



Cooperatives and Social Enterprises in Europe and in Transitional Contexts

Edited by Slobodan Cvejić



European Research Institute on Cooperative and Social Enterprises

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Slobodan Cvejić**

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INTRODUCTION

The conference *Cooperatives and Social Enterprises in Europe and in Transitional Contexts* was organized within the EU FP7 Marie Curie project RECOSET at University of Belgrade, Faculty of Philosophy, in June 2012.

The aim of the conference was to advance scientific and professional discussion on role, limitations and potentials of social enterprises and social cooperatives in post-transitional countries, with special emphasis on role, limitations and potentials of this sector in Serbia. Thanks to this conference, the interested scientific public, students, policy makers and social entrepreneurs got an opportunity to compare experiences from different countries with diverse historical and institutional heritage, as well as to hear opinion of some of the most competent European and Serbian researchers in this field.

Being subsumed to the wider concept of social economy, cooperatives and social enterprises share some basic characteristics. They make set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote, or at all events take place through democratic and participative decision-making processes. The social economy also includes private, formally-organised organisations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them. (Barea, J, Monzon, J.L. 2006. *Manual for Drawing Up the Satellite Accounts of Companies in the Social Economy*. Brussels: European Commission).

The key postulate of the conference was socially sustainable development – no society could be considered as successful and righteous if a large number of its members were socially excluded. This is the reason to search for innovative ways to establish balanced social and economic development.

This book presents the selection of papers produced under the project and for the conference in order to provide discussion on comparative advantages/obstacles for development of social enterprises and cooperatives as actors in national economies and as generators of solidarity and social safety.

Belgrade, 2013

prof dr Slobodan Cvejic

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IRISH SOCIAL ENTERPRISES AND THEIR CONTRIBUTION TO RURAL SERVICE DELIVERY

Abstract

The paper begins with a brief overview of the range of social enterprises found across the Irish landscape. It reviews some of the research which has been undertaken to date on the sector and pays a particular focus on statutory support measures which have been developed to stimulate and supporting social enterprises.

Particular attention is focused on social enterprises engaged in the delivery of public services. The paper explores some of the strengths, and in particular, the shortfalls of these statutory measures and concludes by highlighting some of the issues currently facing the sector.

Key words: *social enterprises, Ireland, public services, rural area*

Background

In recent times the role of the Irish voluntary and community sector in tackling local social exclusion has been reinforced at both national and European levels through various policy and support measures. This merely reflects a long tradition of state involvement with the community and voluntary sector. Donoghue (2002) and Acheson *et al.* (2004) have recounted the historical relationship between the state and the nonprofit and voluntary sector. While Donoghue 2002; Mullins *et al.* 2003 have highlighted the involvement by the state in a range of areas including community development, employment and health care services.

The state has traditionally viewed the role of the community and voluntary sector as a means of addressing social exclusion and long-term unemployment. The publication of the government *White Paper, A Framework for Supporting Voluntary Activity and Developing the Relationship Between the State and the Community & Voluntary Sector* (2000), has reinforced this view; it describes the sector as "essential partners in social and economic development (...) pioneering new approaches to service provision and local and community development" (A Framework for Supporting Voluntary Activity, 2000).

The perceived role of the community and voluntary sector in tackling social and economic exclusion has found expression in a number of national programmes and initiatives for local social and economic development, many of which have created the conditions for the growth of social enterprises. Consequently, many Irish voluntary and community development organisations have come to rely on statutory support including labour market measures to

resource their work. O'Hara and O'Shaughnessy (2005) have noted that one of the main impetus for the development of the social economy in the 1990s came from local and community development initiatives stimulated by public policy responses to high unemployment and urban and rural disadvantage and argue that the social enterprises that emerged at this time exhibited a significant reliance on labour market integration programmes developed to tackle long-term unemployment.

Similarly, Prizeman and McGee (2009 and Prizeman and Crossan (2011) have reported (from their mapping exercise of social entrepreneurial activity) that over half of social entrepreneurial enterprises received over 50 per cent of their funding from 2 statutory grants (Prizeman and Crossan 2011) and that many have continue to be "public service delivery agents for the State".

Objective of Paper

The paper begins with a brief overview of the range of social enterprises found across the Irish landscape. It reviews some of the research which has been undertaken to date on the sector and pays a particular focus on statutory support measures which have been developed to stimulate and supporting social enterprises. Particular attention is focussed on social enterprises engaged in the delivery of public services. The paper explores some of the strengths, and in particular, the shortfalls of these statutory measures and concludes by highlighting some of the issues currently facing the sector.

Categories of Irish Social Enterprises

One of the first attempts to categorise Irish social enterprises has been undertaken by O'Hara (2001). Irish social enterprises were said to adopt a variety of legal structures including the company structure limited by guarantee or share, industrial and provident societies, co-operatives or trusts. O'Hara (2001) developed five broad categories of Irish social enterprises on the basis of their objectives, activities and operation. These categories are as follows: (a) work integration social enterprises, associated with insertion of members of excluded groups into the labour force; (b) credit unions; (c) social enterprises providing personal and proximity services; (d) local development organisations; (e) social enterprises concerned with housing provision (O'Hara, 2001).

However it is important to note that there is a long tradition of the social economy in Ireland as reflected in Table 1. The contribution of the sector in the current economic crisis is reflected in the contribution of the Irish agricultural co-operatives¹ to the national economy. The strength of the agricultural co-op sector is apparent from figures recently published by the Irish Co-operative Organisation Society (ICOS)². Total sectoral turnover for 2008³ increased slightly to €12.7 billion from €12.6 billion in 2007. In particular, the dairy/multipurpose co-operatives have grown in strength over the past century and are contributing significantly to the development of an export industry. Irish agri-sector exports totalled approximately €8.9 billion

¹ The agriculture category includes both productive and distributive societies in dairying, meat processing, livestock sales, livestock breeding, egg and poultry, horticulture, fishing, farm relief services and forestry as well as turf co-ops.

² ICOS is a co-operative umbrella organisation.

³ In the co-operative dairy and mart societies.

in 2008 (DAFF, 2010). This represents a contribution to gross domestic product of 6.6% in 2007 (DAFF, 2009).⁴

Table 1: Co-operatives by type, Republic of Ireland, 2010⁵

Co-op by type	Number
Agriculture, forestry, fishing & food	319
Credit unions	405 ⁶
Housing	50
Group Water Schemes	367
Promotion & Development	145
Other	182
Total	1,468

Similarly, the strength of the Credit Union movement which is one of the oldest and strongest co-operative component of the Irish social economy is reflected in the fact that The Irish League of Credit Unions has 395 affiliated credit unions in the Republic of Ireland serving 2.65 million members, with savings of €10.7b and loans of €5.03b (ILCU, 2011). ILCU-affiliated credit unions in the Republic of Ireland have total assets of €12.4b (ILCU, 2011) and an estimated 10,000 volunteers and 3,000 staff.⁷

A review of recent research on Ireland's Social Enterprise and Social Entrepreneurial Activity

In 1996, ADM (Area Development Management) published the findings of a study carried out on community businesses within the social economy in Ireland. A survey was undertaken of a sample of "social enterprises" drawn from both rural and urban areas. Findings highlighted a high degree of dependence on public funding. Fifty per cent of social enterprises obtained at least 75% of their income from the public sector, and only 22% generated at least 75% of their income from trading. The survey also revealed that 73% of workers in social enterprises were previously unemployed and women constituted 48% of "management employees". Over 65% of the social enterprises surveyed indicated a level of dissatisfaction with support from the public and private sectors. The survey concluded that: social enterprises have shown a capacity to deliver targeted local development; social enterprises offer an important

⁴ This includes those dairy/multipurpose co-operatives which have taken a Public Limited Company (PLC) route to raise finance for this growth.

⁵ Sources: Registry of Friendly Societies 2011, Irish League of Credit Unions (ILCU) 2011.

⁶ 395 affiliated to the Irish League of Credit Unions (ILCU) and 11 affiliated to the Credit Union Development Association (CUDA), with overlapping membership of one credit union.

⁷ A fuller discussion will be available in a forthcoming publication: Carroll, B., McCarthy, O. and O' Shaughnessy, M. 2012) Co-operatives – What relevance now? in Doyle, G. And Lalor, T., (eds) (2012) Perspectives on social enterprise in Ireland, Contemporary issues and developments, Oak tree Press, Dublin, Ireland.

third sector approach to tackling social exclusion; direct and indirect job creation should be a by-product of social enterprise activity, not its main focus (Mallaghan, Hart, MacFarlane & Connolly, 1996).

In April, 2004, O' Shaughnessy and Fenton administered an electronic survey of 455 social enterprises and a postal survey of 350 social enterprises 2004. A total of 256 (32%) social enterprises responded to the survey. Of those social enterprises that returned a completed questionnaire, 50% described themselves as rural, 47% classified themselves as urban and 3% of the respondents did not answer this question. Either a manager or a director in almost 65% of all social enterprises completed the survey. It is therefore important to stress that it is the respondent's perspective on the social enterprise that informs us about these socio-economic initiatives. The findings from this survey revealed that fifty two percent (52%) of all social enterprises that responded to the survey were founded during the decade 1990-2000. When asked to suggest the primary reasons for establishing the social enterprise, an overwhelming 64% of all social enterprises indicated that it was 'to respond to local needs'.

All social enterprises were asked to identify the main actor responsible for establishing the social enterprises. Nearly 68% of all social enterprises indicated a 'local voluntary organisation'. Less than 5% of all social enterprises identified other social enterprises as the main actors responsible for their establishment. The most common legal structure adopted by all social enterprises was the company limited by guarantee (82%). Of the sample of 128 rural social enterprises approximately 76% have adopted this structure and close to 6% are registered as co-operatives. This contrasts with the urban social enterprises; of the 119 surveyed, less than 1% (0.8%) is registered as co-operatives and almost 90% are a company limited by guarantee. Fifty five percent (55%) of all social enterprises have charitable status. When asked to suggest the primary goal of the social enterprise 43% of all social enterprises suggested the 'production and delivery of locally based community services'. The second most popular response recorded amongst 24% of all social enterprises was the 'provision of training and employment opportunities to those experiencing disadvantage'. Approximately 36% of all social enterprises cite 'Health and Social Service Provision' as the main activity of the social enterprise.

Respondents to the survey were asked to identify the sources of income to the social enterprise in 2002. Statutory grant assistance was a significant source of income for all social enterprises; 82% of all social enterprises suggested that they were in receipt of this statutory assistance. Only 18 or 7% of all social enterprises had an income in 2002 from the sale of goods and services to statutory authorities. Approximately 26% of all social enterprises recorded an income in 2002 from the 'sale of goods and services to individuals and the community'. Income in 2002 from patronage, donations and fundraising was noted in 37% of all social enterprises.

When asked to indicate the most important source of income to the social enterprise in 2002 the social enterprises responded as follows: Approximately 75% of all social enterprises suggested that grants from statutory agencies was the most important income stream. Sale of goods and services to individuals was selected as the most important source of income by almost 11% of all social enterprises compared with less than 1% that suggested the 'sale of goods and service to statutory agencies' as the most important source of income.

Each social enterprise was asked to identify the most significant challenge to the voluntary base of the social enterprise. Reluctance on the behalf of young people to volunteers, an ageing volunteer base and reluctance to become involved in the board due to legal responsibilities were the most significant challenges (22%, 20% and 16.4% respectively of all social enterprises). Lack of strategic skills among the Board of Directors of the enterprise, failure

to develop and implement policies regarding volunteers and tensions between paid staff and volunteers were the more common challenges suggested to currently face urban social enterprises.

The most significant challenge facing social enterprise at this time was the threat of a cut in active labour market programmes, cited by almost 36% of all social enterprise. The second most significant challenges, identified by 14% of all social enterprises, are 'pressure from external agencies to become financially viable in a short space of time'. Approximately 10% of all social enterprises suggested that declining numbers of volunteers was the most significant challenge facing the social enterprise.

All social respondents were asked to suggest the most significant strategy that has been adopted to deal with these challenges. 19% of all social enterprises have chosen to 'lobbying' the government, approximately 16% suggested the development of 'strategic alliances with similar organisation for the purpose of drawing down funds' and approximately 24% cited the diversification of activities to generate extra income and a re-orientation of original goals and activities in response to service user demands'.

Laville & Nyssens (2001) have argued that social enterprises incorporate a goal of service to the community (Laville & Nyssens, 2001:314). Preliminary finding from this study reinforce this assertion. Forty-three percent (43%) of all social enterprises cite the 'production and delivery of locally based services' as the primary goal of the organisation. O'Donoghue (2002) highlights the role of volunteers in third sector organisations as constituting a substantial resource in four main areas. Close to 86% of all social enterprises surveyed is part of a local network. This is a relatively consistent pattern across both urban and rural social enterprises. The most significant perceived benefits of this networking are the promotion of a more integrated approach to local development and the sharing of resources or professional services. Seventy-four percent (74%) of all social enterprises are involved in regional and national networks. Therefore in mid 2000 Irish social enterprises reflected a high dependency on active labour market initiatives as a means of subsidising labour within these socio-economic initiatives. This dependency is reflected in the fact that almost 36% of all social enterprises cite a cut in these programmes as the most significant challenge facing them. Pressures from external funding agencies appeared to be another significant challenge facing social enterprises. The pressure to become financially viable was viewed as a challenge and the incorporation of a commercial focus within the organisation was the most common strategy adopted by social enterprises in response to challenges; diversification of activities, the pursuit of new markets and an improved response to current service users are amongst the most popular strategies suggested by respondents.

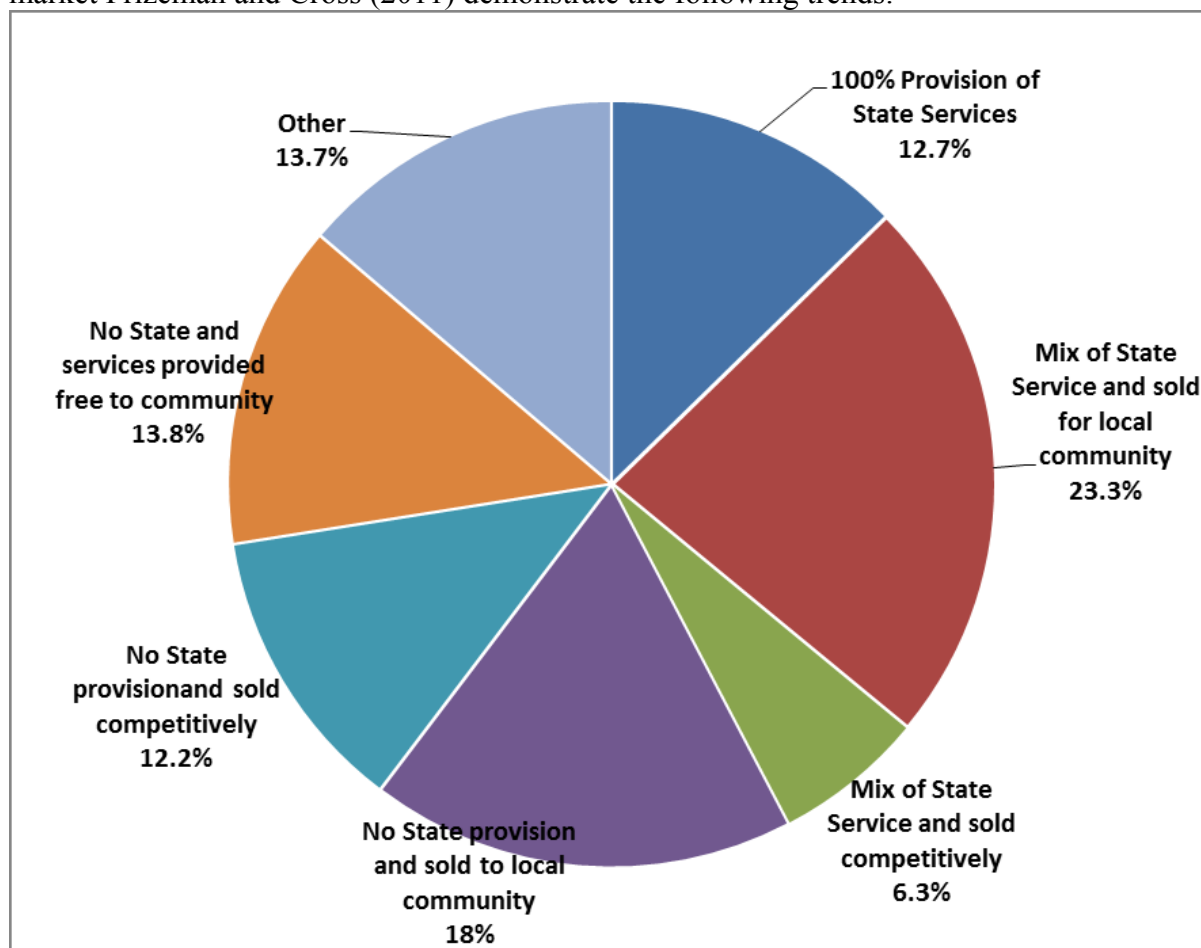
Prizeman and Crossan (2011) in their mapping study of Social Entrepreneurship (based on the receipt of 194 valid responses who self-selected as social entrepreneurial enterprises out of a total sample database of 3,717 organisations across the Social Economy Continuum in Ireland) reveal that⁸:

- 45.3 per cent of individuals/enterprises were located within Dublin, 54.7 per cent in other counties.
- 25.9 per cent of individuals/enterprises had been established in the last five years (2005 to 2009).

⁸ Full Report available to download from www.cnm.tcd.ie

- 61.3 per cent stated they had a local remit, 39.3 per cent a regional remit, 50.5 per cent a national remit, 14.4 per cent a European remit and 21.6 per cent an international remit.
- 61.3 per cent of enterprises had a charity (CHY) number.
- 74.2 per cent indicated that their legal structure was a Company Limited by Guarantee.
- A small number (N=3) of enterprises were Companies with Shared Capital.

In terms of the balance of activities as State related public service providers, selling products and services to local community, and/or selling products and services competitively in the market Prizeman and Cross (2011) demonstrate the following trends:



Source: Prizeman and Cross (2011)⁹

This study also demonstrated source of income for 2009 as follows:

- *“Almost half (45.2%) of individuals/enterprises had generated over 30 per cent of their income in 2009.*
- *58.5% stated that they had not generated surplus income in the past three years.*
- *30.8% of those who did not generate a surplus income in 2009 stated that they believed they would generate surplus income in the future.*

⁹ Full Report available to download from www.cnm.tcd.ie

- 15.4 per cent of individuals/enterprises who took part in the study were 100 per cent dependent on funding.
- Over one third (34.5%) had an overdraft facility in place; 16.5 per cent had a financial loan; only 7.7 per cent had a mortgage; and over half (52.2%) of individuals/enterprises indicated that they had none of these arrangements in place” (Prizeman and Crossan 2011:4)¹⁰

Prizeman and Crossan (2011) have also explored the issue of measurement of impact and revealed that of the approximate 74% of individuals/enterprises that said they measured their social impact (note individuals/enterprises could select more than one option below), the most common type of measurement was internal evaluation (62.9%) followed by financial statements (29.9%), social auditing (13.9%), quality awards (11.9%), benchmarking (8.2%), social return on investment (6.2%) and external evaluations accounting for 4.6% (Crossan and Prizeman 2011). The issues that they have highlighted as being of future research importance are: (a) tease out where the responsibility lies for measurement of impact (this is particular relevant for social enterprises engaged in public service delivery) and (b) determine the most suitable form of impact measurement.

This issue has also been raised by O’Shaughnessy *et al.* (2011)¹¹ in their examination of rural transport social enterprises. This case served to illustrate the impact of challenging economic times with the targeting of rural based transport social enterprises for significant budgetary cuts and/or complete cessation. The Report of the Special Group on Public Service Numbers and Expenditure (2009) called for an end to the Rural Transport Scheme with an estimated saving of approximately €11m to the national exchequer. This research argued that the social value of the service in Bantry was less of an economic burden on the state and its’ cessation had potential knock on effect in terms of health and well-being of the actual users. O’Shaughnessy *et al.*, (2011) called for further research such as social return on investment (SORI) as being one means of identifying and highlighting these issues to central government.

Public Discourse and the Social Economy

As previously stated, it was during the 1990s that the term ‘social economy’ came into usage in Irish policy and one of the main reasons for this political interest in developing a more vibrant social economy sector was its perceived role in addressing unemployment and urban and rural disadvantage.¹² Consequently, the state developed a number of national programmes to stimulate and support the social economy and more specifically social enterprises. This part of the paper will describe the main initiatives that have evolved to date.

The National Social Economy Programme

The Social Economy programme arose out of the report and recommendations of the Social Economy Working Group established under the Partnership 2000 Agreement, FAS (2001). The

¹⁰ Prizeman and Crossan (2011) Snapshot No. 1, Mapping Social Entrepreneurship in Ireland) TCD

¹¹ See Mary O’Shaughnessy, Enda Casey, Patrick Enright, (2011) "Rural transport in peripheral rural areas: The role of social enterprises in meeting the needs of rural citizens", Social Enterprise Journal, Vol. 7 Iss: 2, pp.183 - 190

¹² O’Hara, P. & O’Shaughnessy, M. (2004), 'Work Integration Social Enterprises in Ireland', EMES Working Papers Series, n° 04/03, Liege: University of Liege.

primary rationale offered by the Partnership 2000 Social Economy Working Group for recommending the establishment of the SEP was that there is a clear case for developing the social economy in the context of combating disadvantage and with the aim of regenerating communities (Partnership 2000:5). The programme was launched in September 2000. Its aim was to support Community / Voluntary Groups in the development of social economy enterprises. An evaluation of the Social Economy Programme was undertaken by the Work Research Centre in 2003 which recommended a transfer of responsibility for the programme from the Department of Enterprise, Trade and Employment to the Department of Community Rural and Gaeltacht Affairs” (Work Research Centre, 2003:135). This led to the launch of a new Community Services Programme in January 2006. More recently, against the backdrop of an economic recession, reduced delivery of public services and growing levels of unemployment, the government and other agents have sought to reinforce the role and potential of the social economy as a way of meeting community needs and stimulating the local economy. Consequently, the Irish government launched the CSP.¹³

The Community Service Programme

The Community Services Programme (CSP) was set up to support community businesses and social enterprises. It has a specific focus on funding local services and employment opportunities for particularly disadvantaged groups in society. This is especially the case in communities where mainstream public and private sector supports are unavailable as a consequence of either geographical or social isolation. A central objective of the measure is to support voluntary and community groups to provide local services to their communities. An important aspect of the programme is the emphasis on the creation of employment opportunities for specific sectors suffering social or economic disadvantage. The services supported through the programme are expected to secure sufficient income from trading and other sources in order to deliver a properly resourced and viable service though they are not expected to become financially sustainable i.e. the objective of the programme is not to move groups to self funding. The organisations supported through the Community Services Programme are expected to secure sufficient income from trading and other sources in order to deliver a properly resourced and viable service and are termed social enterprises by both the programme promoters and the organisations themselves.

Review of CSP

A recent review of the programme undertaken by Curtis *et al.* (2011) entailed a secondary review of data sets available for the 244 groups currently registered as social enterprises under the CSP programme and a survey of 57 or 23% of these organisations. In addition, nine semi structured interviews were undertaken with key informants drawn from the community and voluntary/local development field. Four short case studies/profiles of CSP

¹³ For a fuller discussion see Curtis, A., O’ Shaughnessy, M. and Ward, M. (2011) “*An examination of the tensions and challenges associated with operating as a social enterprise – the case of Irish social enterprises.*” has been selected to be published in the ECSP series following on from the 3rd EMES International Research Conference on Social Enterprise, “Social Innovation through Social Entrepreneurship in Civil Society”, which took place in Roskilde (Denmark) in July 2011. Available at <http://www.emes.net/index.php?id=538>

funded initiatives were also prepared in order to generate further insight into the specific nature of these initiatives.¹⁴

Income and trading profile of CSP funded initiatives (2009)

A secondary review of CSP programme records was conducted in relation to all of the 244 participating groups. Table 2 illustrates the levels of generated traded income in 2009.

Table 2: Traded Income (2009)

Traded Income (%)	No. Of groups	Percentage
No traded income	17	7%
Between 1 – 19%	62	25.5%
Between 20 – 49%	111	45.5%
Between 50 – 69%	37	15%
70% +	17	7%
Total	244	100

As can be seen from this table 7% of groups currently funded/treated as social enterprises in the CSP are not generating any traded income whilst a further 25.5% are generating 19% or less traded income of their total turnover i.e. 32.5% are generating less than 20% traded income. At the other end of the scale 22% are generating over 50% with the highest proportion of groups in the 20 – 49% generating traded income as a percentage of annual turn-over. Turnover for all groups for 2009 was €88,581,557 while traded income was €34,200,330 or 38.6% of total turnover. The CSP contribution for the same year was €35,432,622 or 40% of turnover. Therefore, for every €1 put into the programme by the state, these groups generated another €1 through traded income and €0.50 was levered from other public funding. The average number of employee was a manager and four FTE (1,220) posts which was the equivalent of 1,610 employees i.e. both full time and part time.

