions are expected to ensure primacy of the social goals. The first one limits distribution of profits for all legal business entities: at least 50% of the realised profit has to be reinvested or donated. The second one, the “assets lock”, prevents enterprises distributing assets to stakeholders, and is imposed on all types of social enterprises. The third one is the inclusive governance obligation which assumes equal participation of all stakeholders in decision making processes.

The Council for Social Entrepreneurship was established on 28 May 2022 (Article 20 of the law). Its most important role will

be the drafting of the Programme for the development of social entrepreneurship for a period of five years. The purpose of the programme is to create an environment that will support the sustainable development of social enterprises, with an emphasis on the less developed regions. The Council should employ evidence-based policy built on positive national and international experiences and facilitate access to the EU networks and relevant policy documents. The "European Commission Action plan for the social economy 2021-2030" provides a series of actions to create a favourable context for social enterprises.

The MoLEVSP will keep a Register of social enterprises that violate the rules, while the enterprises have to submit a report, every two years, on reaching the social goal targets.

Outlook and commentary

The expected effects, outlined in the draft proposal, are improved coverage of the needs of the vulnerable population, sustainable development of the least developed regions, and introduction of innovative activities. Before the law was adopted, the main obstacles to further development were limited financial access and low recognition of the roles of social enterprises. The 2017 study conducted by the NGO Civic Initiatives shows that only 6% of the registered associations are registered with the Business Register Agency (this registration

is not compulsory – an association can be funded only by donations or humanitarian assistance, and have no economic activities), while the proportion of enterprises with an annual budget above RSD 177,450 (€1,000) was as low as 37%. The low level of recognition is evidenced in the 2019 study by the same NGO, as 79% of the citizens interviewed said they knew nothing about the activities of civil society organisations. Notable geographical disparities in the distribution of social enterprises indicate uneven institutional support across the regions. The City of Belgrade established the Centre for social entrepreneurship in 2013, while the Assembly of Vojvodina Province established the Council for social entrepreneurship in 2018. These policies had an impact on the regional distribution: in 2017, 77% of associations were located in the City of Belgrade and in the Vojvodina Province regions, while only 9.6% were in the least developed Southern and Eastern Serbia region, and 13.4% in the Sumadija and Western Serbia region.

Assurance of a long-term perspective will require improved access to financial resources. Presently the Law on Public Procurement allows reserved contracts for social enterprises to provide a very limited number of services related to health, and to social and cultural activities. The 2021 European Commission guide "Buying Social" outlines tools and measures for socially responsible public procurement that can be adapted to the Serbian national legislation, to expand financial inclusion of social enterprises.

Further reading

National Assembly of R. of Serbia (2022), [Law on Social Entrepreneurship](#)

Civic Initiatives (2017), [Economic activities of the civil society organisations](#)

Civic Initiatives (2019), [CSO Sector in Serbia](#)

European Commission (2021), [Building an economy that works for people: an action plan for the social economy](#)

European Commission (2021), [Buying Social - a guide to taking account of social considerations in public procurement \(2nd edition\)](#)

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Quoting this report: Pejin Stokić, L., (2022), *Serbia: the long-awaited Law on Social Entrepreneurship is now on its way*, ESPN Flash Report 2022/29, European Social Policy Network (ESPN), Brussels: European Commission.