The services provided by the CSP funded organisations range from home care service provision to older people (i.e. the provision of non medical care and meals on wheels that assists older people remain in their home and community); tourism and heritage centres including cafes, shops and hostels, community launderettes, child-care provision, community and rural transport including specific transport clubs for people with disabilities, household insulation (i.e. the provision of attic and wall insulation to reduce fuel poverty), community gyms and sport centres, small household building and repair services e.g. widening of doorways for people returning from hospital who are wheelchair bound, garden centres attached to disability services. The predominant sector activity is in the area of service provision for older people closely followed by child-care and tourism and heritage

Survey results

A survey was distributed to all 244 groups within the CSP programme. Fifty seven or 23% of the research population responded to the survey. The findings from this survey

¹⁴ Ibid

highlighted some of the weaknesses associated with the CSP. Under the guidelines of the CSP all groups funded were expected to secure sufficient income from trading and other sources in order to deliver a properly resourced and viable service and thus implement a social enterprise business model. With this in mind, all organisations were asked to explain their understanding of a social enterprise. Fifty groups responded to this question and of these 33 (66%) demonstrated an adequate understanding of social enterprise. Twenty seven or 34% said they did not know or were unsure about what a social enterprise actually was. When asked to suggest what they thought the role of the social enterprises was the responses varied from: (a) the employment of long term unemployed/social economy workers from disadvantaged areas; (b) or the provision of services to develop self esteem and improve their education and living condition and (c) to provide training and confidence building to the unemployed. This type of response can be linked to the traditional government support to the voluntary and community sector arriving via active labour market programmes such as Community Employment¹⁵ and Jobs Initiative¹⁶ which are funded through FAS¹⁷.

Survey respondents were asked about the impact (to the organisation) of having to generate a traded income. Twenty (35%) stated that having to generate traded income had a negative impact on the group. One of the reasons suggested for this included having to *‘behave as a business’*. In fact this reluctance to adopt a business approach to the activities of the organisation was evident in the fact that over 40% of respondents suggested that they would *“prefer another type of statutory funding stream that did not require them to generate a traded income”*. However almost 60% of respondents indicated a preference to remain within the CSP, with some of these arguing that it *“suited their social enterprise model”* and suggested that to take the enterprise or business out of CSP would *“delegate our services to a scheme”*.

Fifty four organisations responded to the question on the kind of support they felt was necessary for them to be successful. Thirty three percent of respondents indicated that they required supports in generating a traded income. The other types of support favoured by the respondents are illustrated in Table 3. These included marketing, governance and financial planning.

The data has highlighted a dichotic understanding of the concept of social enterprise for different groups within CSP. Having to generate traded income is an issue for some groups and can have a negative impact as a) they do not want to generate traded income but are contracted to do so and b) they only wish to work for or with their client base or target group. There are currently seventeen (7%) of this sample surveyed that do not generate any form of traded income and could be very vulnerable to atrophy as they have also lost the non-wage¹⁸ grant under CSP. A further 25% of respondents have 19% or less of traded income. Not having any or very little traded income can have a negative effect on the sustainability of these projects and this has been highlighted in their response to continued funding i.e. 21 (43%) of all respondents said that they would prefer another form of funding. This has highlighted a relatively high level of grant dependency from groups that operate in the CSP.

¹⁵ Community Employment Scheme is an active labour market programme administered by FAS.

¹⁶ The Job Initiative is a programme providing full-time employment for people who are 35 years of age or over, unemployed for 5 years or more, and in receipt of social welfare payments. www.fas.ie

¹⁷ FAS Ireland - Irish employment authority promotes job opportunities and training courses for school leavers, post graduates and professionals.

¹⁸ In CSP a non-wage grant of €4,065 per full-time equivalent (FTE) worker was contributed to the group until January 2010 when it was removed by the sponsoring government Dept.

Current Issues/Conclusions

As previously stated, as a consequence of the current economic recession, reduced delivery of public services and growing levels of unemployment, the Irish government and other agents have demonstrated a re-invigorated interest in the social economy and social enterprises as a way of meeting community needs and stimulating the local economy.

This is evident in statements such as that of Clann Credo¹⁹ in the recently published Social Enterprise Task Force (2010) when they insist that *“The social enterprise sector has the potential to develop to the level and scale that has been achieved in other countries”* (Social Enterprise Task Force 2010:6). However, there is also the clear recognition that to realise this *“the sector needs an appropriate national policy framework, access to relevant support structures and access to capital”* (Social Enterprise Task Force 2010:1). This reflects the growing acknowledgement of the underdevelopment of the sector in general and *“a lack of policy focus and direction at national level* (Social Enterprise Task Force 2010:1). Thus, in a period of sustained national economic recession in Ireland, it is imperative that we have a discussion on the appropriate policy support for the future development of Irish social enterprises, (Curtis *et al.*, 2011).

Clann Credo²⁰ in the recently published Social Enterprise Task Force (2010) insist that *“The social enterprise sector has the potential to develop to the level and scale that has been achieved in other countries”* and have called for practical support in the form of (a) accessible seed capital for new ventures and projects; (b) accessible management expertise and support to start-up, develop, grow and sustain the emerging social enterprise; (c) support to balance the art of growth and development whilst honouring core values and objectives and enhance capacity to compete for public procurement contracts; developing community assets (Social Enterprise Task Force, 2010).

The Report on the Roundtable on the Development of a Dublin Social Enterprise prepared by Gerard Doyle (TSA Consultants) and hosted by the Dublin Employment Pact and Clann Credo in 2009 have also argued for the creation of “an environment that is conducive to social enterprises being in a position to maximise impact. This new environment would include: state agencies ring fencing a proportion of public contracts for social enterprises; supporting the formation of community enterprises; and access to finance”.

Prizeman and Crossan (2011) have identified some of the challenges facing this sector, namely how they might secure more corporate and philanthropic financial support and their response to reduced state support into the future. They have called for the development of a *‘research programme that examines more fully the nature and behaviour of such enterprises’* in order to obtain a *‘a better understanding of the role of these enterprises in the sector and the future of social entrepreneurship in public service delivery’* (Crossan and Prizeman 2011:4).²¹ Additional questions include: What are the most appropriate form/types of support they should receive and what kind of business and other strategies do they have in place or indeed need to

¹⁹ Clann Credo provides a Social Investment Fund to support people and assist in the building of stronger communities.

²⁰ www.clanncredo.ie Provide a Social Investment Fund to support people and assist in the building of stronger communities.

²¹ Prizeman, G. and Crossan, D. (2011), Snapshot 4, Mapping Social Entrepreneurship in Ireland: Social Enterprises as Public Service Delivery Agents (March 2011), TCD Initiative on Social Entrepreneurship

develop in order to survive and how is their social and other impacts best measured (e.g. i.e. working conditions of employees?).

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NECESSITY OF LEGAL REFORMS AIMED AT SUSTAINABLE DEVELOPMENT OF COOPERATIVES IN ARMENIA

Lessons learnt from Serbia and Italy

Abstract

Agricultural cooperatives have a long history of success and failures in developing and developed countries. Specialists, officials and other stakeholders in the field have many times emphasized the role of cooperatives in agricultural and rural development. A large number of international and national programs and measures taken have been focusing on the stimulation of the development of cooperatives in Armenia. Nonetheless, cooperatives remain underdeveloped and are far from being a part of the overall agricultural value chains. The reasons preventing cooperatives from success are versatile; however, they may be observed in legal, economic, informational, and sometimes in social-psychological dimensions. This paper considers the necessity of a number of reforms aimed at the sustainable development of cooperatives, based on the experiences of Serbia and Italy as well as on the results of research and recommendations by the International Co-operative Alliance, International Labour Organization, UN, FAO, EURICSE and many other organizations.

Key words: *cooperatives, Armenia, rural development, reforms*

Introduction

Agricultural cooperatives have a long history of success and failures in developing and developed countries. Specialists, officials and other stakeholders in the field have many times emphasized the role of cooperatives in agricultural and rural development. A large number of international and national programs and measures taken have been focusing on the stimulation of the development of cooperatives in Armenia. Nonetheless, cooperatives remain underdeveloped and are far from being a part of the overall agricultural value chains. The reasons preventing cooperatives from success are versatile; however, they may be observed in legal, economic, informational, and sometimes in social-psychological dimensions.

This article considers the necessity of a number of reforms aimed at the sustainable development of cooperatives, based on the experience of European and Asian countries as well as on the results of research and recommendations by the International Co-operative Alliance, International Labour Organization, UN, FAO, EURICSE and many other organizations. Prior to 1999, 297 consumer cooperatives were registered in the RA. As of September 2011, 239 were reregistered, of which 118 had mentioned in their re-registration documents about their agricultural orientation. Thus, we can state that 239 consumer cooperatives are registered in the

RA, 50 percent of which are active in agriculture. It is difficult to say though, how many of them are actually operating²².

Currently, the cooperative sector in Armenia is regulated by five articles of the RA Civil Code (Articles 117 through 121) and by the law on consumer cooperation adopted in 1993. These laws do not fully regulate the relationships in formation, activity and dissolution of cooperatives and need improvement and replenishment.

First, it's worth mentioning that provisions of the law on consumer cooperatives do not match the internationally accepted concepts and principles of consumer cooperatives. According to the internationally accepted criteria, consumer cooperatives are a special type of cooperatives. In some cases, these cooperatives are involved only in retail and wholesale sales. The main goal of these cooperatives is to ensure savings in the purchase processes by cooperative owners. Owners' savings are generated as a result of low prices in purchasing comparatively large volumes of inputs and services and in transportation expenses, intense use of more perfect equipment and other favorable factors. In many countries, consumer cooperatives are known as food cooperatives or stores of natural, ecologically pure food, where the agricultural products grown by the cooperative member farmers are sold.

Legislative reforms will have critical significance for development of cooperatives in Armenia. While addressing the importance of the respective laws on cooperatives, it should be also noticed that **legal environment is a necessary but not sufficient condition** for proper development of cooperatives.

To ensure the adequacy of the expected results, the following groups of measures are suggested to be taken:

- Implementation of legal reforms;
- Application of economic stimulation mechanisms;
- Raising awareness on cooperative values and principles.

Legal reforms

Specialists claim that the development of cooperatives is impossible without related legislative regulations. All functions of cooperatives starting from their registration to their dissolution should be regulated by law. The law has to also set out the common framework of rules, on the basis of which founding members of cooperatives will develop the cooperative's charter and the internal regulations.

There is a tendency now to have one comprehensive law on cooperatives, where specificities of all types of cooperatives will be presented. According to specialists of the International Co-operative Alliance (ICA), having one main law on cooperatives creates equal conditions, decreases possibilities of fraud, and provides a better position for the cooperative's charter²³.

Considering current developments in a rapidly changing world, and taking into account the recommendations of specialists, we suggest to develop a new general cooperative law from zero, rather than amending the current ones. The idea behind this is to have such a structure in the law, which would allow easy amendments, when needed. History shows that in a point of time a demand is ripening to have laws for special types of cooperatives (ex. social cooperatives). So the law should have such a structure that when there is a public need to have

²² According to data of the RA State Register.

²³ www.ica.coop

additional regulations on special types of cooperatives, it will be possible to add just a section to the existing law and regulate the field, rather than creating a new law which could have some contradictions to the existing ones.

After the initial developments of cooperatives in Europe a new organizational type-named social enterprise was emerged, and there was a public need to have a separate law governing the activities of social enterprises (Italy 1991). Thus, the cooperative law in Armenia should be in such a type, that when the development of cooperatives will reach to a stage, when there is a public need to have regulations governing the social enterprises, worker cooperatives, housing cooperatives etc. appropriate sections will be smoothly integrated in the general law, and it will not contradict the other laws.

Based on the experience of the studied countries as well as that of ICA, we suggest adopting one main comprehensive and all-embracing law in Armenia, and including in that law provisions on certain types of cooperatives.

The law should be based on the well known seven principles of cooperatives defined by ICA:

1. Voluntary and open membership;
2. Democratic member control;
3. Member economic participation;
4. Autonomy and independence;
5. Education, training and information;
6. Cooperation among cooperatives;
7. Concern for community.

Basically, the cooperative regulations should cover the cooperative identity and present a clear picture of cooperatives and their activities.

Each cooperative, prior to fulfilling its functions, should be registered and obtain a status of a legal entity. An interesting example is the Fiji law, according to which, if the registration agency has doubts about the strategy and the targeted activity of any cooperative, then it can register the cooperative for a probation period first, for maximum of two years. Based on the results of monitoring implemented during the two years, a final decision is taken whether the cooperative meets the presented charter goals and whether its activity is stipulated from the member interests or not. In case if the requirements are met, the cooperative is awarded a full status, and in the opposite situation the application is rejected.

In many countries cooperatives are exempted from fees and duties necessary for registration. In the RA, respectively 20 and 10 EUR-worth state duties are envisaged for registration as well as for change in the number of cooperative members. Registration of each new member is considered to be a change; therefore it results in payment of a 10 EUR-worth fee. Based on this fact, cooperatives don't seem to tend to register their new members.

Following the current international tendencies, it is suggested to eliminate the duties and fees for registration of cooperatives, for changes, as well as for the seal.

Legislative changes and amendments that we suggest include the following provisions:

- **Establishment of cooperatives**

According to Article 2 of the RA law on consumer cooperatives, a consumer company is a volunteer union of no less than thirty persons. At the Armenian Government's suggestion, removal of the "no less than thirty" provision from the law has been adopted with first reading. We welcome the idea of these suggestions; however removal of this provision only partially

addresses the problem. It should be defined also what shall be the minimum number of members who can form a cooperative.

We believe that the minimum number of members should be five, which will enable to form the necessary management bodies.

To ensure the financial sustainability of cooperatives, a statutory capital with its minimum limit should be defined. That statutory capital should be formed through the entrance fees or payments of the cooperative members. The limit varies in different countries; for example, according to the charters of cooperatives in the European Union, a limit of 30,000 Euros is defined²⁴. Belgium, for instance, has defined 18,550 Euro limit, Latvia, Estonia and the Czech Republic – equivalents of 2,850, 2,500 and 2,000 Euros, respectively.

In the RA legislation on cooperatives, there are no clearly defined provisions about change in the legal status of cooperatives. Since cooperatives are totally different from other business legal entities and they have a special status, transformation of cooperatives into other legal entities must be restricted to escape possible fraud and deception.

- **Members of cooperatives**

The basic goal of any cooperative is satisfying the interests of its members. To achieve tangible savings through expansion of commodity turnover and production volumes, at the decision of cooperative members, a cooperative may deliver goods and services also to non members²⁵. However, the share of those services should be limited, and the cooperative should direct its main services to meet the interests of its members. The shares of its activities shall be clearly defined between the members and non members in the charter of the cooperative.

A cooperative member, in addition to being an owner, shall also participate in the cooperative's management and use its services. There is no sense having non-committed members who are also non-active users of the cooperative's services. Passive members undermine the role of the cooperative and abate the spirit of cooperation.

Based on the Japanese model, we suggest including the following provision, which focuses prevention of artificial cooperatives: *if any member does not use the cooperative for a one-year period, then he/she may be dismissed from the cooperative.*

Currently, to solve the financial problems of cooperatives, laws in many countries allow cooperatives having *investor-members*, who, paying the related fees, acquire the right to use the cooperative's services. Meanwhile, investor-members shall not have the right to vote and shall not participate in the coop's management.

- **Management bodies of cooperative**

Efficiency of activities of cooperatives mostly depends on the participation of its members in its management. A cooperative shall have obligatory and volunteer management bodies. Currently, management of cooperatives is regulated by Article 119 of the RA Civil Code and Sections 5 and 8 of Article 2 of the law on Consumer Cooperatives; these laws, however, do not fully define the functions of the management bodies. In particular, the functions of executive and control bodies are not clearly presented.

²⁴ The Statute for a European Cooperative Society (Societas Cooperativa Europaea – SCE) 2003.

²⁵ Urutyan V., Avetisyan S., Agricultural Cooperatives, Yerevan, 2011.

We suggest to clearly define the functions of the cooperative's obligatory and volunteer management bodies, procedure for formation and the duties thereof, as well as issues related to the formation of respective committees.

- **Funds and status of cooperative**

According to Article 118 of the RA Civil Code, a cooperative can have indivisible funds. This article stipulates the cooperatives not to have indivisible funds.

The indivisible funds are a guarantee for the stability of cooperatives and are used to cover the cooperative's losses. The indivisible funds are not divided between the members and are inaccessible during the cooperative's existence.

In Italy cooperatives are obliged to allocate 30% of their gross revenues to reserves, which are not taxed and could be used in the coverage of loss, but cannot be divided among members. After the dissolution of the cooperative, the reserves of a cooperative are passed to the cooperative federation, which is obliged to use them in the creation or promotion of new cooperatives. In this way the reserves are always remained in the cooperative cycle and are considered as supporting capitals for cooperatives.

The laws on cooperatives in nearly all European and Asian countries that we have studied expressly fix that the indivisible funds of the cooperatives **are obligatory and are not subject to taxation**. To insure the cooperative against unanticipated risks, different countries have defined minimum tariffs of indivisible funds, 5%-30%²⁶; e.g. Check Republic and Belgium have defined 10% tariffs for a period until the indivisible funds will be equal to the half of the statutory capital. The example of Poland is preferable, where the indivisible fund has been defined 5% for a period until it becomes equal to the statutory capital²⁷.

We recommend to make the indivisible funds obligatory for cooperatives and to define a minimum threshold of 5% of the annual profit until it reaches to the level of the statutory capital.

In addition to indivisible funds, cooperatives can have also other funds, e.g. reserve funds and/or bonus funds, to be handled by the cooperative's charter.

While discussing the cooperative development strategy, there is an important and remarkable fact that significantly hampers the development of cooperatives in Armenia. Consumer cooperatives, being non commercial organizations, are unable to get business loans from banks, which is a serious constraint for their development.

Cooperatives shouldn't be distinguished as commercial and non commercial organizations, instead, cooperatives should be considered as business organizations, having right to conduct business activities. However, taking into account their social role, they should be treated differently from investor owned corporations. The different regulations on cooperatives (ex. different tax treatment) are not considered as privileges over other companies, because they are not equal in their characteristics.

If two things are not equal, then we cannot compare and treat them identically, rather, we should have different approaches to each of them to retain the public balance²⁸.

²⁶ The Italian law on cooperatives obliges cooperatives to create indivisible funds equal to 30% of their profit.

²⁷ Euricse, Study on the implementation of the Regulation 1435/2003 on the statute for SCE, 2010.

²⁸ A. Fici, Interview and discussion about legal structures of cooperatives, Trento, 2012

The status of cooperatives must change so that they are considered as business organizations.

- **Taxation of cooperatives**

Taking into account the social component of cooperatives and their favorable activity in the interest of community development, a large number of countries have instituted tax privileges for cooperatives.

Cooperatives are mainly taxed according to the level of the incomes of its members, while the deductions to the indivisible funds are tax-exempt. In the Netherlands dividends allocated to the members are exempt from tax. In Lithuania, if at least 50% of the cooperative's income comes from agricultural operations, then they are provided tax privileges; In Italy, deductions to the cooperative funds are tax exempt, while the income tax of the members is considerably cut back; in France, consumer cooperatives are exempt from taxes, if they have been mainly cooperating with the members.

Cooperatives are considered to be for-profit organizations, however, at the same time they are provided considerable tax privileges.

- **Monitoring of cooperatives**

The obligatory audit fixed in cooperative laws of virtually all countries studied pursues a single goal of making sure that cooperatives are following the defined “rules of the game”. The audit of cooperatives is mostly separated from state functions and is implemented by unions of cooperatives, e.g. in Serbia, Poland, Denmark, and other countries. In other cases, audit is performed by independent auditing organizations, special subdivisions of ministries or associations. Since the cooperative field is still in emerging phase in Armenia, in this case the goal of monitoring should be not levying fines and penalties from cooperatives but supporting and guiding them to the right direction.

Annual monitoring shall be obligatory, to make sure that cooperatives follow the accepted principles and operate transparently. It should have an advisory character and be separated from the auditing services delivered for companies.

A new law creation is a process, which best can be done when number of stakeholders, local and international legal experts, economists are involved in the work process. Multi-stakeholder approach will make it possible to localize and match the best international practices with local features, and assure the effectiveness of legal, economic, social and other dimensions in the law.

Application of stimulating economic mechanisms

As mentioned above, implementation of legal reforms of legislation on cooperatives is a necessary but not sufficient condition for the development of cooperatives. The most important component of cooperative development is their economic sustainability, which, in turn, requires definite steps to be taken.

The public procurement system can be a stimulating lever for cooperatives, which should be perceived from now on as **partners**. The state assistance programs, in particular loan programs, competitive grant programs, programs envisaged by the RA state budget, etc., should be guided towards strengthening the agricultural cooperatives.

In many countries, taking into account the social component of cooperatives, the cooperatives are given advantages; in Italy, for instance, cooperatives are given advantages during the supply tenders for meeting the state needs.

The international experience indicates that cooperatives can be effective partners for the state and can participate in implementation of many social programs. Such partnership is very often a much more powerful lever for economic development of cooperatives than the one-way assistance from the state.

Raising awareness about cooperative values and principles

2012 is declared by the United Nations as the International Year of Cooperatives. This is a favorable opportunity to unite the power of the state and beneficiary stakeholder organizations to strengthen the perception of the importance of cooperative values among the society. Wrong notions and stereotypes about cooperatives frequently become the main reasons of their failure.

Along with the state and beneficiary organizations, the most powerful resource of cooperatives are the cooperative members, therefore campaign and awareness on cooperative principles and values are among the most important conditions to be successful.

The first Saturday of July is to be celebrated by the UN as the International Day of Cooperatives. An appropriate celebration of this day by the Ministry of Agriculture and other interested agencies will significantly fuel the society's confidence for cooperatives and their principles and values.

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THE ROLE, CONSTRAINTS AND POTENTIAL OF COOPERATIVES IN ARMENIA

Abstract

Main goal of the paper was to study current state of the (mostly agricultural) cooperatives in Armenia. Because of the very high degree of integration into the Soviet economy, Armenian agriculture (and economy in general) experienced economic collapse during the transition period. The break-up of collective agriculture in Armenia led to more than 330,000 diversified farms, with lack of suitable machinery and equipment, water for irrigation and knowledge of good farming practices. All these reasons speak in favor of an important role and potential for agricultural cooperatives in Armenia. However, legislative constraints are still significant: although The Civil Code of Armenia deals with the issue of cooperatives, the actual Law on cooperatives still does not exist. In this paper, the role, constraints and potential of Armenian cooperatives were analyzed on the example of two case studies – “Noravan” and “Lukashin” (both from Armavir marz – administrative area or region). Both cooperatives are representative examples for the international financial and organizational aid, because a number of international supporting organizations became initiators for the establishment of agricultural cooperatives throughout the country, strengthening their financial, technical and social aspects (through various low-interest loan and grant programs, leasing, trainings and seminars).

Key words: *cooperatives, Armenia, agriculture, economy*

Introduction

The socialist collectivization of agriculture even two decades after the collapse of socialism to a large extent determines negative sentiment toward cooperatives and cooperative movement in countries of Central and Eastern Europe and Caucasus. However, the state and prospects for the future development are country-specific and it is very difficult to extract some general trends. Rural cooperatives have been studied by many scientific disciplines: economics, sociology, management and marketing, agriculture sciences, etc. This paper emphasizes, above all, sociological and economical perspectives, i.e. social and economical preconditions, constraints and potential of cooperatives in Armenia.

“Cooperative represents an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (Birchall, 2004: 3). Cooperatives have been a modern product, first to appear in developed countries of the West. Cooperative movement, which started in England in the middle of the 19th century, today is highly institutionalized. International Cooperative Alliance (ICA), established in 1895, today consists of more than two hundred national organizations, with over 750 million members from ninety countries (Šljukić, 2009: 216).

Agriculture and Rural Cooperatives in Post-socialist Countries

The collapse of socialist regimes led to the decline of the cooperative movement in many Central and East European countries. As they were used to being subjected to state control, many cooperatives were not prepared to face the challenges of the competitive market and manage their social and economic development in an autonomous manner. The state-controlled period was characterized by government interference in cooperative affairs at all levels. Most of the time, member registration was compulsory, and the directors and staff were not appointed or elected by the members, but directly appointed by the state. In many countries, cooperatives were not particularly concerned about profitability since they were subsidized by the government and received preferential treatment. In the same way, they were subjected to rigid state planning, which did not provide them with the possibility to develop their own entrepreneurial strategies. “The collapse of the socialist regime brought about drastic changes. Since membership was no longer compulsory, cooperative membership and, consequently, capital share income, dropped. Also, government subsidies disappeared or decreased significantly. These financial losses, in addition to the consequences of hyper-inflation on input prices and the buying capacity of the population, led to huge financial problems” (Couture et al., 2002: 2).

However, there are significant differences in transition countries in agricultural development. These countries in Europe and Central Asia (the ECA countries) account for 19% of the world’s arable land resources and 7% of the population. Controlling some of the most fertile soils in the world, this region has a clean potential to generate agricultural surplus beyond the needs of its population (Lerman, Csáki, Feder, 2004: 11). Although the two new “blocks” – CEE (Central and East European countries) and CIS (Commonwealth of Independent States countries) are evenly matched by the number of countries, CIS in aggregate is much larger than CEE. The CEE countries account for about 15% of agricultural land and less than 20% of rural population in the ECA region. On the other hand, just four of the 12 CIS countries – Russia, Ukraine, and Belarus in Europe and Kazakhstan in Central Asia – represent 75% of agricultural land and 55% of rural population in the entire region (Lerman, Csáki, Feder, 2004: 12).

In general the agricultural sectors of the formerly command economies were in a state of disarray and economic crisis in the period after the socialist governments fell. The former system disappeared almost overnight while new market structures had not yet emerged, and state support provided to the large farm enterprises was largely withdrawn. An immediate outcome of this transition shock was a sharp decline in both agricultural output and the sector’s GDP (value added) in the early 1990s. However, the countries of Central and Eastern Europe recovered from this initial decline much faster than the former Soviet republics in the Commonwealth of Independent States. Gross agricultural product in the CEE countries stabilized after 1994, while the decline in CIS agriculture continued for four more years, until 1998 (Gardner, Lerman, 2006: 2).

Agriculture in Armenia – Basic Facts and Trends

The Republic of Armenia is located in the southern part of the Caucasus and shares borders with Turkey, Iran, Georgia and Azerbaijan. It is a mountainous, land-locked country with an area of 29,800 km². A very high degree of integration into the Soviet economy induced economic collapse during the transition period. In result the share of Armenian agriculture in GDP increased up to 40%. The break-up of collective agriculture in Armenia resulted in over 330,000

diversified farms, with lack of suitable machinery and equipment, water for irrigation and knowledge of good farming practices (Hovhannisyan, Urutyan, Dunn, 2005: 1).

About 1.4 million ha are used for agriculture with arable land covering 494,000 ha, perennial crops around 38,000 ha, and pasture the remainder. There are about 350,000 farm households in total and average holdings are only 1.4 ha, divided into three or four plots. The farms are generally quite diversified, with a strong subsistence orientation. This group of farm households is still responsible for the largest share of primary production in Armenia. However, there is a dynamic and growing, although still small, group of more commercially oriented farmers that have emerged over the past few years. They operate larger sized holdings, sometimes have contractual links with processors and marketing agents, and have invested in superior cultivars and breeds (Armenia's Rural Economy, 2005: 3).

Efficient use of available water resources is a key to Armenia's agricultural development. The irrigated area has declined since independence, with the area under irrigation accounting for about 190,000 ha in the year 2000 and for about 135,000 ha in 2004. Around 30% of the total arable area is presently being irrigated, down from the 54% registered in Soviet times, reflecting not only the deterioration in the infrastructure, but also the deterioration due to the fragmentation of public agencies and the lack of effectiveness in using funds for carrying out operation and maintenance of the irrigation system (Armenia's Rural Economy, 2005: 23).

Armenian Cooperative Movement History

Cooperative movement has got a very solid historical foundation in Armenia. Still in 19th century, with the purpose of protecting peasants and urban labors from exploitation of kulaks and extortionists a liberal-bourgeois and propagandist Grigor Artsrouni proposed formation of credit, input supply and consumer companies. Another theorist Avetiq Araskhanyan also stressed the importance of formation of production and credit companies as well as various agricultural extension activities. In 1890 he initiated a foundation of the first work-cooperative of Armenian laborers in Tbilisi, Georgia (Melkonyan, 2008: 24).

"In the beginning of 20th century there were mainly two types of agricultural cooperatives in Armenia. The first type was "Complete" cooperatives where, for example, all the crop areas were being cultivated jointly. In the case of second type, i.e. "Non-Complete" cooperatives, the part of areas was cultivated jointly. The other part was being cultivated independently, by individual farmers Totomyanc was mentioning the features of cooperatives especially in the spheres of cotton cultivation and dairy farming; the spheres which were successfully functioning in Armenia" (Melkonyan, 2008: 24).

During those times not only rural people and craftsmen realized the economic importance and role of cooperatives but intelligentsia and part of bourgeoisie as well. These urban representatives were propagating the importance of cooperatives as effective tools against extortionists. Moreover, to advance their farming practices rural people were welcomed to use credits of credit cooperatives under appropriate conditions. On the other hand, the Agrarian Union of Armenians in Tbilisi publishes a booklet titled as "A Farmer" regarding agriculture and agricultural cooperation. A set of fundamental issues like joint sales of agricultural production and principles of advanced farming were the main cornerstones of that publication (Gevorgyan, 2002).

Cooperative movement during 1921-1928 evidences that Armenian farmers were capable of forming successful agricultural cooperatives. For example, around 38.5% of about 168,000

farms were jointed into agricultural cooperatives in 1928. If there were not the coercive collectivization of Bolshevik regime in 1928 than one might expect that Armenian farmers would be overly joined into cooperatives like in advanced European countries, e.g. Switzerland, Austria, Belgium, Finland, Netherland etc. (Ghazaryan et al., 2001).

After the establishment of the Soviet regime in Armenia, cooperation was adopted as an effective tool for the rehabilitation of the depressed economy. However, these were only the short progresses during the 1920s in the Soviet Union when private property was still possible and cooperatives still might exist in the way they were established. The Congress of Collective Farmers in November 1928 adopted a new strategy towards the foundation of collective and soviet farms (kolkhozes and sovkhozes) and auto-tractor stations (ATS). This decision slowed down and even virtually stopped the process of formation of agricultural cooperatives in Soviet Armenia (Hajrapetyan, 1999) until 1988, when The Soviet of Ministries of the USSR passed the Law on Cooperatives.

Legal Framework for Cooperatives in Armenia

The legal framework for cooperatives in Armenia after independence is largely inadequate, mostly because of the absence of the Law on Cooperatives. Law on Consumer Cooperatives from 1993 is obsolete, since it regulates only one type of cooperatives – consumer cooperatives. This Law defines a consumer society as “a voluntary association of at least 30 members, which is formed on the basis of their monetary or other material contributions and which is a legal entity”. This definition has an expedient indication of a voluntary character of the society, of a minimal number of members, as well as of the recognition of a cooperative society as a legal entity. However, an important implication about a dual nature of a cooperative, which is an association of persons on the one hand and an enterprise carrying out economic activity on the other, is just ignored (Altshul, 2001: 11). The Law on Consumers’ Cooperation in Armenia does not contain a special article on cooperative principles, except for provisions on voluntary membership and on cooperatives’ autonomy. The law however includes a general provision, indicating that “cooperatives and their unions shall follow the basic principles of the cooperative movement set up by the ICA Rules” (Altshul, 2001: 14).

However, according to the same author, another legal act (the Civil Code of Armenia) provides a solid basis for improving and harmonizing the cooperative legislation in the country (Altshul, 2001: 3). The Civil Code of Armenia defines a cooperative as “a voluntary amalgamation of citizens and legal persons on the basis of membership with the purpose of satisfying the financial and other needs of the participants, an amalgamation realized by the combining of property participatory share contributions by its members” (Civil Code of the Republic of Armenia, 1998: 32).

Role of Cooperatives in Social and Economic Development of Armenia

Nowadays, cooperatives play an important role in the Armenian agriculture. There are several agricultural associations in form of cooperatives that undertake production and marketing functions in the dairy, meat, and horticulture spheres. Cooperatives are also important in the farm supply sector. Deregulation and the globalization of business are increasing the competitiveness of the business environment, and this is impacting on cooperatives as it is on other types of businesses (Grigoryan et al., 2007: 5). Some organizations are supporting agricultural

cooperatives in various ways to increase their presence in markets in the framework of the cooperative. Assistance may be in the form of negotiations with potential buyers, capacity building, consultancy and advocacy, marketing, etc. Federation of Agricultural Associations was founded on December 29, 2001 to support the development of farmers' organizations (FOs) and assist them in solving their common legal, managerial, technical and social problems (Harutyunyan, 2007: 10).

Grigoryan et al. (2009: 96) lists key weaknesses of the cooperatives that may lead to their failure:

- Lack of understanding of the three main principles of cooperative. This is perhaps the main reason for failure of cooperatives. Some members fail to understand that the cooperative is owned by the members and not solely for the manager. They do not understand their rights in the cooperative and do not take active participation in decision making of the cooperative.
- Poor management. This also leads to cooperative failure. Some managers lack leadership skills and do not run the cooperative efficiently.
- Rural finance and access to credit. The cost of capital paid by farmers is quite high and reaches an average 24%. Most of the commercial banks do not lend to the agricultural sector, except to those farms that are sufficiently large and integrated into the value chain. The problem of collateral is a barrier to credit and remains quite significant in the Armenian agricultural sector. Banks require up to 200% of collateral. Even farmers willing to pay higher interest rates may not have enough assets to collateralize the amount of loan they need. In case of the FAA, its FOs get short-term seasonal loans in more favorable terms for their operations.
- Agricultural inputs and technology. The vast majority (93%) of the present agricultural machinery and equipment is worn out. Rental markets for machinery and machine services apparently exist in rural Armenia, and this reduces the need for traditional ownership. But this situation creates another problem. Being the only farm machinery owners in their village, or even in the region, these people act as monopolists and set very high prices for their service, leaving the farmers with no choice. The main solution to this problem is acquisition of agricultural machinery and equipment, as well as agricultural inputs through FOs and shared-use practices (Grigoryan et al., 2009: 96-97).
- Marketing of agricultural products. The problem of selling agricultural produce remains a difficult bottleneck for small peasant farms. This is explained, on one hand, by the poor purchasing ability of the consumers at the internal market, and, on the other hand, by the difficulties in exporting caused by the transportation blockade. In general, agricultural cooperatives prove to be the only organizational institutes through which rural areas can be developed, and particularly, farmers can have opportunities to solve their common problems in more effective and efficient ways. This is the only reason why farmers unite and create cooperatives. By solving their common problems, they directly contribute to the development of the above mentioned areas of the Armenian agricultural sector" (Grigoryan et al., 2009: 97).

Armenian agriculture shows very specific regional differences, that reflect natural endowments (the Ararat valley versus pre-mountain and mountainous areas); land allocation during the land reform (available land in combination with population density, causing the individual peasant farms in Ararat and Armavir to be relatively small); and crop/livestock specialization (Spoor, 2005: 12). The egalitarian reform of Armenian land ownership structure led to the emergence of regional differences. The average farm size varies by the regions

(*marzes*). Average farm size in *marzes* Ararat (0.61 ha) and Armavir (0.92 ha) were much smaller than in for example the *marzes* of Shirak (2.36 ha) and Syunik (2.97 ha). However this comparison still misses important variables, namely the altitude, the water availability, the soil quality.

The redistributive land reform in Armenia created a large number of peasant farms with an average size of 1.3-1.4 hectares (and less than 0.5 ha per rural capita), divided into several parcels. Primarily arable land (with in addition most of the orchards and vineyards) was privatized, while an important part of the hayfields and all pasture land remained in the hands of the state. This meant that by the mid-1990s one third of agricultural land was privatized. According to the official “Land Balance” of 1997 around 330,000 individual peasant farms had been formed, remaining fairly stable since (Spoor, 2005: 5).

The fragmented nature of the agricultural system led to a number of problems hindering agricultural development. The applications of mechanization was not feasible due to the small farm sizes, farmers had difficulty getting access to agricultural inputs such as fertilizers, quality seeds, breeding stock etc. There was also limited technical knowledge of the farmers as most of them had little or no experience on farming. The most pertaining problem of all was marketing of their produce as production was on a small scale. Aside these and other related problems, environmental problems such as erosion deforestation; salinisation aggravated the situation. Cooperating among farmers by bring together their problems to be solved together is seen as one of the major solution, but this is however faced by some resistance from farmers due to their experience and mentality, linking it to the forced collective farming of the kolkhoz system. Efforts have been made by some institution, NGOs to encourage farmers to organize and provide them with services such as provision of loans, extension service, training and marketing assistance. The idea of cooperating has been adopted by some farmers and has formed organization, but majority of the farmers are still working individually.

From the features of the problems arisen in the Armenian agro-food system it's obvious, that successful development of the Armenian agriculture and related fields are closely linked with the development of agricultural cooperatives. Starting from 1993, with the principle of voluntary and autonomous organizations, many local and regional unions, associations and other organizations were registered which could only partially solve their common problems and later in reality became impractical. Because of the violations of many of the coop principles, most of these associations performed poorly and were liquidated (Grigoryan et al., 2008: 8).

Case Studies of Cooperatives in Armenia

“Noravan”, Noravan

Agricultural cooperative “Noravan” is located in village Noravan in Armavir marz. It is founded in 2010 and has 44 members and 40 cooperants. It has 2 employees (both university-educated, one with agricultural background, other with technical). Main activity is agriculture (crop) development and main reason for the establishment of the cooperative were economic feasibility and better approach to the market for its members. According to their president, most important advantages in joining the cooperative are providing the necessary information about the agriculture production and marketing, help in entering the market, obtaining raw materials by lower prices and providing training and skills improvement.

The cooperative includes member from various deprived groups in Armenian rural areas: 2 persons with disabilities, 1 refugee, 6 extremely poor people, 12 young people (under 25 years of age, not previously employed), 15 people over 45 years that lost their jobs and 8 women members. Although the cooperative has good relationships with other organizations, it enters the market on its own. Most important decisions have been made by the Council of 5 members. The financial state was positive on the end 2010, but the profit was very small (distributed to the members). The “Noravan” cooperative received financial donations from international organizations such as UMCOR and CARD, as well as one tractor (machinery) and equipment for innovative gardens, and small equipment tools. The cooperative do not have the land of its own. The training has been also organized by UMCOR and CARD, and this cooperative is a very good example of the role of international organizations and funds in Armenian agriculture: without them significant number of cooperatives would not have been established at all. The members are interested in further training, especially regarding the innovative activities, marketing and finance. The most important problems are market penetration, low access to agricultural input and difficulties in obtaining the technical means. The president points to the absence of law on cooperatives and necessary state policy measures regarding improving insurance and financial situation. The cooperative is not yet member of Federation of Agricultural Associations (FAA), but plans to become one.

“Lukashin”, Lukashin

“Lukashin Agricultural Association” Consumer Cooperative was established in 2005, within the scope of UMCOR FOSPA project. The cooperative started to operate with 42 members, now has 85 members, and another 150 farm holds as cooperants. The cooperative has 3 employees (all of them with university education), one with agricultural background. Main sectors (activities) are obtaining the agricultural inputs (fertilizers, etc.) by lower prices, education/consulting and social issues – raising the general level of agricultural production in the area/village, also protecting social rights of the members. Main raison for establishing was still economic.

Their president pointed out numerous advantages in joining the cooperative: providing information, help in entering the market, financial support for members in crises and difficult situations, employment opportunities, obtaining raw materials and equipment, training etc.

The cooperative includes members from different threatened groups: 4 persons with disabilities, 6 refugees, 2 extremely poor people, 5 young people (under 25, not previously employed ever), 18 women, and about 60% of people over 45 years of age that lost their jobs. There is a Women council, apart from the Council of the Cooperative (5 members), that makes the most important decisions. The “Lukashin” enters the market mainly alone. Financial state was positive in 2010, but with minor profits. The cooperative has very developed cooperation with international organizations and program financing and support by UMCOR, USAID, WORLD BANK (both financial and equipment donations). The cooperation does not have land in its ownership, but owns the refrigerators, computers, etc.

The training has been provided in several occasions by UMCOR, SHEN (local organization), CARD, ICARE etc. Its members are mostly interested for training in innovative crop development practices, agriculture oriented products, marketing, information about international cooperative practices. The “Lukashin” cooperative is a member of Federation of Agricultural Associations (FAA) and its’ members have attended several international

cooperative conferences: in Prague, Lednica (about organic agriculture), in Netherlands, organized by Avalon (the trip being financially supported by UMCOR), also in France, Romania, Switzerland.

Main problems are, according to president (Mr. Vardkes Davtyan) difficult access to financial funds, marketing problems and old equipment. The government policy should include adopting the Law on Cooperatives, improving the financial situation, and enable the cooperatives to obtain machinery and equipment. The cooperative has internet presentation (www.lukashin-coop.am) with general information about its activities and accomplishments. They perform also community development projects.

Conclusion

The analysis of current rural cooperatives in Armenia revealed very interesting findings regarding their role, constraints and potential for future development. The negative legacy of socialist collectivization of agriculture is still present in Armenia, but its impact has been gradually decreasing. The egalitarian land reform and current land ownership structure (dominance of small farmers) imposes the necessity of cooperation, and there has been an increasing farmers' awareness of that. However, the absence of Law on Cooperatives is still the main obstacle for more rapid development of cooperative movement in Armenia. Low on Consumer Cooperatives and The Civil Code of Armenia are not sufficient legal framework for such development of rural cooperatives and Armenian agriculture in general.

On the other hand, there is a positive climate among foreign donor organizations to help this development, and a number of cooperatives were established and maintained because of this financial and technical support. Two case studies conducted in this project ("Noravan" and "Lukashin" cooperatives) represent two very good examples of the importance of this kind of support. Nevertheless, the sustainability of these (and other) cooperatives is largely in question because of serious problems in their functioning, mostly based on absence of state strategy toward cooperative movement in general and particularly rural cooperatives. The interviewed presidents and members of two studied cooperatives clearly stated key problems, placing them mainly at state level. Without well designed and implemented state strategy in this respect (with passing Law on Cooperatives as first and most important step in this direction), all the above-mentioned potentials cannot be fulfilled.

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FACTORS OF DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN SERBIA

Abstract

The paper outlines the three stages in the development of the social entrepreneurship (SE). These stages are: Initial/Pioneering stage, Institutionalization stage and Differentiation/Developed stage. All the types in this typology have the same dimensions/factors but developed at different level.

The most important factors are: Actors (social enterprises, CSOs, government, businesses), Legal Framework, Financial instruments/incentives, Awareness about SE among citizens, Networking/partnership, Management and other skills developed within social enterprises, Serbia has passed through Initial stage very fast and it is now in the Institutionalization stage. The paper explains the factors and their level of development through the case study of Serbia.

Key words: *social entrepreneurship, factors of development of social entrepreneurship, institutionalization, development.*

Introduction

Social entrepreneurship has developed in Serbia rapidly in recent years. This article will show how social entrepreneurship (SE) in Serbia has progress from Initial stage to the Institutionalization stage through past five years and will show this advancement through different indicators.

In theory, there are many different typologies of the social entrepreneurship development; in this article we will use simple typology of the social entrepreneurship development which is the three levels/stages typology. These three levels of the social entrepreneurship are: Initial (Pioneering stage), Institutionalization stage and Developed stage.

Mapping of the social enterprises in 2007 (Cvejic, S. 2008), identified over a thousand (1160) potential social enterprises of various types. This mapping has marked a starting point of the development of social entrepreneurship. It showed that Serbian society at that time was in Initial stage of the development of social entrepreneurship.

Factors of the development of the social entrepreneurship

There are number of different factors that are at certain level of development which all together indicates the stage in the development of social entrepreneurship. These factors are:

- Actors (social enterprises, CSOs, government, businesses, financial institutions)
- Legislative framework (legal forms of social enterprises, subventions, tax exemptions...)
- Existence of the financial schemes, instruments, incentives for the SE
- Networking/Partnership
- Capacities of the social enterprises (management and other skills)

- Awareness raised among citizens (best examples, informative and education)

These factors overlap, influence each other and are in correlation. For instance, legislative framework should be in place only when there is certain number of social enterprises that needs some regulation.

Actors

Actors by their definition are subjects of the action and therefore they are unavoidable factor of any social action. For social entrepreneurship development, social enterprises are the key features. Social enterprises are used here as a universal name for all types of organizations that has an economic activity organized for the purpose of social benefit.

Social enterprise has both Economic and Social Dimension:

- Economic meaning they produces goods and/or services; they are on the market; they bare substantial economic risk; they might be highly innovative with lots of voluntary work.
- Social Enterprises have clear social goal, commitment to the community; they are independent and autonomous in their work but open for different partnerships; they are not for profit organisations.

This is according to the most common definitions of social enterprises. One of these definitions is: “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” (Social Enterprise: a strategy for success, Department of Trade and Industry, 2002). There are others stressing not for profit characteristic of the social enterprises.

Key indicators for the development of social entrepreneurship in relation to the key actor are number of social enterprises, number of different types of social enterprises, employment rate (social vs regular economy), turnover rate (ratio in the GDP), sustainability of the social enterprises.

But social enterprises are not the only important actors; there are other stakeholders that are sometimes equally important for the development of the social entrepreneurship. These stakeholders are government and its institutions, civil society organizations, companies, financial institutions etc.

Even though **government's** action (support or lack of it) depends on the legislative framework, government can be a significant supporter of the social entrepreneurship even without the legal framework. Governments do have an attitude towards social entrepreneurship and other government's (including local) institution can be agents of this attitude no matter if it is positive, negative or indifferent/neutral. Indicator of this attitude would be government initiatives on the legislative framework, actions, programs, involvement in the international and bilateral programs.

Civil society in many countries in modern days is cradle or incubator of the social enterprises but more over civil society organizations are natural environment and supporter of its social goals. In that sense civil society may play significant role in encouraging, supporting and assisting social enterprises in many ways. Civil society programs of support, networks and partnerships established, numbers of CSOs with characteristics of social enterprises...are the indicators of the development of SE.

Companies, regular business are also important (f)actor of the development of social entrepreneurship. They can as a part of their Corporate Social Responsibility (CSR) support

social enterprises in many ways. They can include social enterprises in their chain of suppliers, they can cooperate on the commercial base, but also companies can provide experience, skills and knowledge that are often lacking social enterprises. Indicators for these factors, than would encompass number of companies that supports in different ways SE, business association and their support to the SE development etc.

Financial institutions - banks, but also insuring companies, pension funds, investment funds, credit unions, brokerage firms and others are actors that are important for the primarily financial investment/support that social enterprises needs. Access to the financial means that are eligible for the social businesses is often hampered even though there are funds available for the support of their social goals (through various foundations, grants etc). Number of programs and amount of funds available for the SE, number of partnership established involving financial institutions are indicators of SE development in this respect.

Legislative Framework

Legislative framework creates (legal) environment which can instigate further development of social entrepreneurship. However legislative framework itself can not secure favorable environment and moreover sometimes the laws adopted can hamper or halt development of social entrepreneurship (some comments regarding the adoption of the Law on social enterprises in Slovenia). Legislative framework can/should include: strategic guidelines for the development of the social entrepreneurship (often envisaged in separate or Strategy that tackles Economic Development, Social Inclusion etc), Laws on social cooperatives or social enterprises (often adopted as an general law), other laws that tackles subsidies, tax benefits or other aspects of the social enterprises work, also bylaws and other regulations that contributes to the work of social enterprises and last but not least it is a matter of policies in place including how they work in practice. As said previously legislative framework do not have necessarily to instigate development of social entrepreneurship or it can be even impediment at certain (lower) level of development of social entrepreneurship but nevertheless these indicators can be used to assess what kind of the impact legislative framework do have on the development of social entrepreneurship: number of laws, bylaws and other government decisions regarding social entrepreneurship, what status (benefits, subsidies) do social enterprise have in these pieces of legislation, is the legislation creating enabling environment for the development of the social entrepreneurship.

Financial schemes/incentives/instruments

As any other business, social business needs capital as well. Today, maybe not the most important capital is financial one (knowledge, therefore human capital has considerable importance in today's businesses) but still it is one of the instigator without whom business often can not start. Therefore, especially in the Developed stage of social entrepreneurship financial mechanism and instruments available and accustomed to the social enterprises are needed at much larger scale. Indicators for this factor would be: number of financial programs/schemes that are available for social enterprises, amount of funds secured for development of social enterprises, number of financial institutions involved in the development of SE etc.

Networking/Partnership

Networking and partnership are the factor which shows how spread is the idea of social entrepreneurship and how accepted it is among important and peer stakeholder. At the first instance there are various connections and cooperation between social enterprises. They can be linked horizontally like enterprises in the same line of work, regionally/locally by their place of work, vertically (from bottom up) at the national level through associations or cooperatives of social enterprises. Networking may take many forms such as syndicates, clusters, consortia etc. Besides network of social enterprises, other partnership and networks may be established with various actors, such as businesses, civil society organizations, local self government, public enterprises etc. Indicators which would show the degree of the development of this factor are number of networks and number of its members, composition of the networks (variety of members) and its impact, pattern and structure of partnership established, quality and substance of partnerships.

Capacities of the social enterprises

Capacities of social enterprises are one of the key elements of the level of development of the social enterprises in general, but they are so important factor of the development of social entrepreneurship that needs to be tackled separately. As the main actor of social entrepreneurship, social enterprises have to have certain degree of professional management, business and other skills and knowledge. This is important due to the building of business perspective (planning) and in order for social enterprises to become sustainable at the market in the long run. This factor would be measured through following indicators: how much educated (business related) staff is in the social enterprises, what kind of the training, seminars, courses did the employed and managers in social enterprises pass, are there business plans (strategies), marketing and/or sales strategy (plans) in the social enterprises etc.

Awareness about Social Entrepreneurship in the society (among citizens, media, general public and expert public)

How much is public informed about SE, do they understand the concept, is there a best possible example that many people recognizes as a social enterprise. Where they can learn about it, do media inform public about SE, do they have enough information about the topic. Are there any seminars, trainings other educational tools (literature, books, manuals, online information), courses at the University where students would gain knowledge about the topic. How many studies and researches on the topic of social entrepreneurship do exists, how many articles and other public papers on the topic can be found, expert public events (conferences, round tables, panel discussions), Practical answers to these questions would show the indicators and the level of its development.

Before giving the description of the situation with the SE development in Serbia, let's have a look on what are the features of each of the stage in general.

Stages of the development of social entrepreneurship

Initial/Pioneering stage

Since this is the first phase in the development of SE all the factors are just emerging and usually developing gradually. The main question is when the SE is entering the next stage. It is always a combination of factors that contributes to the advancement, however some minimum conditions need to be met in almost all factors in order that SE enter the next phase.

Features of the Initial stage (this is just the basic description of the situation with the indicators, which can differ from society to society):

- **Actors** are emerging, before all social enterprises, not necessarily calling themselves like that or being aware of the SE concept. They also might not have all features of social enterprises or more likely all features fully functioning (market/business orientation, marketing/sales developed). These initiatives are usually isolated not being aware of the existence of others. This is the bottom – up emergency of social enterprises which starts in various sectors of interest to the community. All other actors are sporadically informed about the SE and are still more inactive than active in promoting, supporting and assisting the SE development.

- **Legal Framework** does not exist; social enterprises are not legally regulated nor recognized. Social enterprises operate despite the lack of enabling institutional and legal environments. Some policy debate may occur. Even some legislation may be adopted but still without greater impact on the development of SE.

- There is a lack of **financial schemes and instruments**. Financial institutions do not see social enterprises as a potential partners or beneficiaries or lack instruments to support them.

- This stage is characterized by low level of **networking and partnerships**. There are no umbrella organization, nor network of social enterprises. Links between social enterprises are limited as it is with other stakeholders. Some nucleus may occur and if the network/partnerships do exist, they are still not strong.

- There are scarce **capacities of the social enterprises** but those that are emerging could have a high degree of innovation in their work. There is a strong reliance on voluntary work. Managerial and business capacities are usually weak.

- **Awareness about the social entrepreneurship** is very low. It is a discovering topic for different stakeholders such as: media, scholars, political representatives, civil society and others. There can be an ongoing debate what kind of impact SE can have on society, social inclusion, employment of various groups etc.

When many of these factors develop over time in synergy they would contribute to the advancement of SE to institutionalization stage.

Institutionalization stage, in this typology, can be seen as intermediary between initial and developed stage.

Features of the institutionalization stage:

- **Actors** of SE are well developed. First of all social enterprises are not only emerging and establishing but they now have a track record, show sustainability, grow in number and are present in different sectors. Variety of the forms are in place: legal forms – cooperatives, company with limited liability, civil society organizations and others, different types of social

enterprises are active as work integration, agricultural, social service providers, ecological ... working with different vulnerable groups and tackling different problems. Social enterprises call themselves like that, pay attention to have all features of social enterprises, rely more and more on paid, trained staff. Social enterprises are recognized by state and business sector. They might be involved and supporting development of social entrepreneurship. Financial institutions might have created some programs for the social enterprises or recognized them as beneficiaries.

- In this stage there is an ongoing discussion on **legal framework** and constant police debate. Policies are being developed and improved. Those that are in practice are being adjusted according to the needs. Laws on social enterprises exist and bylaws are in place. It defines social enterprises and regulates which vulnerable groups will be considered as preferential for social enterprises. Some tax incentives might be regulated as well as subventions for the social enterprises. There is a system of (self)control and (self)regulation developing or already in place.

- **Financial programs**, credit programs, grant awards for social enterprises are created by financial institutions and/or by other stakeholders. Social enterprises can find financial support for their endeavor. Financial institutions are aware of the SE concept. Different financial instruments are being created for the social enterprises. Microcredit institutions are also involved, providing microloans for social enterprises as well. Private - public partnership and public procurement is enabling further development of SE.

- **Networking** among social enterprises and other stakeholders is rising. Network(s) of social enterprises is/are established, Social enterprises cooperate with each other, trading between themselves, partnerships are established among them but also with business sector and local self government. Companies as part of their CSR, supports social enterprises, includes them in their supply chain promote their work or build their capacities. Local self government offers/provide different kind of support: venue/facilities, financial support, preferential position on public procurement etc. Different networks may be established between social enterprises (those working in same line/sector, those working in the same geographical area) including networks/associations for promotion and advertisement of SE, networks of supporters of social enterprises (from civil society, business) and mixed or joined networks, associations, clusters, syndicates and consortia.

- **Capacities** of the social enterprises are increasing and professionalizing. There are trainings, mentorships programs that builds capacities of the managerial and business (commercial, marketing, sale) functions/skills. Some educational courses can be found at the University. Social enterprises learn from each other and from experiences from abroad.

- **Awareness** on social entrepreneurship is widespread. General public is informed about SE. There are excellent social enterprises set as an example, recognized as such in society. There is increased number of media coverage regarding SE. There is a course on SE at the University, it is the topic of the research and studies of academics and practitioners. Partnerships are promoted, award for best social enterprise might be established

Differentiation/Developed stage

This stage is the final stage of the development of SE, nowadays it can be found in Italy (northern part) where most of these factors have developed greatly over time. Anglo-Saxon countries have in many dimensions reached this ideal stage as well, primarily because of the highly developed citizens awareness and enabling conditions for (social) entrepreneurship.

Features of the Developed stage:

- All **actors** are involved in the development of SE. Most important, social enterprises are consolidated, connected with each other, expanding, provide support for the newly established. Significant number of social enterprises are organised in the network(s), having economical importance in number. Significant number of (vulnerable) people is employed in the sector, gross income that is created in the sector is also significant. Best practices are replicated. Social enterprises connects abroad, exchange experience, cooperate and replicate models

- **Legal framework** is set up and functions. Legal framework encompass strategic guidelines and legislation (Laws, bylaws, regulations) defining social enterprises, providing incentives (tax incentives and subsidies), tackling social inclusion of vulnerable groups and other policies related to the work of social enterprises. Policy debate is ongoing and improving the legal framework based on the experience from the ground. In some societies, the enabling environment for social enterprises can exist with less developed legal framework, compensating it with the development of other factors (for instance if the awareness among citizens is very high, and their motivation to purchase something is highly determined by social cause then legislative incentives are obsolete). In Italy the laws on social enterprises and cooperatives defines their status, rights and obligations (in order to be treated as social enterprise/cooperative have to employ at least 50% of hard to employ vulnerable groups). The inspection at the local level is supervising each year whether this condition has been met. Also the vulnerable groups are defined by the law and regional authorities may add some vulnerable group specific to their region. Also some of the employees are vulnerable only certain amount of time (former prisoner and former drug addict) and after that period would not be considered as a vulnerable employee (for them this is transitional employment and empowerment for their new life).

- There are various **financial actors, programs**, joint ventures accessible or created for the social enterprises. Banks and other financial institutions are sensitised for working with the social enterprises providing them credit and loans. In some countries the biggest banks are working with social enterprises/entrepreneurs. Social enterprises through network and associations (consortiums) have their own financial means (through membership fee, training and other services) which can be used for the support of the newly established social enterprise. There are state/regional and other funding opportunities including for start up. There are philanthropy investors as well. In some countries, again Italy is the best example, there are financial institutions that are created or by enlarge devoted to the social aim (Ethic bank in Italy). In some other countries microfinance institutions are great support for the development of social entrepreneurship.

- **Partnership** is established with other stakeholders especially with state/local and business sector. Local self government often supports or engaged social enterprises through public tender where they have advantage before regular companies if they can provide the same price and quality of service. Regions in Italy provide great support for the social enterprises. Businesses are also partners in many ways, commercially as a supplier and partner in the big systems, providing training and other capacity building for social enterprises. **Networks** are well functioning showing the full strength in advocacy for social enterprise and social entrepreneurship. Networks (can) have different role, from joint purchase on wholesale, to experience exchange, economic cooperation, joint endeavors. In Italy there are three levels of consortia which at each level provides different kind of support for social enterprises, first level

provides regional identification, economic cooperation, joint trainings, second level provides support among similar enterprises, exchange of experience, syndical/union like procurement and final level provides strategic planning of the development of social enterprises, support in management, capacity building programs, joint projects, international experience. All level includes membership fees. Networks/consortia have their funds to invest in the development of new social enterprises.

- Capacities of the social enterprises are very much developed; they are managed by educated (social) managers. They are making enough income to be sustainable. Networks/consortia/coalitions are providing analyses for social enterprises development and though some or many would stay in limited scope in size and numbers of employed people, many would have plans for their expansion or development. They could be provided with the support of mentors (from other social enterprises), consultants and many other helpful means to be as effective as it is possible.

- Citizens are aware of social enterprises and support them. It can be seen through the purchasing of products and services or financial support they directly donate. Also local authorities through their procurement can favor social enterprises. Media are presenting/promoting the best examples, they are vivid, there is an award on best social enterprises. Education both formal and informal exists at the university level and with agents of the informal education. Information is shared through electronic media and social network.

All the types in this typology have the same dimensions/factors but developed at different level.

Case study Serbia

Serbia started to be aware of the social enterprises in 2007 after the mapping of the social enterprises conducted Cvejic and others (Cvejic, S.:2008). At that time numerous actors were identified as social enterprises or more likely as potential social enterprises. From that time, just in five to six years, social entrepreneurship has developed immensely in Serbia. This case study should show that SE in Serbia has entered Institutionalization stage:

Actors:

- All actors (social enterprises, CSOs, government, business, scholars) in Serbia nowadays are active in promoting, exercising and supporting SE. Number of new **social enterprises** emerged, with or without support of different actors, supported financially or in other ways to work in different areas. Many emerged independently mostly in big cities but also in underdeveloped and rural areas. Field of work of social enterprises is quite extensive there are agricultural cooperatives, ecological, working integration, recycling, social service providers, food production, organic production, media outlet, hygienic manufacture, hygienic maintenance, trade, souvenirs and craftworks social enterprises. Variety of the types of social enterprises is the first indicator that shows that social entrepreneurship in Serbia has passed initial stage. Also the number of the social enterprises is constantly rising (network of social enterprises, SENS, has 30 members, and 10 more interested to join), what is more important they have all or most of the features of social enterprises. Social enterprises appear in many different forms as cooperatives, limited liability companies, CSOs and others.

- Serbian **government** has generally positive attitude towards the social

entrepreneurship. Ministry of Economy and Regional Development (in the Government 2008 - 2012) understood the concept and follow the initiatives of EU (Social Business Initiative where government has an expert in the status of observer). In the new government, Ministry of Economy and Finance continues to follow SE, as well as Ministry of Labor, Employment and Social Policy which initiated creation of the Law on Social Entrepreneurship which is not according to the best standards of SE but more incline to the SE under the state control. Social Inclusion and Poverty Reduction Unit (SIPRU) within the Office of Vice President of the Government is and was the main supporter of the SE within the government. SIPRU was mediating between the CSOs and government, providing information and knowledge about SE through experts from EU, initiated participation of Serbia in the OECD program “Boosting Social Entrepreneurship and Social Enterprise Creation”. Local self government are interested in the topic of SE. Many have gain knowledge about SE through the seminars conducted by CSOs. And there they have recognized some social enterprises in their own communities. Some of the municipalities do already in various ways support work of social enterprises (providing them with the space/facility, financing their running costs, buying their services and/or products).

- **Civil society organizations (CSOs)** are one of the main supporters and promoters of SE. More over civil society is origin of many economic activities with the social aim and by enlarge social enterprises. Many CSOs have their own projects/programs of support for development of social entrepreneurship: financially supporting social enterprises, establishing social enterprises, providing them mentorship and consultant support, providing them with credit and grants, conducting training on SE for social enterprises, seminars on SE for other actors, instigating policy debate, advocate, provide network space etc. Besides active individual CSOs, in 2010 a Coalition for the Development of Social Entrepreneurship was established (comprised of 5 respected CSOs) which has a mission to contribute to the development of enabling environment for the development of social entrepreneurship.

- **Businesses** are also involved in the support of social enterprises. There are individual companies that support, cooperate with social enterprise. Some of them included social enterprises in their regular chain of supply (for instance Bakery Association included *Our House* work integration social enterprise in their supply chain for packaging or Price Waterhouse Coopers buys off part of the products of the Studio work integration social enterprise for the promotional purposes). Many company professionals participated in the project *Professional support to the social enterprises*, where they provided professional consultancy improving business performance of social enterprises. Besides individual companies that support social enterprises there are Business Associations, such as Business Leaders Forum (BLF), Commerce Chambers and Global Compact which involved social enterprises in some of their activities like on the Annual BLF Summit when a Fair of social enterprises and CSR companies was organized or when Belgrade Chamber of Commerce organized a round table on social entrepreneurship. This interest of businesses is increasing and has a positive effect on the development of social entrepreneurship.

- **Financial institutions** including donors are also more and more active in providing support to social enterprises. Banks are one of the important factors of better financial environment for social enterprises. In Serbia, ERSTE bank and UniCredit bank have come far in supporting social enterprises. These two banks have (different) strong origin, Erste bank in their ownership (Erste foundation) and UniCredit bank through agile UniCredit Foundation supporting social enterprises out of Italy. Both of the banks have created programs supporting social enterprises. There are donors that supports social enterprises like British Council, UNDP through

Millennium Development Goals Fund, World Health Organisation through EU funds, UniCredit Foundation, Erste Bank, Foundation HOD and others.

Actors are no doubt very much developed, especially social enterprises that are not any more potential but real social enterprises existing in various types in all sectors and areas. Other actors are involved and supporting SE. Number of social enterprises can not be still measured in thousands (that can reveal only another research which will hopefully be realized soon by the Statistic Office in Serbia in cooperation with independent researches) and still impact SE have on GDP and employment rate is still low, but it can change rapidly in following months/years. SE in Serbia is on the right track and will develop further and beyond on even faster pace.

Legal framework

- Social enterprises appear in many forms (as companies in different forms, as cooperatives, CSOs). There are no obstacles to register social enterprises in any possible legal form. In Serbia how ever you can not register as a social enterprise since this category is not defined by the law. Many social enterprises take a form of cooperative, since it is closest to the democratic governance and non profit features (agricultural, ecological, manufacturing etc). There are limited liability companies that usually regulate its social characteristic through the Statute or other company documents. As a CSO (both associations of citizens and foundations) have according to the respective laws, right to have an economic activity as long as it is not predominantly activity of the CSOs. In that way CSOs are exploring possibility for partial or full sustainability (especially for CSOs that are providing services to the vulnerable groups).

- Legislation is under the spotlight of various stakeholders for quite sometime. Ongoing discussion about policies and legislation exist. Law on professional rehabilitation and employment of the people with disabilities adopted in 2009 for the first time introduced the notion of the social enterprise. Unfortunately the law did not define social enterprises nor that has been done with the bylaws. In 2011, a draft Law on Social Entrepreneurship was prepared by one of the minor party in the Government – Party of United Pensioners (PUPS) which unfortunately is not fully complying with the modern legislation existing in the EU. This year (2012) a working group is set up under the auspices of the Ministry of Labour, Employment and Social Policy to prepare a Law on Social Entrepreneurship. At the same time Ministry of Finance and Economy is preparing draft law on social cooperatives using as a draft the model of the law already prepared by the CSO. It is clear that in 2013 there will be some law that will outline legal framework for social enterprises.

- There are subventions for the enterprises that employ people with disability according to the Law on employment of people with the disability and professional rehabilitation. With this subvention this enterprises have subsidies for the salaries of the people with disability that are employed in these enterprises. These enterprises have to have at least 50% of people with disability among employees. Some of these enterprises went through transformation from old socialistic model of “social” enterprises through state owned and now transferring to private owned. This process is still in progress but there are successful private owned enterprises that employ people with disability as well as there are still state owned that are struggling at the market. Subsidies are equally at disposal both to the private and to the state owned enterprises that employ people with disability under this law.

- Even though in Serbia there are still no tax incentives in a form of tax exemptions the law on public procurement, adopted in 2008, provides possibility for the preferential status of

social enterprises at the public tenders. In the article 44 of the law, it is clearly stipulated that public institutions/organizations can add other, specific conditions in regards to the social and ecological aim in the tender. However there are no examples of this practice.

Legal framework is still not setup but the policy debate is ongoing. There are policy analyses, draft laws (prepared by the CSOs and political party), engaged government in preparation of the Laws on social cooperative and social entrepreneurship (working group is set up with participation of experts and CSO representative). These are all indicators that shows that legal framework even still not in place is advanced and contributing to the SE entering the new stage of its development.

Financial schemes, instruments, incentives for the SE

For some time there were no financial programs open for social enterprises, this was probably the biggest obstacle for further development of SE. It was overcome partially with different grants that were provided through different grant programs (not opened just for the support of social enterprises).

- Serbia is one of few countries in Europe that lacks Microfinance Law. Even though Microfinance Law is not considered as the best suitable support for the social enterprises, it can be stimulating especially for work integration social enterprises and others that need small support regarding raw materials, basic tools etc.

- However there have been financial programs for social enterprises created in Serbia. Fund for support of social enterprises is developed by Group 484 and UniCredit bank with the support of UniCredit Foundation. This program is open only to social enterprises (registered in any legal form) where social enterprises can obtain from 2.500 to 10.000 euro grant award from Group 484 and credit loan in the same amount from the UniCredit bank (total support can go from 5.000 to 20.000 euro). This mixed financial program is opened like that in order for social enterprises to realize that they are economic subjects that have to survive under the market conditions and be able to repay the credit. It also shows that banks can adjust their loans to the social enterprises needs as well. So far three social enterprises were supported, one is still in procedure while two could not comply with all bank requests.

- Erste bank is also supporting development of SE. In 2010, within the Social Business Tour, Mr Yunus Muhammad Nobel Prize Award Winner for Peace in 2006, visited Belgrade and held lectures. This was a two day promotion of social businesses where other important stakeholders participated as well (Coalition on Development of SE, Zoran Puljic - best social entrepreneur in the South East Europe in 2010 according to the Schwab Foundation). Erste Foundation has developed the Good Bee initiative to support "good" business. In 2011 Erste bank has opened a call for young people to become entrepreneur and advantage had those that would create a social enterprise.

- In November 2012, new program of support for social enterprises emerged initiated by the HOD foundation with the support of SIEPA and Tourist Office. Three social enterprises will be awarded with 15.000 euro.

- Companies, registered under the Law on professional rehabilitation and employment of people with disability (no matter if they are in private or still in government ownership), have access to government funds designated for these enterprises. In 2011 these funds were in amount of 14 million euro for equipment purchase and subsidies.

- Local organizations, agencies, mainly CSOs that provide services to the

vulnerable people (service providers) have access to the local municipal financing. According to the Law on Social Protection, adopted in 2011, they will be licensed and certified to be service providers and their work should be regularly financed through local budget.

In conclusion, there are funds accessible to social enterprises especially to those employing people with disability according to the respective law from government level and for social providers at the local level. There are other financial programs designed for (or among others and) social enterprises. These programs are increasing in the volume and the size but still not matching the needs of social enterprises. No doubt, that the financial schemes and programs as well as incentives have evolved immensely just in three years time contributing to the further development of SE.

Networking/Partnership:

- First network of social enterprises, SENS (Social Economy Network of Serbia) was established in 2011. SENS was established with the aim to provide space for social enterprises to learn from each other, to instigate cooperation, to have at one place many social enterprises products/services that can be easily searched and select by potential customers or partners. There are other cooperation's that has been established between social enterprises or companies and social enterprises.

- Coalition for the Development of SE has been created in 2010. It consist of five prominent and respectable CSOs which are compatible in their work: Group 484 – provides support for the network of social enterprises, provides financial support and policy analyses; European Movement in Serbia – training local officials on SE and providing policy proposals; Initiative for Development and Cooperation – supported development of one Eco social cooperative; Smart Kolektiv – provides business support to social enterprises; Balkan Community Initiatives Fund – provided grants for social enterprises coming from civil society. Coalition main goal is to advocate for the enabling environment for SE development. It represents a contour of possible future consortium (in Italian model) because of its strategic approach towards SE development and synergic activity of all its members in achieving it.

- Partnership of social enterprises with local institutions can also be identified, not only in the area of service provision but in others as well. In 2011, a law on Public Private Partnership (PPP) has been adopted. Even though it lacks more operational articles it is a good framework for PPP. Some of the best examples of PPP are: Youth Center established in Zajecar, when Zajecar's Initiative (CSO) gain a ruined building from local self government to renovate and to create community youth center; Local self government in Pirot and in Surcin, both provided a free fertile land, Pirot, to the refugee families and Surcin to the refugee women, to cultivate, to establish green houses in Pirot in order to provide food for their families and sell the rest on the market; and in Surcin for flowers production for selling on open market.

- Partnership of social enterprises with business is also increasing. There are concrete examples of partnership established such as: Bakery Association and Our house, social enterprises making packages for bakery products, where Our house is delivering all their monthly production to the members of the Bakery Association; Ecobag, social enterprises reusing the banners of the companies establish cooperation with many companies that are using this kind of advertisement.

Social entrepreneurship can develop only in enabling environment therefore networking and partnership buildings are very important. Network of social enterprises is established and

function, there is a strong coalition of CSOs that advocates for enabling environment for SE, social enterprises are establishing partnerships with business and local self governments which all together is contributing factor to the Institutionalisation stage.

Capacities of the SE

Even though capacities of social enterprises are one of the features of social enterprises, they are one of the most important features in general for the development of SE so that is why they are secluded and analysed separately. In Serbia because of the origin of new social enterprises, they usually lack business perspective, managerial and other skills:

- Lack of business perspective can be seen in all types of social enterprises. It is mainly due to the emerging of the social enterprises from civil society, i.e. nonprofit organization not used in organising production/services for profit, or they come from old protected system. Business and entrepreneur perspective is generally lacking in Serbian society which is in transition
- Many social enterprises have serious problems with the management and other skills (sales and marketing are identified as area where social enterprises have least knowledge and experience)
- There are program of mentoring, where business consultants supports managerial capacities for better management of social enterprises. This cooperation was assessed as one of the most useful tool for empowering social enterprises.
- There are no formal education courses (or very few exists) where students and others can learn about entrepreneurship in general and particularly for social entrepreneurship. There are no informal education courses as well. British Council has organized two years in a row course on SE with the participation of experts from Great Britain.

Still limited capacities of social enterprises are one of the main obstacles for more vigorous development of SE. Managerial skills are learned as the social enterprises develop. There are programs which have tackled business perspective of social enterprises, providing them opportunity for development of business plan under supervision of trainers. This is one of the factors which is not still contributing greatly to the development of SE but is very important and the level of development of this factor can be assessed as satisfactory.

Awareness raising

Serbia still lags behind the most developed societies in raising awareness about SE. Partly because of the socialist background, it is hard for the public to differentiate social with the old socialist ("socially owned") enterprises. Social entrepreneurship is also a relatively new phenomenon which has developed greatly over time especially in the last decade(s). However there has been breakthrough which made SE more visible and understandable for the public:

- There have been at least three national conferences/events open for the public participation and media which showed immense growth of interest among all stakeholders (social enterprises, social entrepreneurs, CSOs, government, local self government, business and media) in just three years time. At the latest conference organized in 2012 many speakers and participants called themselves social entrepreneurs and their organizations social enterprises, which is huge difference from just three years ago, when some of the participants learnt that they are social entrepreneurs. There have been also round tables, panel discussions, courses on social

entrepreneurship organized by CSOs, business and international organizations (or more likely in cooperation). Expert conferences have been organized as well with the participation of recognized scholars from Serbia and abroad.

- Citizens have been informed about SE mainly through different media, electronic and print one as well. However there is still not critical mass of people that would put SE as the common trend. This is the topic for the middle and upper class which understands the concept and are able to contribute.

- Best examples. Ten to twenty social enterprises are usually seen as the best examples and often invited at the above mentioned events and in media. Even though there is no one single social enterprise that is well known national wide and which can majority of citizens identify with social enterprise, there are some that have built their image, clearly connecting their mission with the SE.

- Media are interested in the topic more and more (content analyses and press clipping could easily show the volume of their interest). Unfortunately media in Serbia are not systematically following certain areas and as a result of that, media coverage is sporadic, basic and still creating a massive influence in creation of citizens' opinion.

- Information sharing and education is growing from day to day. Among SE community, information are going fast. All the stakeholders are in some sort of connection and network. Still there are no regular courses at the university nor in informal education but for those interested in the topic there is a way to find more information and learn about SE.

Citizens, public and media even though still not contributing as much as they could/should are slowly growing as a supporter of the SE. The level of awareness is satisfactory for the beginning of the Institutionalization stage.

When taking into account all factors of the development of SE, it is clear that SE in Serbia has just entered Institutionalization stage. However there is still a lot of ahead that needs to improve and develop further in order to enter the most developed stage of social entrepreneurship.

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PUBLIC POLICIES AS A FRAMEWORK FOR DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN SERBIA

Abstract

Several researches pointed out that social enterprises (SE) sector has been growing in Serbia in last couple of years. Different forms of SEs have been established, major actors recognized, basic networks and coalitions founded, market niches formed.

With certain changes in legislative framework (e.g. introduction of social cooperatives, recognition of social enterprises as service providers in social care) SE sector in Serbia is entering its institutionalization stage. At this stage it is of utmost importance to recognize which are the strengths and the weaknesses of the sector in order to design adequate policy measures to support SEs.

Public policy support needed to strengthen SE sector is not related to direct support or provisions to SEs only, but also to other sectors, entities and processes in economy and society (e.g. employment, budget support, informal economy, social care, public enterprises, corruption etc.). Consequently, there is wide spectrum of public policies that should be considered when designing a favourable surrounding for rise of SE sector (labor policy, taxation policy, civil society policy, etc.).

In this paper, major issues in institutionalization stage of SE sector and relevant policy frameworks in Serbia are presented.

Key words: *social entrepreneurship, public policy, institutionalization*

Introduction

The role of social entrepreneurship in solving social problems in Serbia has become much more visible in last 5 years.

The need for affirmation of the role of social enterprises in Serbia's economy has grown for the same reasons that this idea first arose in western capitalism in the context of the broader concept of social economy in the 19 century, and then in the concrete forms of social entrepreneurship appropriate to contemporary capitalism in the second half of the 20th century. These reasons are related to the negative effects of the market economy and socially unsustainable model of economic growth. When the number of those who can not participate in the market competition becomes too large and the burden of losses falls on the state budget, support to entrepreneurial efforts in less emphasized market conditions, which social entrepreneurship is by definition, is a good instrument to increase the number of citizens that will be independent in the society and, consequently, to increase social cohesion.

Social entrepreneurship is a mirror of transformation of social policy in Serbia. Support to the development of sector that can employ a large number of socially and economically excluded is in fact the support to the whole economy. The idea of modern social entrepreneurship in Serbia emerged through a process of cultural and political harmonization with the European Union, and to grow into a viable sector the specific context of social entrepreneurship in Serbia must be taken into account that differs from the model identified in the European environment, and that is similar to other Eastern European countries .

- Economic problems and the number of people who are not included in the standard market mechanisms in Serbia is higher than in most European countries. The number is as critical as to threaten the normal functioning of the economy. Strengthening the role of social entrepreneurship can open up an alternative route into the labor market and relax market economy of large social expectations, but it can not be a major employment generator.

- The experience of the socialist economy has taught us that the economy which is predominantly social can not survive. Socialist enterprises had ineffective internal structure, low productivity and a significant lack of investment in new, more efficient technologies. This mix of inefficiency and non-creativity caused huge losses and showed that, in order to maintain, social economy, which is operated under these principles have to be seriously protected from market risk and significantly reduced. Consequently, during the 1980s, Yugoslav, and thus the Serbian economy and political system have fallen into a deep crisis.

Experiment with socialism has corrupted the idea of social economy. Considering that in Serbia still persist large public companies doing business with huge losses, which appears to have primarily a social function, the role of the state as a promoter of responsible and economically sustainable social entrepreneurship is morally difficult. Therefore, the idea of social justice in economic relations can be reaffirmed by insisting on the entrepreneurial spirit and economic sustainability in the activities of companies, cooperatives and other actors who do business with a strong social mission or in a 'safe' market performance.

- The entrepreneurial spirit in Serbia is still poorly developed. Forty five years of socialism was followed by 10 years of dirty disastrous privatization, corruption and clientelism. There are still visible traces of this model of the economy in the development of Serbian capitalism. As a result, few companies can sustain an open competition, a large number of 'entrepreneurs' is focused on clientelism, gray economy and other forms of economic behavior that threaten the normal functioning of the market. For sure it is even less likely to find entrepreneurial knowledge and skills among those who find themselves in the field of social economy. This all together carries implicit threat that attempts to strengthen the function of social entrepreneurship will be threatened by numerous attempts to manipulate the potential benefits that would be provided for social business enterprises. And social responsibility of entrepreneurs is even the higher the more difficult the measurable economic indicators are. For these reasons, social entrepreneurship must be a regulated sector in which one will clearly see the role of entrepreneurs, legislators, central executive authorities, local authorities, the coordination bodies, supervisory bodies.

- The functions and responsibilities of the public and private sectors are still not clearly delineated, and this is particularly threatening the third sector from which the greatest input in social entrepreneurship is expected. In the construction of social entrepreneurship the third sector requires stable partnerships with the public and the private sector. Generally, we can

say that the third sector in Serbia has limited but stable potential for engagement in social economy. A number of NGOs have the human resources, knowledge and experience. However, in most cases, they lack a crucial element of social entrepreneurship - the ability or willingness to undertake activities directly oriented towards profit. Specifically, the options are limited and insufficient preparedness reveals a lack of entrepreneurial skills and capacity. Organized support in strengthening of entrepreneurial capacity will be a valuable input in reviving and expanding sector of social entrepreneurship.

- The modest development of social entrepreneurship in our environment can be explained, among other things, by the substantial lack of understanding of triple bottom line in the macro (national) and micro (entrepreneurial) levels. This is especially important if one takes into account the direct connection between the triple bottom line, funding and sustainability of social entrepreneurship. The first problem that the social enterprise and social entrepreneurship faces in our practice is undoubtedly related to lack of understanding from the side of state institutions that do not recognize the value of *the third sector in a developing economy*. Third sector economy coexists in addition to private and state-corporate sector in all developed economies and is based on social enterprises that include a wide range of legal forms, profit and non-profit organizations - such as the company focused on fulfilling the tasks of the community (quasi-government organizations), various forms of charitable self-organizations, credit unions, cooperatives, etc..

As a result of misunderstanding, social enterprises and entrepreneurs in Serbia are faced with a completely undeveloped institutional framework. An important component of this shortage is underdevelopment and lack of adequate financial incentives to the creation of activities, and to maintain current operations. At the same time, insufficient development of the institutional framework may be associated with inadequate approach to valuation of investment and return on investment in the third sector of the economy. In other words, here the question is the following: compared to corporate and public sector, can or should *the same financing terms and conditions of the same investment valorization* be applied to third sector?

The institutional framework for social economy and especially for social entrepreneurship in Serbia is not defined and established (Cvejić Babovic Vukovic, 2008). Concept of social entrepreneurship has only recently been officially introduced for the first time through the concept of social cooperatives, mentioned but not elaborated, in the new draft law on cooperatives. The term of social enterprise is mentioned in the Law on enterprises for professional rehabilitation and employment of disabled persons. However, in Serbia, in spite of the unfavorable legal, economic and institutional framework, the social economy still exists. Social entrepreneurship in Serbia currently exists in the form of individual initiatives to solve the problems of unemployment and social exclusion (1.1% of total employment). Some 1,100 SEs of different forms were surveyed in 2007 research. There is no precise estimate at the moment, but looking at different support competitions programs the growth trend is apparent. The number and visibility of other actors in the sector is increasing. Different forms of SEs have been established, major actors recognized, basic networks and coalitions founded, market niches formed.

With certain changes in legislative framework (eg introduction of social cooperatives, recognition of social enterprises as service providers in social care) SE sector in Serbia is entering its institutionalization stage. At this stage it is of utmost importance to recognize which are the strengths and the weaknesses of the sector in order to design adequate policy measures to support SEs.

Public policy support needed to strengthen SE sector is not related to direct support provisions to SEs only, but also to other sectors, entities and processes in economy and society (eg, employment, budget support, informal economy, social care, public enterprises, corruption etc.). Consequently, there is wide spectrum of public policies that should be considered when designing a favorable surrounding for rise of the SE sector (labor policy, taxation policy, civil society policy, etc.).

In this paper, major issues in institutionalization stage of SE sector and relevant policy frameworks in Serbia are presented. The two most common problems that, according to the mapping of social enterprises in Serbia, social enterprises are facing are lack of money and an unfavorable legal framework. For these reasons, our further analysis is focused on these two important elements that can support the development of social entrepreneurship in Serbia: the legal framework and financing.

Legal Framework

Functioning of most companies, which according to its characteristics or methods of conducting activities may be considered as social enterprises in Europe are legally regulated by the Law on Cooperatives, the Law on Citizens' Associations or the Law on Social Enterprises. In those countries where the law on associations allowed civic associations to engage in production, sale of goods or services on the market, social enterprises are usually recorded in the form of an association, while in other countries, where the legal system does not allow or permit to the limited extent such an engagement, these subjects are established under the Law on Cooperatives. In addition to these traditional legal solutions many countries have adopted additional statutory provisions that encourage the establishment of innovative, modern forms of social entrepreneurship.

Relevant laws which determined the development of social entrepreneurship in Serbia at this moment enable regulation of the field of social entrepreneurship, the way the way of its constitution and conduct (*Law on Social Protection and Social Security, the Law on professional rehabilitation and employment of persons with disabilities, the Law on Association of Citizens, Law on endowments, foundations and funds, the Cooperatives Act, the Law on Volunteering*) and method of taxation (*Law on Corporate Income Tax and the Law on Value Added Tax*).

The Law on Social Protection and Social Security

The provisions of the Law on Social Protection predicts that the main carrier of the social security system are social care institutions. However, the Law allows for the possibility of participation of other entities, besides social care institutions, in certain aspects of social protection. First of all, in accordance with the provisions of Article 5 of the Law: "the jobs of professional training and employment of disabled persons under special conditions, which, according to this law provide the right to assistance in vocational training, could be conducted by enterprises for vocational training and employment of disabled persons and other companies and institutions in accordance with law. " In addition, social protection activities may be performed by citizens, as well as other institutions and enterprises in accordance with the law. Finally, the law states that the programs of disability, social humanitarian, professional and other organizations and institutions, contributes to the improvement of socio-economic and social status, rehabilitation and socialization of disabled persons and others in need, as well as improves the professional and voluntary humanitarian work.

The Law allows the private institutions, besides the public, to perform social services, under prescribed conditions, which is certainly a good solution, because it allows privatization of social protection. In addition, the law allows institutions to receive funding for their work, not only through execution of social, health and educational services, or vocational training, in accordance with the provisions of a contract to provide such services, but also from other sources. However, although the Act contains general provisions regarding the management structure of the institution, it would be useful to develop regulations that would, in general way, regulate the legal status of the institution, that is, issues related to the establishment, operation, internal organization, and termination status of institutions, which would contribute to a higher degree of security in the legal system and stimulating effect on the role of private institutions in the system of social protection.

The Law on professional rehabilitation and employment of persons with disabilities

Overview of possible legal forms for social enterprise starts from the provisions of the Law on professional rehabilitation and employment of persons with disabilities, as this Law in most details addresses social function of the company and is the only legal act in which we find the term social enterprise.

The law provides that the special forms of employment and work opportunities of persons with disabilities can be run as a social enterprise, as well as the company for professional rehabilitation and employment of persons with disabilities. Company for vocational rehabilitation and employment of persons with disabilities in terms of this Act, is "a legal body that employs and provides vocational rehabilitation for persons with disabilities", the founders of which may be the Republic of Serbia, autonomous province (of Vojvodina), local government, a company, an association of persons with disabilities, and other legal and natural bodies. For the company to be registered in the legal form of the company for employment and rehabilitation of persons with disabilities "at least five people with disabilities should be employed for an indefinite period of time, at least 50% persons with disabilities compared to the total number of employees should be long-term employed, of which at least 10% of people with disabilities that can be employed only under special circumstances" and these people with disabilities must perform their work activities under the supervision of professional staff and under specially adjustment modes. Also, in order to obtain the status of such a company, it is necessary to have adequate working space adapted to work of persons with disabilities.

Thus conceived enterprise for professional rehabilitation and employment of persons with disabilities has the characteristics of a social enterprise aimed at occupational integration of marginalized groups. The law provides also a definition of a social enterprise. Social enterprise is a company that is established to carry out the activity that is directed towards meeting the needs of persons with disabilities, and that regardless of the total number of employees has at least one person with a disability employed. It also stipulates that the social enterprise operates in accordance with the regulations of the Law on Companies. Focus on meeting the social needs of people with disabilities is a feature of social enterprise - social service provider. The Act provides that the company has to invest the portion of income in integration of its own users into society and in improvement of their living standards, working conditions, job skills, but at the same time the law is not defined with regard to what percentage of income is concerned.

Such provisional regulation leaves plenty of room for its arbitrary implementation and therefore quibble basic idea of establishing social enterprises. Attention should be drawn to the fact that the law does not prescribe the manner of distribution of profits. Given that the law stipulates that the social enterprise operates in accordance with the Law on Companies, this means that in this

case one should apply the provisions of company law which prescribes the method of distribution of profits. Distribution of profit depends on the shape of the company which is founded as a social enterprise. Given these two facts, it seems that the term social enterprise was carelessly used for this purpose. Also, the nature of the law does not allow the provision of this law shall apply to other vulnerable groups.

The Law on Associations

The law which inevitably needs to be addressed is the Law on Associations of 2009 because it governs the area of rising initiatives for social entrepreneurship. In this context, the relevant are provisions of the law governing the objective of the establishment of an association, the ability of the association to conduct economic activities, and the manner of acquisition and disposition of assets of the Association. Provisions of this law refer to a certain number of existing social enterprises operating in Serbia.

The association can be established to acquire or improve any joint or common purpose or interest, which is not prohibited by the Constitution and the law. The joint or common interest or goal, in terms of law, is an ideal (non-material) goal or interest. Accordingly, the association can not be established for profit and its distribution between the founders and related entities - because that would be inconsistent with the definition of an association as a non-profit (nonprofit organizations). However, this does not mean that the association may not directly engage in economic activity as a supplementary activity to generate income, to finance the basic statutory objectives of the association. The Association may directly engage in economic or other activities, in accordance with the law governing the classification of activities²⁹, under the following conditions: 1) it is a commercial activity that is directly related to its statutory objectives (the related economic activity), 2) the performance of such activities is provided in the statute of the association and 3) it is a commercial activity of "small scale" and is carried out to the extent necessary to achieve the statutory objectives of the association. Economic activity of the Association is registered in the Business Register and performed in accordance with the regulations governing the technical, sanitary and other requirements for performing these activities. In other words, in terms of conditions for the performance of certain activities, the association is in the same position as any other business entity.

It is necessary to draw attention to the condition - it is a small-scale activity, i.e. the activity is performed to the extent necessary to achieve the objectives of the association. It is obvious that the condition of the economic activity is formulated in the law in contradictory ways. This is because the performance of (business related) activities to the extent **necessary** to achieve the objectives of the Association does not imply in any way that these should be small-scale activities.

The Law on Associations provides primarily a form of civil association in order to resolve an issue of public interest, and as such does not provide a sufficiently flexible structure for economic activity. This is reflected in the fact that due to their non-profit character, associations have very limited access to conventional financing instruments such as loans from commercial banks or other development resources. Also, it is very difficult for them to participate in the tender. All this limits the economic activity of the Association and keeps it at a low level.

²⁹ Classification of activities (Official. Gazette of RS ", No. 104/2009)

The Law on Legacies, Foundations and Funds

Legacy and Fund in Serbian law can be established to achieve the "humanitarian and other socially-beneficial goals." Such a general formulation does not answer the question of whether social entrepreneurship is *explicitly* or *implicitly* considered as socially useful purpose. For the establishment of an legacy or fund the initial assets are required necessary to achieve the objectives for which they are established. Strict interpretation of this provision implies that the legacy or a fund at the moment of the establishment must have a permanent property necessary for the performance of their statutory activities. However, the registry has practice to interpret this requirement liberally, so that the establishment of a legacy or a fund requires symbolic initial assets.

Legacies and Funds may acquire property in a variety of ways: from passive income (rent, interest, dividends, fruits and harvests from agricultural land, income from copyrights and patents), gifts, legacies, etc. The law explicitly allows for the possibility of organizing "actions" defined by the founding act, in order to gain additional revenue. As for the direct pursuit of economic activity, this form of earning income is not specifically mentioned, but it is covered by the general formulation of the acquisition of income in accordance "with the provisions of this Law and other regulations." In this sense, the Law on Corporate Income Tax provides for the possibility that "a non-profit organization" (as legacies and foundations, by their nature, most certainly are) directly engages in economic activity – and proposes the way of taxation of income earned from such activities. Moreover, the fact that the Law on Corporate Income Tax is appropriate legal instrument regarding the conditions under which legacies and funds are directly engaged in economic activity, implies that legacies and foundations - in contrast to the associations - can perform unrelated economic activity, taking into account that the law does not distinguish between "related" and "unrelated" economic activities.

Law on Legacies, Foundations and Funds does not govern issues concerning the distribution of funds and endowment funds, including the allocation of the income from a direct pursuit of economic activities. The law only requires that these funds can be used in the manner specified by the founder, implying that the regulation of this issue is primarily based on provisions of the statutes and rules of the organization. However, these provisions should be considered in light of the provisions of the Law on Corporate Income Tax.

The new Law on Foundations made a few changes which have implications for the social enterprise. The proposal clearly defines what is meant by public benefit and what by private benefit (interests) for which legacies and foundations can be established. As public benefit objectives are explicitly stated: sustainable development, rural development, improving of the situation of persons with disabilities, child care, youth, gender equality - as well as other objectives that are considered to be of public interest.

The law regulates in detail the internal structure of legacies and foundations. Among other things, it prescribes the specific standards of care and accountability for managers and board members of legacies and foundations - especially when it comes to direct conduct of the economic activities.

The Law on Cooperatives

In addition to companies and entrepreneurs, our law also recognizes cooperatives as commercial entities. Cooperatives are established and act on specific (cooperative) principles, in accordance with the provisions of the Law on Cooperatives. Unlike companies, cooperatives may be established only by private individuals, in pursuit of its economic, social and cultural interests, on the principle of voluntary participation, solidarity, democracy, economic participation, equal rights management, independence, cooperative education, and collaboration with other cooperatives. Cooperatives can be farming (general and specialized), housing, consumer, trade, for health care, youth, students, and can be arranged for other types of services, too. In addition, depending on the act establishing act and rules on cooperative shares, cooperatives may be with or without a share. In legal system a cooperative acts in its own name and for its own account, in its own name and on behalf of its members, or in the name and on behalf of its members. On the firm, location and activity of the cooperative the rules that apply to any company are being applied. Cooperative is managed by its members, the principle of one man one vote. Each member has an equal share in the cooperative. For liability in legal system cooperatives are responsible with all its assets, while cooperative members are jointly responsible, at least to the extent of their share, if the foundation agreement or cooperative rules do not set a larger amount. As stated, the cooperative may be established in order to achieve economic, but also social and cultural interests of its members. However, from the legal definition of certain forms of cooperatives (agricultural, trade, housing, etc.), it appears that the cooperatives are being established primarily to achieve certain economic interests (sales of goods and provision of services for remuneration in the market), although under specific circumstances.

The law stipulates that cooperative contributes portion of the profit or surplus of revenues over expenditures to the mandatory reserve fund, the percentage established by cooperative rules. Cooperative rules may provide for other funds and funds for other purposes. General Assembly of Shareholders decides on the allocation of profit and it is done in proportion to equity. In the tax context, these forms of co-operatives have the same status as the companies, which means that their incomes are taxed in the same manner as the income of companies.

The Law on Volunteering

The Law distinguishes between three different types of volunteering: a long-term, short-term and ad hoc volunteering; provisions of the law apply only to the first two forms of volunteering. Under long-term volunteering in terms of law, the volunteering for more than the 10 hours per week for at least three months without interruption is considered. The difference between long-term and short-term volunteering is greatly relativized, bearing in mind that the most important provisions of the law apply to both forms of volunteering.

The organizer of volunteering should primarily be non-profit legal entity (association, foundation). In addition, the organizer of volunteering can be a state body, the autonomous region, the local authority and the local community, in accordance with the conditions prescribed by law and ratified in international agreements, as well as company and a public company, under the conditions stipulated herein. In order for a company to organize any volunteering, it must meet the following requirements: organizing volunteers for the common good and benefit of another person in *outside activities* of the company; performing volunteer activities that does not gain profit; volunteering that does not replace the work of employees and other persons working in the company, and to obtain the approval of the Ministry to work on a program of volunteering.

It is obvious that these conditions effectively prevent the involvement of volunteers in the activities of the "social enterprise" which is organized as a company or as a cooperative.

Obligations of the volunteering organizers are: to make a contract on short-term volunteering with the volunteer-minor, or at the request of (any) volunteers or beneficiaries of volunteering; to issue a certificate of volunteering at the request of volunteers; to carry evidence of volunteering; to enroll in the records of volunteering organizers at the Ministry of Labour and Social Policy and to submit annual report on volunteering to the Ministry. In the Bill, the proponent did not specify the reasons for which he decided to make such a comprehensive law regulating the institute of volunteering - especially given that the draft of the Act provided only regulation of *a long-term volunteering*. In any case, the concept of a comprehensive legal regulation of volunteering is contrary to its nature as voluntary and private initiatives, requiring minimal legislative intervention. In this regard, the Act primarily deals with volunteering as labor law based and public law based, not private legal relationship. In addition, the concept of volunteering imposes unduly *high transaction costs* of law enforcement for the volunteering organizers, which the volunteering organizers, due to limited financial and human resources, are unable to submit. So, rather than to contribute to the promotion of volunteering as an activity in the interest of the Republic of Serbia, and in the public interest, the law will have an extremely negative *impact* on promoting and encouraging culture of volunteering.

Financial support for the development of social entrepreneurship in Serbia

Income tax treatment of civil society

The tax treatment of donations

Pursuant to the provisions of the Law on Corporate Income Tax, expenditures for health care, educational, scientific, humanitarian, religious and sports activities as well as for environmental protection are recognized as an expense in the amount of up to 3,5% of the total income; expenditures on humanitarian purposes are recognized only if made through humanitarian organizations registered for these purposes; expenditures in the area of culture are recognized as expenditures in the amount of at most 1,5% of total revenue.

Advantage of this system, from the point of encouraging a culture of giving, is that total revenue rather than income is recognized as the basis for calculation of expense, which increases absolute amount of benefits which are recognized as an expense. Another advantage of this system is that the expenses are recognized for investments in *certain purposes*, regardless of whether these purposes are being fulfilled by civil society organizations (CSOs) or government agencies (non-discrimination principle). However, the definition of the activity of public interest is restrictive and for example, does not recognize the promotion and protection of human and minority rights, consumer protection, sustainable development, balanced regional development, support to the development of democratic institutions and the institutions of a market economy, fight against corruption, European integration, etc. as the purposes of public interest, although these purposes - not only in the European and global environment, but also in our society – are recognized as an activity of public interest.

Recognizing the necessity of appropriate changes in laws in this area, the Law on Associations provides a list of programs of *public interest* that are financed from the budget, which is in line with the new social demands, much wider than those in the Act on Corporate Income Tax. In addition, the new Law on Foundations also contains a definition of the public interest which corresponds to the provisions of the Law on Associations.

The tax treatment of the earned income

According to the Law on Corporate Income Tax, a non-profit organization that directly engages in economic activity and that in the year for which the exemption from the taxation is exercised makes surplus of income over expenditures less than 300,000 dinars shall be exempt from tax, subject to the following conditions: 1) non-profit organization that does not distribute the surplus to its founders, members, directors, employees or related entities³⁰; 2) the salaries paid by the non-profit organization to its employees, directors and their related parties does not exceed twice the average for the industry to which non-profit organization was classified, 3) non-profit organization does not distribute assets for the benefit of its founders, members, directors, employees or persons associated with them. Any non-profit organization is obliged to present in its tax balance separately the income earned in the market and related expenses.

Legal implications of the different set of conditions in these regulations are as follows: if the CSO does not qualify for the economic activities regulated by the Law on Associations and the Law on Foundations, NGOs and its responsible person shall be punished by a fine for an economic offense. If, on the other hand, CSOs are not eligible for the economic activities regulated by the Law on Corporate Income Tax, any excess revenue over expenses will be taxed at a regular rate of 10%.

The tax treatment of gifts

In accordance with the provisions of the Law on Property Tax, "funds and foundations" do not pay gift tax on inherited or received as a gift property that is used solely for the purposes for which trusts and foundations are established. However, unlike the trust and foundation, an association *is* subject to taxation of gifts in form of money, property and rights. This tax is paid in the amount of 2.5% of its established market value. Gift tax is not paid if the individual market or nominal value of the gift does not exceed 9,000 dinars (approximately 80 Euro in 2013). Things and rights whose established market value exceeds 9,000 dinars are not subject to gift tax only if they are subjected to VAT. Additionally, the gift tax is not paid on the donations of money, property and rights provided as installments through ratified international agreements.

Tax on gifts is prescribed for associations regardless of whether the donor is foreign (not included in the ratified international treaties) or domestic legal body. On the other hand, the gift tax is not paid on the property received from the Republic of Serbia, autonomous province and local self-government. It is obvious that this solution is twice discriminatory: 1) it discriminates against private donors (foreign and domestic) in relation to public donors (Republic of Serbia, autonomous province, local self-government), and 2) it discriminates against the Association in relation to the Fund and the Foundation, as the association is obliged to pay tax on the gift, even when performing *the same statutory activity* as the trusts and foundations. Moreover, the restrictive literal interpretation of the provisions of Article 21 of the Law suggests that not only the association, but the *legacies* are obliged to pay taxes on the gift.

³⁰ In accordance with Article 59 Law, a person related to the taxpayer is considered to be a natural or legal person whose relationship with the taxpayer there is a possibility of control or significant influence on business decisions. Possession of more than 50% and most of the individual stocks or shares is considered to be enabled control over the taxpayer. The impact on business decisions taxpayer there, in addition to the case provided for in paragraph 3 this Article, where a person related to the taxpayer owns more than 50% or the single largest number of votes in the taxpayer's control. Person related to the taxpayer, and it is considered a legal entity which, like the taxpayers, the same natural or legal persons participate directly or indirectly in the management, control or capital.

The criteria for budgetary funding of NGOs

Given the non-transparent practice of state funding for CSOs, Law on Associations has tried to bring more structure in this area (although in the strict sense this is not a matter that should be subject to the regulation of this law). According to the law, the government or the ministry responsible for the area in which the basic objectives of the association are being fulfilled, provide the funds for implementation of the programs of associations that are of public interest on the basis of a public competition and conclude agreements on implementation of the approved programs. As programs of public interest are considered especially programs in the field of social protection, veterans' disability protection, protection of persons with disabilities, child protection, protection of the interests of displaced persons from Kosovo and refugees, increase of fertility, assistance to the elderly, health care, protection and promotion of human and minority rights, education, science, culture, information, environmental protection, sustainable development, animal welfare, consumer protection, the fight against corruption, as well as humanitarian and other programs in which the association exclusively and directly achieves public purposes. The Government shall prescribe the criteria, conditions, manner and procedure for the award, as well as how to restore the funds, if it is determined that the association didn't use funds for the implementation of approved programs. In order to ensure the transparent use of funds, beneficiaries are required to make an annual report on the use of funds available to the public. These rules also apply to the method of allocation and use of funds from the budget of the autonomous province and local self-government.

The issue of public financing of funds and legacies is not governed by the regulations, but the provisions of the Law on Foundations in this regard explicitly rely upon the provisions of the Law on Associations.

Law on Value Added Tax

Value Added Tax (VAT) is a form of indirect taxation which the taxpayer pays for the delivery of goods and provision of services for remuneration, within the territory of the Republic of Serbia, in the area of activity for which it is registered, as well as for import of goods into the Republic of Serbia. VAT taxable subject is a body that has been to *a certain extent* engaged in the delivery of goods or provision of services for remuneration. In this respect, the law shall not apply to so-called small taxpayers. The small taxpayer means a body whose total turnover of goods and services, except turnover of equipment and facilities needed for the performance of activities in the previous 12 months is not greater than 4,000,000 dinars, or a body that at the commencement or during the activity estimates that over the next 12 months it will not achieve total turnover of 2,000,000 dinars.

It should be noted that the tax is not paid, among other things, for import of goods that are imported under the grant contract, or as humanitarian aid. This exemption is of particular importance for associations and foundations which, in cooperation with foreign partners, carry out programs and projects in the field of social entrepreneurship, but it does not solve the problem that the civil society organizations in general face when it comes to the payment of VAT on goods and services they buy, and which are necessary for the performance of their (non-profit) statutory activities. The VAT regime adversely affects the financial sustainability of CSOs. This is because in this system CSOs are treated as end users, even when they are not: this is especially true for charities and organizations that provide social services free of charge or at a price lower than the market price. For example, if a CSO has organized a soup kitchen for the poor, they pay VAT on all goods and services that are necessary for this activity, although the

end user of these services is not CSO, but users of soup kitchen. This paradox results from the fact that the VAT regime focuses on the types of goods and services included in the tax regime, and not on the people involved in the trade of goods and services.

Available sources of funding social enterprises in Serbia

As shown in the review of legal framework for the development of social entrepreneurship in Serbia, different laws define financial resources and obligations of various legal forms that social enterprises can currently take in Serbia. Most of these opportunities and obligations are regulated by the the Law on Companies, the Law on Income Tax, the Law on Value Added Tax and the Law on Associations in which the possibilities and conditions for budget support are outlined. Except in the case of companies for vocational rehabilitation and employment of persons with disabilities, subsidies to companies with outstanding social objectives and activities are minimal and tax duties almost the same as for profit companies. The law in some cases even directly prevents the humanitarian operation. For these reasons, social enterprises in Serbia are more focused on other sources of funding.

It is possible to identify in Serbia certain domestic and foreign sources that could be used for this purpose, meager in scope and purpose, though. All these funding sources can be divided into three groups.

The first group - funds that support social entrepreneurship are funds that are directly used to finance the establishment and operation of social enterprises, as they recognize the need for alternative activities in the field of social protection, which is emphasized in the description of their activities.

In the second group that consists of funds earmarked to finance different needs of vulnerable groups, there are the sources of financing of projects dealing with marginalized groups. A large part of these funds is not yet developmentally oriented. Instead, solving problems of vulnerable groups is often treated as a form of social assistance, with no effort to actively engage these individuals in meeting their own needs. These are the sources of funding where most should be done in terms of adjustment to the conditions of development of social entrepreneurship.

In the third group there are potential sources of financing of the development of social entrepreneurship. These funds generally do not target the marginalized groups, but are sources of funding that are more favorable than those that exist in the financial market in Serbia, which are suitable for the establishment and funding of social enterprises.

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SOCIAL ECONOMY, CIVIL SOCIETY AND THE SERBIAN WELFARE SYSTEM³¹

Abstract

In this article we analyze the role of the civil society organizations in the provision of social welfare services. The role of civil society organizations is growing for two reasons. First, structural changes in the welfare state lead to a growing marketization, privatization and larger role of private and non-profit sector. Second, in the process of democratization civil society is perceived as a mechanism for ensuring accountability and civic control of the government. In Serbia, civil society organizations are not rooted in hectic civil society, as the empirical data clearly indicate. They have developed as a result of donors' agendas and as of more recently, with the financial support from the state. One of the exceptions are self-help organizations such as organizations of persons with disabilities. In this article we argue that the self-identification of civil society organizations is divided between two concepts: advocates of rights and interests of certain groups and individuals and service providers. This second concept first into the framework of social economy. It gains importance as donors and state subcontract these organizations to deliver services, especially in the field of social welfare. At present, these organizations account for a quarter of market share in community based welfare services. Two thirds of them are for persons with disabilities and persons with learning difficulties and the same share is implemented in more developed municipalities. This highly developed social economy in welfare services leaves at least two questions unanswered. First, since they are financed by the government, how will these organizations keep their autonomy to advocate for the rights and interests of their clients? Second, how will this affect their future self-identification?

Key words: *civil society, civic activism, social entrepreneurship, social economy, social welfare, community based services*

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Social economy, civil society and public services

Social economy consists of organizations that are not public, nor are they private in the usual sense. Social economy organizations can have different legal status, but their common feature is orientation towards economic and social needs of the community in which they work as well as strong links to civil society. Their management structures embody participative democracy and therefore they are responsible to the communities they serve (Di Domenico et al., 2009: 983; Defourny, 2001). Social economy organizations differ from civil society organization (third sector organizations) and for-profit firms. Unlike the former, they have a clear orientation toward economic activities, while they differ from the latter insofar as they are oriented towards the needs of the communities and wider social goals (from environmental protection, minority rights, poor and socially excluded, to wider ethnical and political goals). Although social economy organizations participate in a range of social activities, their traditional field of work are welfare services and integration into labor market. Significant share of social enterprises provide new types of services to persons whose needs cannot be satisfied by public institutions or those who are not beneficiaries of public programs. This type of social enterprises is particularly well developed in Europe (Cvejić *et al.*, 2008: 20).

Our legal system does not recognize social enterprises. However, certain types of organizations were identified as closely matching the concept of social enterprises (UNDP, 2006; Cvejić, *et al.*, 2008). Among them are civic associations, enterprises for professional rehabilitation, “spin-off” enterprises established by non-governmental organizations (NGOs), business incubators and agencies for development of small and medium enterprises. Thus defined, these enterprises employed around 12.000 people in 2008, which is not more than 0.5% of the overall number of employed in Serbia (Cvejić, *et al.*, 2008).

Apart from several analysis (e.g., Cvejić, *et al.* 2008, Kolin 2005), concepts of social economy and social entrepreneurship did not gain full attention of Serbian general and scientific public. Contrary to this, more prominent place is taken by the civil society discourse. This theoretical concept is important for our analysis for several reasons: it points out that social enterprises are rooted in local communities and civil society, it links provision of welfare services and protection of individual and collective rights (reconciliation of these agendas within the framework of a single organizations can lead to huge challenges, as we shall see), reinforces the concept of the public control and accountability which we believe is, apart from advocacy for the rights and interests of beneficiaries, an important segment of self-understanding of Serbian social enterprises (having in mind their third sector origin) and finally, the concept of civil society is an important part of the identity of the organizations we shall analyze.

Here, we shall speak of civil society as an autonomous sphere of the citizens' activism, reflecting values and interests out of the family, economy and state (Molnar, 2003; Kin, 2003).³² In the modern context, civil society attracts more scientific and political attention. There are many reasons for this, but two are important for our discussion: democratic consolidation and transformation of the modern welfare states. The role of the civil society in democratic

³²Social and political history of a country influence the development of civil society and its present shape. When it comes to Serbia, it did not have the experience of enlightenment breakup with absolute monarchies, but it did have difficulties in developing modern market economy, a centuries long tradition on networks of patronage and clientelism that influence politics, economy and everyday life, and experience with authoritarian government. Due to these factors, Serbian history is marked by a strong state and weak and underdeveloped society (Čalić, 2004; Lazić, 2009; Stojanović, 2010).

consolidation has become the subject of interest of experts and public in recent decades, especially in the context of democratization in South America, Southern and Eastern Europe. Civil society organizations, as well as non-governmental organizations, are being perceived as control mechanism that will force authorities to be accountable and transparent, as channels through which citizens and communities articulate their "true interests" and as a basis for good governance. International development partners and Western governments invest large resources in development of non-governmental organizations and media that often replace the political processes in the countries that are undergoing the democratization process (Linc and Stepan, 1998; Chandler, 2000; Chandler, 2006). Although they remain aside from the context of this analysis, we believe that theoretical reflections and practical activities directed towards the development of "political" civil society did influence the development of civil society organizations delivering welfare services. Human rights based approach of these organizations and advocacy for the rights and interests of socially excluded and various minority groups are the most obvious link.

Another important theoretical and practical impetus for the development of the civil society organizations and non-governmental organizations originates from the ideological and programmatic changes in the field of social policy that took place in the last decades of the 20th century. Universal rights based on citizenship are questioned as well as public policies (transfers and services) that aim to protect citizens from the unpredictable effects of the market and to put in practices idea of civic solidarity. Instead, means tested transfers are introduced with strict eligibility criteria that aim to increase participation and inclusion and to reinforce individual responsibility for the personal well-being. New service providers are introduced as well as new models of services (e.g. second and third pillar in pension schemes, active instead of passive labor market programs etc.). The state itself has a new role with more purchasing and less delivering services, while public sector and public administration undergoes deep changes as well (e.g. new public management). These changes include reduction of the state's role in planning and implementing of different social services (social work, education, mediation at the labor market etc.) and introduction of new actors, marketization and privatization of the social policy, and strengthening of the individual responsibility and role of the community and work in the community. Developed capitalistic states enter into contracts for the services with the non-profit sector, and there is a rather wide spreads belief that state sector is too bureaucratic, non-flexible, nonresponsive and expensive and that it cannot satisfy "the real" needs of the citizens. Since non-profits are rooted in communities they are more suitable for developing social cohesion and social capital (Amin *et al.* 1999) and can deliver better, more innovative services that fit the needs of clients (Turner and Martin, 2005).³³ The welfare state paradigm was changed but not replaced; these changes are most obvious in USA, UK and New Zealand. Traditional continental welfare states are also moving in this direction and some of these ideas are transferred to Latin America and Central and Eastern Europe (Gilbert, 2002; Jordan, 2006; Jessop, 2002; Deacon and Stubbs, *eds.* 2007; Esping-Andersen, *ed.*, 1996; for Serbian context Vuković, 2010).

In the following chapter we will describe the present Serbian welfare system and demonstrate that it is changing approximately following these lines. The third chapter is devoted to the issues of civic activism and the structure and the level of development of Serbian NGO

³³ In this context we shall not question these assumptions (some analysis indicate that advantages of non-profit sector are not indisputable Clayton, *ed.* 1996; Farnsworth, 2006). We shall only analyze Serbian strategic document in order to identify reasons for their involvement in service provision.

sector. Based on the available empirical data from official statistics and empirical researchers we will analyze the structure, the size and sources of financing of NGOs, as well as their rootedness in civil society or lack of it. In the fourth chapter we analyze the structure of NGO sector in Serbia, while in the fifth we analyze in great details NGOs as providers of welfare services.

Welfare System in Serbia

The social protection system is composed of programs delivering financial assistance to the poor, families with children and persons with disabilities, and different social work services. The system of welfare services was based on the institutional placement and dominant role of the centers for social work (CSW). The reforms in the field of social protection have been going on for ten years and were based on the ideas of decentralization, de-institutionalization and development of community based services (Vuković, 2010). The course of the transformation of contemporary Western welfare states undoubtedly influenced the welfare reforms in Serbia. The first strategic document that traces the courses of policy changes (Strategy for the development of social welfare, from 2005) is loaded with the ideas of individual responsibility, privatization and inclusion (Vlada RS, 2005). Existing welfare services are heavily criticized for not being able to meet the true needs of beneficiaries, not being open towards the communities and developed in every municipality (PRSP, 2003: 107; Vlada RS, 2005; Matković, 2006: 44). The vision of new system, depicted in the 2011 Law on Social Protection, includes services that strengthen the capacities of beneficiaries, enabling them to independently and participate in the life of the community (article 3). Apart from being responsible, individuals have the right to participate in the choice of service and service providers (articles 35 and 36). The new law envisages subcontracting and pluralization of service provides as a means for creating better and equally (across country) developed system.

To fulfill these ideas, the state has initiated a series of programs and projects with technical and financial assistance of international development partners (including the EU, the World Bank, UN agencies, international NGOs and bilateral donors).³⁴ These programs aimed at (a) reducing the number of beneficiaries in large residential institutions and develop community based services, thus contributing to the deinstitutionalization; (b) introduce new service providers; and (c) raise the quality of services as well as managerial and professional capacities of service providers.

The biggest success was achieved in the field of protection of children without parental care. Constant work on developing the network of foster families, building systems of support, and prohibition of accommodating children in institutions resulted in increased number of children in foster families from 2,923 in 2005 to 4,704 in 2009 and decrease of children in institutions from 2,175 in 2005 to 800 in 2008 (VRS, 2011: 155; Grujić, Tekić, 2006: 102). Unfortunately, this positive trend does not refer to children with learning difficulties, and to other groups of beneficiaries whose number in institutions is increasing (VRS, 2011).

Foster care is financed and managed at the national level, and this ensures equal progress in all the municipalities (which, as we will see later, is not the case with other welfare services). Successful development of network of foster families and decrease in the number of beneficiaries of residential institutions for children without parental care have not resulted in transformation or closing down of these institutions, although this was set as a goal in

³⁴ Among them are the Social Innovation Fund, Fund for financing the organizations of persons with disabilities and a handful of other smaller projects.

the Strategy for Development of Social Protection from 2005. The new Law on Social Protection foresees earmarked transfers for transformation of the institutions (Article 207), but this policy has not been implemented yet.

Quite similar approach was applied in the field of services for the elderly. Home care services for the elderly have been very popular across Serbian municipalities during the last decade (for data, compare Vuković, 2010). Organizations that carry out these services (CSWs, residential institutions for elderly and NGOs) often managed to provide financial resources from the municipal budgets.³⁵ Regardless of the level of development of these services they have not contributed to decrease in the number of beneficiaries in the institutions for the elderly, nor do they decreased the demand for these services. On the contrary, for years the government has been faced with informal sector in providing services of the accommodation for the elderly. As there was no legal framework, these services were provided as hotel accommodation, and they were not in charge of the state regulations or quality control. In 2011 only 48 private homes for the elderly worked with the total capacity of 1,249 beneficiaries³⁶. The exact number of beneficiaries of the public residential institutions for elderly is not known, but it is estimated that it is 7.000³⁷, which means that 15% of the total accommodation capacities are private homes. If we take into account those working without a license, that number is probably much bigger and it could be one of the one fourth of all the beneficiaries.³⁸ In spite of a relatively developed private sector, media reports show a high demand and the lack of capacities.

Important factors for creating a new system based on services in communities are local self-governments. According to the earlier and new Law on Social Protection, the local self-governments are in charge of a series of welfare services: home care, day care centers, as well as temporary accommodation in the shelter, equipment for beneficiaries for accommodation in the institution or other family and one-term financial assistance. The analyses show that there are just a few municipalities that fully implement their obligations in the field of social protection.³⁹ Reasons behind this are constant lack of financial resources, lack of control of implementation of obligations the local municipality is accountable for, and non-existence of the determined criteria on the minimal rate of the allocations from the municipal budgets for social protection.⁴⁰ Besides this, municipal administrations lean upon the capacities of the CSW to plan and propose measures, but some CSWs do not have a

³⁵ The reason is most probably political importance that the elderly and their relatives may have opposite to, for example, persons with disabilities, as well as inter-generation solidarity and direct experience of care of the elderly.

³⁶ Besides this, there are also 33 private homes that were prohibited to work by the end of 2010. Data of the Ministry of Labor and Social Policy, www.mrsp.gov.rs, accessed on July 1, 2011.

³⁷ "Accommodation to private homes without the consent of the elderly", *Politika*, August 8, 2010.

³⁸ If we presume that the average size of the illegal homes is the same as of legal ones, the total accommodation capacities of this sector could be about 2100 beneficiaries.

³⁹ The idea of local-self-governances active in planning, financing and implementing of social protection is based on the two main assumptions: (1) it is better to formulate public policies and programs at the level closer to citizens, and (2) in this way inter-sectorial cooperation will be achieved (e.g. cooperation of CSWs, schools, branches of the National employment services etc.) which was perceived as a weakness of previous system (*cf.* Petrović, 2010). The new law mentions the need to implement some services in cooperation with other sectors only in one article, but it does not foresee a stronger mechanism for inter-sectorial cooperation apart from a protocol on cooperation (Article 58).

⁴⁰ The new law foresees a more active role of the local self-government and it solves some problems that were perceived in the previous decade. For example, conditional transfers for underdeveloped municipalities aimed at development of welfare services were introduced (VRS, 2005; Matković 2006)

proactive approach nor capacities to do so. Due to these circumstances, the system of local services remained undeveloped in a great number of services.

Civil activism and NGO sector in Serbia

For the analytical reasons we will divide NGOs and CSOs into two main groups. The first group includes organizations established during the last two decades focused on the modern themes ranging from the support to civil society, democracy and human rights to problems such as sustainable and local development. These organizations are mostly financed from the international funds, with qualified staff, hierarchy and professionalized structure, strong management capacities, but with a wide range of activities and fields they cover. Many of them deal with the issues of the social exclusion and poverty: Roma, street children, LGBT population etc. Another important group is "self-help" NGOs. These organizations primarily deal with problems and interests of their members such as organizations of persons with disabilities, Roma, refugees and internally displaced persons, students and pensioners' organizations (professional organizations, business clubs and similar organizations could also be a part of this group). Following this generalization, they are less characterized by professionalism and their management skills then with social activism. As we will see in the following text, these organizations managed to establish many services for their members and to successfully advocate for their interests.

Unlike this segment of the civil society, general data on the citizens' activism show a relatively low level of the interest of Serbian citizens for active participation in civic initiatives. Active membership in religious organizations i.e. churches is 3.9% which is more than in Russia and Bulgaria, a bit less than in secular France (4.4%), but far less than in Slovenia (12.4%). More activism is recorded in sports and recreational organizations (6.9%). However, no matter how important these organizations are for their members and civil society in general, civic participation in other types of organizations remains low. Environmental, professional, humanitarian and consumer protection organizations in Serbia gather much less citizens than in the Western European countries. The level of organizing in unions is low, much lower than in Norway (which is not a typical European country in this sense due to the strong social democratic tradition) or in Bulgaria, Russia and Germany.

Table 1. Active membership in civil society organizations

Active member of...	France	UK	USA	Norway	Slovenia	Bulgaria	Russia	Serbia	Germany
Church or religious organization	4.4 %	19.2 %	37.9 %	8.3 %	12.4 %	1.9%	2.6 %	3.9 %	12.9 %
Sport or recreation organization	22.7 %	30.0 %	15.4 %	27.1 %	18.2 %	1.3%	5.9 %	6.9 %	26.8 %
Ar, music and education	11.3%	21.7%	15.1%	12.6%	9.2%	1.2%	4.2%	2.5%	8.2%
Trade unions	5.8%	10.1%	7.7%	13.6%	8.9%	3.2%	3.4%	2.2%	3.4%
Political parties	2.6%	3.3%	16.3%	4.3%	2.1%	2.1%	0.8%	2.7%	2.3%
Ecology	6.3%	6.0%	6.1%	1.3%	2.7%	0.4%	0.4%	1.1%	1.5%
Professional organizations	6.4%	14.6%	12.1%	7.5%	6.4%	1.2%	1.6%	1.9%	3.8%
Humanitarian organizations	8.8%	20.9%	15.2%	12.3%	7.7%	0.7%	1.1%	1.2%	4.7%
Consumer protection	2.7%	3.2%	4.4%	2.4%	1.1%	0.3%	0.5%	0.9%	0.2%

Source: World Value Survey, 2005-2008, <http://www.worldvaluessurvey.org>

Measured by the level of citizens' activism, civil society is relatively under-developed in Serbia. This, however, does not mean that there are not many organizations in Serbia dealing with some of the issues that are on the agenda of the modern civil society: human rights, the rule of law, poverty etc. According to the available data⁴¹, 18.119 citizens associations are registered in Serbia, employing 5.376 people, which is a decrease compared to 2008 when they were employing 6.113 people. Their total income is EUR 265 million (as of April 2011). This group includes all the citizens associations, including profit business organizations whose primary goal is to advocate for their members' interests. The research conducted by the NGO "Civic Initiatives" in cooperation with experts from the Republic Bureau for Statistics⁴² shows that only 72 or 1.5% of surveyed NGOs had more than 10 employees. A relatively small number of non-profit organizations have employees (about 17%) which is the consequence of the fact that non-profit organizations mostly lean upon voluntary work or work of external associates (part-time employees, consultants, etc.). According to data obtained through this research, in 2008 an average NGO employed less than one employee, an average salary in the sector was about EUR 300, while the average net salary in Serbia was EUR 390 (GI, 2009).

For further analysis of the size and budget structure we will take a look at the research that Civic Initiatives conducted on the sample of 516 NGOs (GI, 2008). The average annual

⁴¹ The data of the Serbian Business Registry Agency are the only comprehensive source, while all the other sources are based on researches conducted on the samples of NGOs. We will use findings of different researches characterized by the various goals and methodologies. Besides this, we will use data-bases filled on a voluntary basis (Centre for Non-profit Sector and Republican Institute for Social Protection). Due to these reasons, our analysis has methodological limitations that we will bear in mind all the time.

⁴² The aim of this research was to "measure" economic parameters of the non-profit sector (GI, 2009). It was conducted on the sample of 4.786 NGOs dealing with issues of democracy, human rights, social protection, environment, culture etc. that submitted the filled balance sheet. This research did not include organizations of entertainment and sports-recreation character, association of employers and animals and plants breeders, tenants' associations, World War II veterans (SUBNOR), associations of hunters, war veterans and all other organizations oriented to the achievement of specific goals of their members. It is possible that this choice of sample influenced a relatively high amount of the annual budgets.

budget of a Serbian NGO was EUR 103.334 (as we would expect the average budget of a Belgrade based NGO is larger and amounts to EUR 140.000). In comparison to 2006 the average budget is twice as high.⁴³

Table 2. Structure of NGOs according to the size of the budget

	2005	2009
Up to1.000 EUR	22%	12%
1.000 - 5.000 EUR	25%	20%
5.000 – 20.000 EUR	27%	24%
20.000 – 100.000 EUR	19%	32%
Above100.000 EUR	7%	12%

Source: GI, 2010

In the period 2005-2009 there has been a growth of the NGO sector which is primarily reflected in the decrease of the share of smaller NGOs and increase of the share of bigger NGOs. Certainly, we need to take into account that this is based on the statements of the representatives of the surveyed NGOs and their budget, and not on the precise data from the business or tax registries. Organizations dealing with development of civil society have the largest budgets (EUR 362.202), then those dealing with human rights (EUR 74.069), humanitarian and social work (EUR 67.358), and at the end of the line are NGOs dealing with youth, economy and professional associations with the average budget of EUR 40.321(GI, 2010: 57).

Donations of the international organizations are the main source of funding for the local NGOs and this is confirmed by all the researches. In average about 75% NGOs in Serbia are financed from the international donations and donations from the national, local and regional budgets (i.e. budgets of the Republic of Serbia), 12.7% from other resources, 7.9% from selling goods and services and only 4.2% from the membership fees (GI, 2009). However, there have been some interesting changes in this regard. There is an increasing number of NGOs reporting to have resources from the state funds. The period from 2005 to 2009 is marked by an increasing availability of the public funds-local, municipal, regional and republic funds. Table 3 presents multiple answers to the questions "Who is financing your organization?".

Table 3. Sources of funding

	2005	2009
International donor organizations	74%	75%
Local self-government	36%	55%
National donor organizations	34%	49%
Ministries	17%	44%
Business sector	27%	35%
Self financing	34%	28%

⁴³ It seems that these high budgets may indicate that the sample included above the average number of big organizations, but we cannot prove this argument in this text.

Provincial government	13%	22%
Citizens	15%	11%

Source: GI, 2010

The presented data show that in recent years the fragmented NGO sector in Serbia has grown. This growth is most visible among NGOs dealing with political issues and civil sector itself. Most of them depend on the foreign funds.⁴⁴ These resources are decreasing and in 2010 they amounted about EUR 10 million, compared to EUR 59 million in 2003 and EUR 30 million in 2006. On the other hand, the role of the state in financing NGOs has been increasing.⁴⁵ Financing of the NGOs by the state raises a series of challenges and most notably the following: how will NGOs financed by the government represent the interests of their members or citizens whose interests it protects if this implies criticizing or conflicting with the government? Therefore, it is a surprising finding that the NGOs that gather certain beneficiary groups and were financed by the state have had decisive impact at, for example, establishing services for persons with disabilities, day care services for children with learning difficulties etc. (Vuković, 2010b).

Structure of the NGO sector in Serbia

The structure of the NGO sector is to a large extent a consequence of the way it emerged – primarily through various mechanisms of international support, and latter on with the support of state funds (for the similar argument, *cf.* Lazić, 2005). International sources of funding have, for a long time, mostly been focused on the issues of human rights and development of civil society and therefore we will not analyze them further.⁴⁶ Along with this, during the previous two decades they have been financing domestic NGOs dealing with social issues. Second relevant source of funding is the state – at the republic, regional and municipal level. In recent years the state has increased funds available for NGOs that provide public service or implement national and local strategic document. This approach has been used e.g. in the fields of social welfare and youth policies. Ministry of Labor and Social Policy has two operational funds for almost a whole decade that are financing welfare services delivered by NGOs (which we will closely analyze in the next section). This model of work has been taken over by the Ministry of

⁴⁴ From 1999 to 2011 the total international funds for civil society in Serbia was 320 million EURO. The total EU assistance to the civil sector in Serbia from 2002 to do 2011 was about 60 million EURO or about 6 million EURO per year *Cf.* "Estimations of implementation of the international to the Republic of Serbia per OECD sectors and years", http://www.seio.gov.rs/upload/documents/medjunarodna_pomoc/pregled_medjunarodne_pomoci/procena_medjunarodne_pomoci_po_oecd_sektorima.pdf and "For the non-governmental sector of the Western Balkans and Turkey 20 million EURO", *Danas*, May 19, 2011.

⁴⁵ According to data of the Center for Development of the Nonprofit Sector, EUR 47 million was allocated to NGOs in Serbia from the republic budget in 2010, and EUR 46 million from the local budgets. How much money really goes to the NGO sector and how much goes to the other fields is not known. NGOs have very often criticized the state for the non-transparent allocation of these funds and for using this fund to finance churches, religious organizations, representative institutions of the minorities etc. *Cf.* "The most lucrative economy branch in Serbia: NGOs receive EUR 150 million per year", *Novi Standard*, July 1, 2010. www.standard.rs

⁴⁶ One of the key problems of the NGO sector in Serbia is the lack of public trust. "Weltanschauung" of this segment of NGO sector significantly differs from the interpretations of reality dominant in Serbian society (for data, compare Mihailović, 2007; GI, 2009b). Therefore, the critics of the civil sector say that it is more founded on the idea of legitimization of the "new order" than initiating a dialogue and nourishing different visions of the world (*cf.* Chandler, 2006).

Youth which has financed hundreds of youth projects whose aim is to implement the national Youth Strategy, but it also sub-contracts NGOs to conduct some activities that in other circumstances would be in the mandate of the state institutions.⁴⁷ More available state funds initiate development of NGOs dealing with social protection, youth, Roma, gender equality and similar issues in the field of social exclusion.

The empirical researches of the NGOs in Serbia (GI, 2010) indicate precisely this: the largest percent of NGOs deal with socio-humanitarian issues (25%) and gender equality (13%) and with 5% of those dealing with education and youth respectively, we come to the conclusion that at least half of the Serbian NGOs work within the broader framework of social inclusion.

Table 4. Mission of the NGOs

Mission	Percentage in the sample
Socio-humanitarian	25%
Gender equality	13%
Hum rights and democracy	10%
Peace, tolerance and cooperation	10%
Development of civil society	7%
Youth	5%
Education	5%
Local development	5%
Other (health, arts, culture, etc)	20%

The analysis of the Directory of NGOs maintained by the Centre for Development of the Non-profit Sector confirms these findings.⁴⁸ Out of 2.282 NGOs registered in the Directory, most of them, one fourth or 547 work in the socio-humanitarian field.⁴⁹ These findings are also confirmed by the answers to the question on the priority fields for activities: 16% NGOs answer that their field of activities is socio-humanitarian work and education, 12% youth, 11% women's and human rights etc. (GI, 2010: 16). Such a high share of NGOs dealing with poverty, social protection and especially vulnerable groups is a consequence of a specific transition in Serbia which was marked with almost two decades of the wide-spread poverty and economy stagnation. Another important factor is the commitment of the international donors, and then the state, to finance the projects dealing with the poor and socially excluded. In the next sections will analyze

⁴⁷ Since the embargo on new employment in public sector has been introduced, state institutions use sub-contracting for the task that would otherwise be carried out by themselves.

⁴⁸ This source of data has many limitations and the most important one is that the Directory is not comprehensive. Namely, registration at the Directory is voluntary and therefore it contains only data on those NGOs that knew about it and wanted to be registered. However, faced with the lack of other data sources we will use this one taking into account its limitations. The Directory of NGOs in Serbia is available at <http://www.crnps.org.rs/direktorijum-nvo>

⁴⁹ The next most frequent are NGOs dealing with art and culture (11%), education and culture (10%), environment (10%), local development (10%) and human rights (8%). As we expected half of the registered NGOs work in five big cities (Belgrade, Novi Sad, Niš, Kragujevac and Kraljevo) and most are concentrated in Belgrade – one third of all registered NGOs.

these findings in more details and point out the grassroots organizations that have strong links with citizens and clear focus on achieving interest of their members.

NGOs as service providers

NGOs in Serbia have become an important part of the networks that provide welfare services to socially excluded, primarily the poor, persons with disabilities and learning difficulties and elderly. There are less systematic data on the services for Roma, refugees and internally displaced persons provided by NGOs⁵⁰. Incentive for service provision came from the reforms in the field of social protection: development of new service providers, strengthening of the role of the local self-governments in planning, contracting and financing of the services, and reduction of the role of the public sector, especially the CSWs in providing local welfare services have been key segments of the reform package in the social protection that initiated the growth of the NGO sector. From 2005 more than three fourths of the Serbian municipalities have participated in a program of the development of local social policy councils and preparation of the municipal social policy strategies. The other factor that influenced development of NGOs as service providers is the work of two big funds within the Ministry of Labor and Social Policy: Social Innovations Fund and Fund for the Organizations of Persons with Disabilities. A significant percentage of resources from these two funds were directed towards the NGO sector⁵¹ and special emphasis was on the services for the elderly (assistance and home care) and persons with disabilities and learning difficulties (home care and day care centers).

In spite of all these efforts, services of social protection are still undeveloped in one part of the Serbian municipalities. The single most developed welfare program is one-term material assistance and it exists in almost every municipality. Data obtained through a survey of the 96 municipalities in Serbia show that the largest share of local funds for social protection is spent on this program. With regards to the services, the most developed is home care which exists in 71% of the surveyed municipalities. Day care centers for children with disabilities exist in less than one third of municipalities, clubs for the elderly in one fourth, while the other services exist in a far less number of municipalities (Vuković, 2010b).

⁵⁰Nothing of this sort happened in the areas of education, health-care, free legal aid etc. The professional associations of medical doctors and lawyers had an important role in this regard as they were less eager to reduce their professional monopoly (a good example is the long-term opposition of Bar Association to the introduction of the free legal representation at courts that would be open to other service providers attorneys).

⁵¹ A third of the projects financed by the Social Innovation Funds were implemented by NGOs (2 million EUR in a sum for the period 2002-2008). The other fund allocated resources to NGOs exclusively. During 2011 Ministry of Labor and Social Policy allocated 1.6 million EUR for NGO projects and 2.6 for national and provincial associations of persons with disabilities (MRSP, 2012).

Table 5. Coverage of services

Service	Coverage in 2010
One-term material assistance	98%
Home care for elderly	71%
Day care center for children with disabilities	42%
Home care for persons with disabilities	39%
Support for juvenile offenders	28%
Club for the elderly	25%
SOS phone	23%
Day care center for persons with disabilities	19%
Shelter	19%
Independent living for youth	16%
Day care center for elderly	12%
Personal assistance for persons with disabilities	11%
Youth club	9%
Independent living for persons with disabilities	2%

Source: Vukovic, 2010b

Data indicate significant disparity between municipalities at different level of development - the most developed municipalities established more services than less developed municipalities. The only exception is one-term material assistance. There are large differences when it comes to services for children, persons with disabilities and the elderly and these services can be found in almost every developed municipality. In most cases local self-government finance less services than there are at their territory. In spite of this, the total share of the services financed by the local self-governments increased in the period 2008 to 2010. For example, day care centers for persons with disabilities operate in 42% municipalities, while in every second they are financed by the local self-governance (22%), which is still an increase in comparison to 2009 when they were finance in 13% of municipalities (Vuković i Čalošević, 2009; Vuković, 2010).

The market of welfare services is increasing as well as the NGO share in it. Increasing funds from the local and republic budgets are being spent for financing these services. Numerous services which are now provided by the public sector will (once the new Law on Social Protection is fully implemented) be provided by other actors from profit and non-profit sector. However, this development is hindered not only by the delayed implementation of the new Law on Social Protection but also by its content. As we have showed (Vuković, 2013), in spite of its ideological background, the new law was prepared under the strong influence of domestic professional networks. Majority of its provision actually are set to preserve interests of professional community of social workers with particular emphasis on those working in the public sector.

Republican Institute for Social Protection has recently developed a data base of providers of social work services⁵². It contains data on 350 local community-based services from 101

⁵² This data base has the same limitations as the Directory of NGOs – it is not representative, the registration is voluntarily, and many data are not provided for many municipalities and mechanisms for quality assurance and reliability of data are unknown. In spite of these limitations, we will use to show some interesting characteristics of NGOs in the field of social protection that are in accordance with the previous findings. The data base on local

municipalities (data for a total of 67 municipalities are unavailable). Home care is the single most widely spread service and it exists in 80 municipalities and compose almost one fourth of all the registered services. Day care centers for children and youth with learning difficulties operate in 64 municipalities, shelters in 30 municipalities (9% of all the services), and clubs for the elderly in 28 municipalities. Most services are provided by CSWs – 196 services or 55%, then NGOs with 80 services or 23%, and residential institutions with 50 services or 14% of all the registered services. Hence, the system of local services of social work in Serbia is dominantly in the public sector – three quarters of all *registered* services according to data of the Republic Bureau for Social Protection. On the other hand, in the last ten years the NGO sector has filled up one fourth of the services market which is a significant success (the limits of this argument come from the lack of data on the coverage of the beneficiaries, duration of services etc.).

Table 6. Types of services delivered by NGOs

	The whole sample	NGO services
Day care center for children and youth with learning difficulties	64	30
Day care center for children and youth with physical disabilities	14	7
Day care center for adults and elderly	10	6
Club for elderly	28	4
Personal assistance	9	6
Home care	80	7
Respite care for children with disabilities and their families	6	3
Shelter	30	3
SOS phone	18	3
Other services	91	6
Total	350	80

Source: Data base of local welfare services of the Republican Institute for Social Protection

NGOs are mostly focused on services for the persons with disabilities and learning difficulties: day care centers for children and adults with developmental difficulties (38% of the NGO services), day care centers for children and youth with learning difficulties (9%), personal assistance (8%) and respite care for children with disability and their families (4%). Two thirds of all the services provided by NGOs are for persons with disabilities and learning difficulties. The analysis of the data base showed that at least 37 NGOs or almost half of the registered NGOs is in the category "self-help associations". These are actually different organizations of

persons with disabilities and learning difficulties and of their parents. The rest of NGOs are organizations that provide social welfare services (among which there are 9 branches offices of the Red Cross of Serbia). Two thirds of all the services provided by NGO are in the most developed or average developed municipalities, while one third is in undeveloped or severely undeveloped municipalities.

These data prove that efforts to develop local welfare services have led to significant results. The structure of these services corresponds to the structure of the public funds – the state primarily financed home care and day care centers. With regards to the structure of service providers, self-help associations, particularly organizations of persons with disabilities are more successful in establishing and maintaining the services. Their growing presence might also be an indicator of unwillingness of other actors to enter a very demanding field of welfare services for persons with disabilities and learning difficulties.

Conclusion

Social enterprises were developed within the Serbian welfare system as a consequence of interaction of public policies and civic activism. Programs implemented by the government and international development organizations led liberalization of the market of welfare services and greater availability of funds. This was coupled with growing civic activism, particularly one related to persons with disabilities. Nonprofit sector developed faster in the field of welfare services than in the education, health, free legal aid, employment etc. However, this fast and steady growth has some of its own peculiarities. These social enterprises grew out the non-governmental sector. In Serbia, as elsewhere, market mechanisms are being implemented in the welfare system so the service providers became dependent on state funds, they are subcontracted for specific tasks, welfare services are being “purchased”, quality mechanisms are being implemented etc. Altogether this improves the service delivery and management of the system, but it also transforms citizens into “welfare beneficiaries” and leads to a series of practical and discursive changes. This type of marketization has a negative impact on various other functions of the third sector: advocating for the rights of vulnerable groups and individuals and social justice, holding government accountable, etc. These functions are still carried out to a certain extent but they depend of international donors. It is an indicator of slow differentiation of the society and obstacles in establishing pluralism of interests and power. Under these circumstances, establishing accountable government and the rule of law is even more difficult (Vuković, 2012). Therefore, in the context of Serbian non-governmental sector it is seams reasonable to advocate for the separation of the “social economy” discourse from now predominating “civil society” discourse thus keeping less blurred all other important functions of the civil society.

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MAIN TYPES OF SOCIAL ENTERPRISES IN SERBIA

Abstract

The concept of social enterprise recently started to gain attention as a viable solution for growing unemployment and raising demands of social services provision in Serbia. Although Serbia has not adopted a proper legal framework for social economy to flourish, different social actors corresponding to social enterprises have been recognized on the socio-economic scene. Organizations identified as social enterprises have a potential of the economic integration of disadvantaged groups through the employment and social integration of marginalized social groups.

The aim of this presentation is to give a description and overview of the social enterprise sector, information on the most important types, explain driving forces and barriers hampering swifter entrepreneurship development and measures-policies promoting social enterprises.

Key words: *social enterprise, social economy, disadvantaged groups, social integration.*

Introduction

The concept of social entrepreneurship in Serbia received initial recognition among third sector representatives, trade unions leaders, professionals, academics and the government officials at the beginning of 2000, fostered by international initiatives on social enterprises (SE), which provided a much-needed analysis of the complex issues related to these alternative forms of economy.⁵³ Although there is no still authentic definition of SE in Serbia, it is accepted that the model of social enterprise consists of new, emerging organizations that have developed between the market and the state to pursue social and economic goals. The wide spectrum of socio-economic institutions, other than investor-owned organizations (the for-profit sector) and

⁵³ At the beginning of 2000 the OECD LEED Centre for Local Development in Trento organized several international gatherings and created a scientific advisory group on social economy and social innovation. Trento University conducted the first comparative research on social economy from an international perspective and the results were published in the book Borzaga, C., and Spear, R., (eds.) (2004), *Trends and Challenges for Cooperatives and Social Enterprises in Developed and Transition Countries*, Edizioni 31, Trento. EMES European Research Network and the United Nations Development Program – Bratislava Regional Centre (UNDP-BRC) have conducted comparative research on social enterprise, organized several international gatherings, regional workshops and related publications on the topic of promoting SE in Eastern and Central Europe - UNDP-BRC (2006) *Study on Promoting the Role of Social Enterprises in CEE* and the CIS *Initial Overview Study*. Serbia has been also included in a 12 country mapping of heterogeneous organizations corresponding to social enterprise - *Social Enterprise: A New Model for Poverty Reduction and Employment Generation* (UNDP-EMES, 2008).

public agencies (the state), has been described in a specific national context to fit a set of criteria known collectively as the EMES European Research Network criteria (Borzaga and Defourny 2001). Despite their differences, organizations identified as SE in Serbia share the following social functions: potential of generating new jobs and the economic integration of disadvantaged groups, through the employment, and social integration of marginalized social groups, carried out either through economic integration or purely social integration (day centres for persons with disability, the inclusion of refugees in organizations with resident membership, etc.). Dealing with different target groups, these organizations are capable of accepting innovation in new ways of employment and services provision, in particular in the social protection of vulnerable groups.

In Serbia, like in other Central and East Europe countries, social enterprise has also been spurred on by the withdrawal of governmental social policy programs after the fall of communism. This changing philosophy and a growing inclination to adopt the welfare mix model in social policy is leading to the incorporation of various third sector entities, which have begun to make significant contributions to the provision of services and the alleviation of social poverty on a local level. Social enterprises have developed within the field of social and community service, partly as a result of welfare gaps that have emerged from shrinking public welfare programs and emerging needs for services and partly as a product of the contract culture and welfare partnership paradigms. More often, they have developed from bottom-up initiatives and the influence of international actors and pilot projects, rather than from social policy reform strategies. Most of these efforts have been facilitated by EU policies and international donors' programs in close cooperation with government bodies, the relevant ministries, local authorities, academics, experts and civil society groups (Les and Kolin 2009).

The aim of this presentation is to give a description and overview of the most important types of social enterprises, explain driving forces and barriers hampering swifter entrepreneurship development and measures-policies promoting social enterprises. Assessment of different organizational forms that correspond to social enterprise will facilitate deeper understanding and provide comparative basis on which both practitioners and researchers can continue to undertake meaningful dialogue and exchange on the topic of social economy.

Size and fields of activities

There is no statistical information on the economic size, number of enterprises, employment turnover, production, percentages of GNP growth rates or other specific evidence regarding social actors which correspond to social enterprise in Serbia. In the absence of reliable statistics on social enterprises recent research reports and studies (Kolin 2004; UNDP – BRC 2006; Babovic et al. 2008; Cvejic, Babovic and Vukovic 2008; Kolin and Petrusic 2008) recognize cooperative networks, different types of citizen associations (self-help groups in particular), enterprises for persons with disabilities (PWDs), spin-off enterprises in the form of limited and joint stock companies, business incubators and agencies for the development of small and medium-sized enterprises as organizational forms of SE in Serbia. It can be estimated, that 1,200 entities in Serbia correspond to social enterprises, with total of 15,000 employees. It is accepted that cooperatives represent the largest part of these networks (79 percent), followed by citizen associations (14 percent) and enterprises for persons with disabilities (3 percent). (Babovic et al. 2008).

The listed forms of organization differ in their degree of similarity to social enterprise. Some of them meet the listed criteria almost completely (e.g. social cooperatives), while others,

by virtue of certain features, stray from the ideal type (such as: profit orientation in agricultural cooperatives, low tendency of paid work and production / service-providing activities in voluntary organization, low degree of autonomy in agencies for the development of small and medium enterprises and the like). Some of the listed organizational forms listed which correspond to SE in Serbian circumstances have the potential to grow into real social enterprises, while the others will stray further legal or social conditions change.

Cooperatives

According to data provided by the Cooperative Union, Serbia have approximately 1,200 agriculture cooperatives on record with approximately 120,000 members. The majority of these cooperatives, however, have frozen their businesses during the past for political reasons and other difficulties and according to the source above, only around 800 are still functioning and able to perform non-traditional functions.

Beside cooperatives, which are mostly inherited from the past, there are around 100 to 200 newly created cooperatives that have begun to develop an entrepreneurial dynamic focused on social goals, such as services for the elderly or integrative programs designed for people with disabilities. The following forms of cooperatives, which represent innovative social enterprises organized in a cooperative form of organization, are currently present in Serbia:

1. Agricultural cooperatives, created by associations of small agricultural producers in an effort to strengthen their position on the market and pool the resources required to develop agricultural production;
2. Women's cooperatives exploring ways of providing jobs and reducing poverty and unemployment among vulnerable groups of women including those who were laid off during the transition period, less qualified and elderly persons and long-term unemployed;
3. Ecological cooperatives that promote healthy food, organic, environmentally safe agriculture and local tourism development;
4. Social cooperatives, created to integrate extremely marginalized disabled groups, (economically and socially), people with limited capacities, or who completely lack the ability to work. Compared to agricultural and women's cooperatives, which have profit directed activities, social cooperatives are focused primarily on social objectives.

Citizen associations: Self-help groups

Official statistics identify about 17,000 social and citizen organizations the majority of which are sport clubs, cultural and artistic organizations, humanitarian and charity associations and professional organizations. However, the Civil Initiatives, (the Citizens' Association for Democracy and Civic Education) has counted 900 active NGOs in Serbia in 2005 while in-depth research undertaken to explain and promote the concept of SE among relevant stakeholders (Babovic et al. 2008), pointed out that 162 citizen associations could correspond to the concept of social enterprise (i.e. self-help groups specializing in welfare and social protection for the most vulnerable groups). The main sub-categories of third sector social enterprise are refugee groups and self-help groups for women and people with disabilities. The latter are a well-organized, traditional segment of voluntary organizations focused on programs for the handicapped population (blind, deaf, developmentally delayed, paraplegics, and disabled veterans). Self-help groups for women stimulate business activities and job creation and promote the social inclusion of vulnerable women. Some minority groups, which strengthen the social inclusion of their members by means of production, also fit the definition of social enterprise;

their activities often include sewing, weaving or pottery-making and sometimes involve marginal minority groups, such as the Roma people.

Religious groups are another kind of association, although these organizations are established under a different legal framework. Programs are tailored to support these vulnerable groups through different services and protective measures organized on a local level. After democratic changes in autumn 2000, religious groups started to provide social services, in particular to vulnerable and marginalized groups. The elderly population is the main beneficiary group of these religious organizations; the assistance they receive ranges from nursing and medical treatment to nutrition, food provision and home assistance. Chronically ill people, who lack adequate family support, also benefit from the assistance of religious groups as many suffered extreme marginalization under the transition process. Caritas is the largest religious network operating in Serbia; it is supported by the international welfare organizations of the Catholic Church. Philanthropy, the humanitarian organization of the Serbian Orthodox Church, is one of the most influential religious groups involved in providing services for the sick and elderly.

Enterprises for vocational training and the employment of persons with disabilities

Social enterprises for persons with disabilities or enterprises for vocational training and the employment of persons with disabilities are the organizations that come closest to the concept of social enterprise. Under socialism, a well-organized segment of self-help groups, focused on the integration of disabled people, was established during the 1970s in Serbia. Their activities promote social integration through the creation of jobs, micro-projects, self-employment and other types of activities that foster an enterprising spirit and support people with disabilities. Sheltered workshops are enterprises that offer vocational training and alternative employment for persons with disabilities; they can be established by associations of persons with disabilities and may obtain relative autonomy from their founders. In addition, these organizations can be established by profit-driven enterprises, when such companies employ people with disabilities, primarily those suffering from disabilities due to work-related incidents. According to data provided by the Ministry of Labour and Social Policy (MLSP), 55 enterprises for vocational training and the employment of people with disabilities, primarily work-related disabilities, had been organized by 2007. According to one report issued by UNDP – EMES in 2008, these companies employ a total of 2,926 persons with disabilities, 60 percent of which are persons whose disabilities are work-related, 21 percent are persons with mental disorders, and 12 percent are persons with hearing disorders.

Spin-off enterprises

Enterprises that are formed as voluntary organization spin-offs are frequently formed as limited liability enterprises, rarely joint stock companies. Nevertheless, regardless of their legal form, these enterprises are characterized by a close association with their founder (voluntary organizations or for-profit enterprises). In this sense, these enterprises have relatively limited autonomy. There are 24 spin-off entities which correspond to innovative social enterprise in Serbia.

Agencies for the development of small and medium sized enterprises

Agencies that foster employment through the development of small and medium sized enterprises (SMEs) have been receiving support under a European Union program since 2001, when the Law on the Agency for the Development of Small and Medium-Sized Enterprises was passed. The mission and functioning of such entities correspond to the definition of social enterprises. According to the law, the establishment of these entities must promote partnerships among the public, private and non-governmental sectors, although these entities are founded as limited liability companies (Ltd). This legal form was chosen since there no other form existed, which could result in a non-profit organization, on one side, and legal persons as founders, on the other. There are 13 agencies making up a network for SEs.

Business incubators

A business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial enterprises through an array of business supports and services. These entities are an efficient instrument towards the support the development of small and medium sized enterprises. On the one hand, they offer the resources required to increase the chances of survival or for upgrading the activities of these enterprises/beneficiaries. These resources may include: premises, training, accounting, equipment, marketing approach, computer networking, as well as business consulting. The most widespread goals of incubation programs are the creation of employment in a community, enhancing the community's entrepreneurial climate, retaining businesses within a community, building or accelerating growth in local industry and diversifying local economies.

A detailed breakdown of associations and other organizations which correspond to social enterprises according to the research and mapping conducted in 2007 showed that cooperatives (particularly agricultural cooperatives) followed by associations for PWDs and those providing different service to vulnerable groups are the most important part of this sector in Serbia.

Table 1. Associations of Citizens according to the Main Fields of Activities

Type of Association of Citizens	% of associations
Environmental protection	10.5
Local development	10.9
Support to Roma minority	9.5
Services for the elderly	5.3
Services to PWDs	16.8
Support to refugees and IDPs	2.2
Women associations	4.3
Children and youth associations	8.3
Association for self-employment	2.2
Agriculture development	14.8
Services to other vulnerable groups	11.9
Preservation of tradition	1.6
Improvement of education	1.1
Other	0.6
Total	100.0

Source: Cvejić, Babović and Vuković 2008

According to the same research data, most of social enterprises are found in Serbia's northern province of Vojvodina (45.3 percent) followed by Central Serbia (42.3 percent) and the City of Belgrade (12.3 percent). When agricultural cooperatives are excluded, a different regional distribution can be observed as the other types of social enterprises are more concentrated in Central Serbia.⁵⁴

Legal framework

The existing legal framework in Serbia does not recognize organizations that might be strictly defined as social enterprises. Organizations that correspond to the EMES concept of social enterprises almost entirely are established in Serbia under the Cooperative Law 2011, the Law on Associations of Citizens 2009, and the Law on Enterprises for Vocational Training and Employment of Persons with Disabilities 2009, the Company Law 2004 and the Law on Churches and Religious Communities 2006.

The new Cooperative Law 2011 regulates different types of cooperatives including newly formed social cooperatives. According to this law, the following cooperatives may be founded: agricultural, housing, consumer, artisan, health care, savings and loans, youth, students', and pupils', as well as other types of cooperatives for the production and turnover of goods and services. The tax regime under which these entities operate is currently similar to that applied to for-profit enterprises. The trend is focused on further improvement of cooperative legislation, tax policy deductions and favourable loans for cooperative support programs.

Non-profit organizations, including self-help groups and voluntary organizations, are regulated by the Law on Associations 2009, which is close to international standards and include regional best practices as it is the introduction of a low-threshold registration process, opened doors for economic performance and tax deductions aimed at fostering corporate donation and economic activity. Associations can acquire property form membership fees, voluntary donations, as well as other donation and gifts, financial subventions, interest rates on investments, rents, dividends and other envisaged by law. This legal solution makes it possible for associations to be self-sustainable and able to pursue their goals and missions through economic activities.

The enterprises for vocational training and the employment of persons with disabilities (and their profit orientation) are regulated under the Law on Enterprises for Vocational Training and Employment of Persons with Disabilities, 2009. The Law on the Prevention of Discrimination of Persons with Disabilities 2006 and the Strategy for the Improvement of the position of Persons with Disabilities 2007-2015 also stimulate active labour market measures and the employability of persons with disabilities. These organizations enjoy tax benefits under finances regulations: exemption from the payment of contributions for the first 24 months for new employees engaged via the National Agency for Employment, a VAT reduction from 18 percent to 8 percent, exemption from profit tax, lower customs tariffs on imports of machines and equipment not manufactured in the country. These enterprises may also enjoy other advantages regulated under documents of local self-government (for example, for communal services and electricity). In addition, they have priority rights when bidding for

⁵⁴ More details on regional distribution, funding, employment opportunities, main challenges and other issues important for social enterprises in Serbia in: Cvejić Slobodan, Marija Babović and Olivera Vuković (2008) *Mapiranje socijalnih preduzeća u Srbiji* (Mapping of Social Enterprises in Serbia) UNDP Belgrade

certain contracts, provided they fulfil the other criteria (regular payment of contributions for employees, quality of products and services).

According to the Law on Churches and Religious Communities from 2006, voluntary organizations with religious affiliation can establish certain institutions and organizations, within the framework of social and charitable activities, undertaking production and/or service activities. The law also stipulates that in performing the activities and providing income, churches and religious communities can be fully or partially exempt from taxes and other obligations, in accordance with the laws regulating certain public revenues. On the other hand, SME companies and spin-of enterprises are established under the Company Law 2004, which regulates these and other profit organizations.

Current challenges in moving forward

There are several difficulties that have to be faced when promoting social enterprises in Serbia, according to a recent study, which focused attention on emerging issues (Leš and Kolin 2009). First, there is considerable difficulty in obtaining empirical information on the existence of social enterprises, the active sectors to which they contribute and the number of individuals they employ. The potential role of social enterprise in social policy and economy is still being overlooked, as these organizations are not recognized as long-term welfare and economic partners. They are rather considered as *ad hoc* short-term, gap-filling actors, a shunting yard for problems generated by social transformation. Taken as a whole, the general public is not well informed about the social enterprise sector, its nature and purpose, while government officials still see the third sector as a marginal, unreliable yet partially useful technical executor of small-scale projects.

As it was already pointed, the absence of an adequate legal framework, which would support consistent and coherent policies towards social enterprises, is an obstacle to the promotion and institutionalization of social enterprises. The tax regulations of the non-profit sector are relatively limited and do not provide any real incentives for companies or individuals interested in supporting the development of third sector organizations. Accounting and bookkeeping rules for non-profit organizations are the same as for small and medium sized enterprises. Exceptions are envisaged in the case of equipment imported within humanitarian assistance programs and when it is intended for disabled people. In both cases, third sector organizations benefit from a preferential import tax.

Further, cooperation between third sector entities, including self-help groups, and the business sector is very poor. If it does exist, socially responsible business in Serbia is only in its embryonic phase. There are only a few positive examples where profit-making enterprises have supported self-help group projects and this occurred chiefly during some public campaigns. One important report concluded that the business sector is either weak or represented by individuals who have accumulated wealth in ways which make it difficult for NGOs to co-operate with them (Golubovic and Andjelkovic 2008).

In order that social entrepreneurship play an important role in the future open labour market, the integration of disadvantaged workers and the whole process of economic recovery in Serbia, the promotion of a suitable legal framework and regulatory initiatives, harmonized with solutions found in countries of the European Community or advanced Central Eastern European post-communist countries would be significant. Ultimately, so as to reaffirm the social economy certain organizational and legal barriers have to be overcome so that SE can become effective

actors and catalysts for social reform, especially in dealing with poverty, marginalization and unemployment.

Among the factors inhibiting further growth of social enterprises as a poverty reduction mechanism and an instrument of local socio-economic development, scarce number of local social advisors, instructors, social economy leaders and managers, social entrepreneurs and paid staff of citizen organizations rooted in their communities has been among the key obstacles. A need for the educational system to develop managerial skills capable of building strategies to overcome political upheavals and changes have to overcome emerging shortage of leaders for social enterprises/work integration social enterprises. A range of educational and training programs, seminars and courses to generate an understanding of the SE form of business and mutual societies for social services, providing as a solid foundation upon which SE might be revitalized.

Future research explaining in greater depth the main reform trends, new configuration of the welfare system and the role of different actors in the pluralist emerging welfare pattern is also required. Some insights from surveys and relevant research-based analysis for the better design and implementation of policy, would improve policy-makers' understanding of related issues and provide an appropriate foundation for the implementation of evidence-based policy in Serbia. Such research would include a broad assessment of social enterprises entities and focus on organisations that are service providers and part of the emerging welfare system model in Serbia.

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TRANSFORMATIONAL PROBLEMS OF AGRICULTURAL COOPERATIVES IN SOUTH-EAST SERBIA⁵⁵

Abstract

In this article conditions of cooperative sector in the Region of Stara planina and system for its' support are analysed. The analysis is based on the findings of qualitative research conducted for UNDP Serbia in 2009 on the inactive and active agricultural cooperatives as well as a number of representatives of different institutions and organizations that can provide various forms of support to the cooperatives. Findings clearly indicate that conditions are very unfavourable, that many agricultural cooperatives in the region disappeared, while remaining ones were facing series of problems related to the property, market, organizational aspects and relations with environment. At the same time any kind of systematic support to the cooperatives is missing.

Key words: *agricultural cooperatives, transformation, rural development*

Introduction

Agricultural cooperatives as form of social enterprises are important for rural development in Serbia for several reasons. They represent favourable framework for economic activity of small farmers, redundant workers, other marginalized labour force, particularly in rural areas, which was facing serious obstacles for economic participation during period of transformation towards market economy. Due to the basic principles they are relying on, such as open and voluntary membership, democratic members' control, member's economic participation, autonomy and independence, education, training and information of members (Birchall, 2004), they provide more secure, quality, non-exploitative framework for employment and by that they economically empower rural labour force engaged in agriculture. Agricultural cooperatives contribute to the rural development also by decreasing informal economy which is particularly present in small farming sector. Besides that, they provide framework and impetus for generation of social capital through solidarity and cooperation, promote ideas of social justice and contribute to the more inclusive local community. However, to all the mentioned benefits from the perspective of local communities and producers, should be added benefits on behalf of consumers, as cooperatives can provide better quality products and services due to their intrinsic

⁵⁵ This article is based on the findings from research on agricultural cooperatives in the region of Stara Planina conducted within the project 'The analysis of support system to cooperatives in Stara planina region – lessons learned' which was a component of the broader UNDP project in Serbia – 'Severance to job'.

commitment to the social objectives and lack of narrow focus on profit-making (Noya, Clarence, 2007).

The cooperative sector has a long history in Serbia. The cooperative concept reached Serbia in the 1850s, spreading out from UK, France and Germany towards Eastern and Southern Europe. In the second half of 19th century a large number of agricultural cooperatives were established⁵⁶. Financial co-operatives based upon the Raiffeisen model also began to emerge to displace the networks of private money-lenders that traditionally had always stunted rural development in the region.⁵⁷ This allowed small-holder agriculture to expand its operations, including through the purchase of additional land on favourable credit terms. In 1895 the then Kingdom of Serbia established the Cooperative Union of Serbia, one of the first national associations in Europe. By 1900 the agricultural cooperative sector in Serbia was booming, with more than 600 operating right across the country. By 1930 the co-operative sector in the then Yugoslavia had amassed the largest co-operative assets of all the countries in South East Europe (Batemen, Penarz, 2009).

During socialist period so called social property and self management system have altered the nature of cooperatives by changing joint, common, ownership over land and other resources and facilities by cooperative members and by switching their position from full members to employees or associate members (cooperants)⁵⁸. Basically old agricultural cooperatives were partially incorporated into the worker self-management system in 1952, which led to denial of specific cooperative property and autonomy of cooperatives as autonomous economic and social units of production.

After the fall of socialism, during the period blocked transformation in the 1990s and period of difficult reforms in the following decade, cooperative sector remained completely marginal, and transformation processes were not planned and supported by the relevant government policies. Mapping of social enterprises in Serbia (Cvejic, Babovic, Vukovic, 2007) indicated that only about 900 cooperatives out of almost 3000 registered were actually active in 2007. Majority of these cooperatives (75%) were agricultural cooperatives. However, precise data on number of active cooperatives is still missing in Serbia, particularly having in mind that over two decades legal framework and strategic support to this sector was not provided.

In this article findings are presented based on the qualitative survey conducted on cooperatives in the region of Stara planina, in 2009, with the aim to shed more light on internal and external problems which remaining cooperatives were facing and on available forms of support.

Research objectives and methodology

The research on agricultural cooperatives in the region of Stara planina was designed with the aim to explore present conditions in the cooperative sector and to learn about key problems as well as about key potentials of agricultural cooperatives that can be the basis for the measures of promotion of cooperatives and improvement of employment and economic participation in the area. Important objective was to get insights in the influence of present legislative and institutional framework on transformation processes and everyday functioning of

⁵⁶ The first cooperative was established in Bački Petrovac in 1846.

⁵⁷ The first officially recorded financial cooperative in Serbia was established in Pivnica in 1868.

⁵⁸ Cooperants were the producers who would sell their products to the cooperative on regular basis, but they are not full fledged members and do not have any decision-making power.

cooperatives as well as on available measures and programmes that can be supportive in the process of transformation of the cooperative sector in the region and regeneration of agricultural cooperatives who were important pillars of local rural economy.

Qualitative research was conducted in the four municipalities of the region (Babusnica, Pirot, Svrlijig and Knjazevac). Research included 16 cooperatives among which 7 were inactive. Among active cooperatives 4 were established before 2000 while 5 were established after 2000. It appeared that these 9 active cooperatives were the only active cooperatives left in the whole region, which was quite surprising fact having in mind their large number in the past. Interviews were conducted with representatives of agricultural cooperatives, but also with representatives 5 associations of agricultural producers and representatives of local government and other relevant institutions and associations that could be part of framework for support. Besides, interviews were conducted with representatives of relevant national ministries and institutions (Ministry of agriculture, forestry and water supply, Ministry of economy and regional development, Agency for development of SMEs), having in mind that basic legislative and institutional framework are shaped at the national level.

Data were collected through semi-structured in-depth interviews, adjusted to the different type of respondents. Having in mind the limits of qualitative survey of this kind, findings do not allow for generalization but represent quite accurately and with profound insights conditions in cooperative sector in the region, due to the full coverage of all remaining active cooperatives.

Types of cooperatives

Main research findings indicate significant differences between cooperatives in regard to their features, potentials and obstacles they face, depending on the period of their foundation. Due to the hindered transformation of cooperative sector, cooperatives still possess features characteristic for the period of their foundation which defines their capacity to adjust to the new market economy. Therefore further analysis will make difference between three types of cooperatives: inactive, cooperatives in the process of transformation and newly established cooperatives.

Inactive cooperatives mostly represent old cooperatives founded during socialist period. They were usually large in the size: owned large portions of land and other assets, as well as big number of employees and cooperants. Due to the lack of transformation of ownership over land and other assets they were not able to adjust properly to the market conditions, particularly in the context of profound economic crisis during 1990s and loss of the former Yugoslav market. Also, their important clients were other 'socially owned firms' and with the economic collapse and disappearance of those 'socially owned firms', they have entered vicious circle of increasing debts and narrowing economic activity which finally brought them to the end. It was clear from interviews with the cooperative management that they were heavily relying on state subventions and other forms of state support (state was often their major client). Their management was not capable and knowledgeable to adjust their operation to the new circumstances. Therefore, with the changed system, and lack of internal transformational capacity they failed to transform and survive.

Cooperatives in transformation were similar to the previous type. Some of them were also established during socialist period, but others were founded during 1990s. However, there is important difference between them and inactive cooperatives. Unlike later, which were focused on agricultural production of various kinds, cooperatives in transformation were focused on trade

which was much less risky branch of activity due to the lack of investments in equipment and storage space. Even if they were engaged in production activities before, harsh times of 1990s they faced with transforming their core activity from production to the trade, acting as mediators between local farmers and markets. By narrowing activity they managed to avoid big debts since they did not have to invest in new equipment or new facilities. This shift in branch of activity also buffered the problems originating from non-transformed ownership. Therefore, although their market adjustment was not optimal, they managed to survive.

Newly established cooperatives were much smaller in size, established through initiative of small group of people who was already socially linked. They were relatively closed for new members, and they had much less land and other assets in comparison with previous two types. However, they were much more capable of providing markets, cautious in taking loans, unwilling to engage in activities with high level of business risks. They were much better fitted to the unstable socio-economic environment and to the market economy than two previous types.

Research findings indicate that cooperative founders were not always using this form of economic activity because of its principles and benefits mentioned at the beginning, but because of certain tradition, inertia or less demanding legal prerequisites in comparison to the companies. Cooperatives that were founded through authentic cooperation of small producers are rare, while two 'atypical' forms could be found more often. First are cooperatives founded by persons who were before cooperative employees. They usually do not include among members small producers, and even when they are included, management of cooperative remains in the hands of narrow circle of founders. Second type includes cooperatives that are founded by same family members, so they are more similar to family enterprises than to real cooperatives. However, it is important to notice that even if these forms are departing from ideal type of cooperative, they still represent important tool for employment generation and economic participation of small farmers and more generally, rural population. During the season of agricultural work they employ external workers contributing this way to the employment promotion in the local community.

Assets ownership

Research findings indicate various problems cooperatives were facing: problems related to the ownership of assets, to the organization and human resources, business problems, social networking problems and those related to the inappropriate legal and institutional framework and lack of support.

As it was already mentioned, post-socialist transformation did not entail ownership transformation of cooperative assets. The absence of such a process significantly diminished the potential of cooperatives to transform in other aspects, including organizational changes and market orientation. Research confirmed that inappropriate legal status of cooperative assets was one of the key factors of their failure and disappearance.

Land and buildings owned by cooperatives were registered in the land registries before collapse of socialism as 'social ownership' or state ownership. This legal status of assets disabled cooperatives to use them in a more autonomous and flexible manner during 1990s. Whenever management of cooperative decides to take some kind of economic activity that includes redefining usage of land and facilities, they have to ask for permission issued by the Agency for privatization. Procedures were estimated as too complicated and discouraging by interviewed representatives of cooperatives. Besides, the evidence on cooperative ownership in the book records is inaccurate. Many changes in ownership conducted after the establishment of

cooperatives are not recorded in the local registries which additionally complicates situation. Besides, retrieving documents related to ownership of assets is costly and represents a burden for financially weak cooperatives.

The consequence of such a legal ownership basis is striking - in the region facing serious problems of economic underdevelopment, huge assets in the form of fertile soil, forests, storage space, farms, shops and other buildings, are not utilized. This underutilization of local resources in the context of hindered development can be understood as the lack of economic rationality.

Research indicated the presence of various problems related to the organization of activities, planning and human resources management in the remaining active cooperatives. In most of the cases, majority if not all decision are brought in the narrow circles of the board or even by one person – manager. Formally, cooperatives establish bodies required by the law – assembly, management board, supervisory board. However, these bodies are only formally established and do not participate in decision-making in the most of the cases. There is no system of regular information dissemination among cooperative members, nor regular communication between cooperative management and members. Communication is ad hoc, informal and occasional.

Planning of activities is irregular. Cooperatives usually have some basic development plans, but these plans are very flexible, changing with circumstances and they do not oblige the cooperative management. The activities are more tailored according to the short term opportunities, market conditions and recognized chances. Network of suppliers in the most of the cases is not stable, nor structured on the basis of long term partnership arrangements. Development of human resources is completely neglected, meaning the absence of investment in education and training of members and suppliers (cooperants) in most of the cases.

Economic problems faced by cooperatives included in the research are mostly related to the access to the market, rational utilisation of capacities, successful innovation and financial management. Research revealed the absence of any strategic market orientation of the cooperatives. They do not rely on the market research of any kind and access to the market usually through informal contacts and linkages. As it was already mentioned, newly established cooperatives have more developed market orientation, but that means they are more sensitive to market demands and shift in changes and more ready to adjust to it, and not to develop more strategic approach to the access to markets. Marketing and promotion activities are completely neglected, which limits their economic potential significantly.

Cooperatives are not using full production capacities from two important reasons: in old cooperatives activity has decreased due to the slow involution and deterioration, while in newly established cooperatives there is tendency to employ production resources only in order to produce what is possible to sell immediately on the market. The latter is indicator of lower readiness to take risks but also of already mentioned lack of more professional approach to the market. It was observed during research that management lacks knowledge and skills to estimate business opportunities or to invest in innovations. Technological innovations are rarely planned and if they occur it is mostly consequence of particular external initiative or ad hoc reaction on the market demand. Access to financial markets and loans is quite restrictive due to the insufficient property as potential guarantee or due to the small and insecure turnover. Microcredit institutions are not present nor credit cooperatives that would be more suitable for loans to cooperatives.

Finally, when social capital is at stake, it is important to notice that old cooperatives are extremely poorly networked in the local community. Destruction of previous social networks in which they were embedded and which contained socially owned enterprises, state actors which

supported their functioning, left remaining cooperatives in certain vacuum. They did not adjust to the new environment and did not build new social networks. They rarely build any relations with actors other than immediate clients or suppliers. They do not recognize relevant organizations and institutions in their environment that can provide some kind of support. Newly established cooperatives are much better networked with other actors in the local community, but they still lack adequate support.

Characteristics of the system of support to cooperatives

Cooperatives were important generators of social capital in rural areas during previous periods. They were important forms of economic cooperation, but they also provided important social functions in the rural areas. They linked and associated small agricultural producers, they employed rural population, they linked small farmers to the markets strengthening their position, while cooperative houses and shops were important places for gathering of local population in the absence of other social and cultural institutions. Closing cooperatives contributed to the economic and social weakening of rural areas. Weak economic resources and low social capital further undermine socio-economic potentials of rural population and communities. This is important to keep in mind, because supporting cooperatives means also supporting rural communities.

However, the analysis of support to cooperatives indicates the absence of any systematic support or even slight interest for cooperative sector among key stakeholders in local communities and at national level. The analysis of local system for support of cooperatives included representatives of local self governments, regional associations of cooperatives, Agency for Development of Eastern Serbia, land registries and associations of agricultural producers. According to research findings it is obvious that support for cooperatives is missing, there are only very sporadic cases of support through single programmes, and there is no clear responsibility of any institution for the support to cooperatives.

Associations of agricultural producers are non profit, interest based organizations founded with aim to protect interests of their members. Research findings indicate that their importance grew with trend of closure of cooperatives, as they attempt to compensate some functions previously performed by cooperatives. These associations develop much better than remaining cooperatives joint interests of their members, solidarity. They have much better support in the local community, more elaborated plans of activities, more dynamic communication among members. They are very active in providing capacity building of their members through different forms of education and training, as well as innovation of agricultural production. However, they are not appropriate form for economic activity. Therefore, they can represent important resource for creation of new cooperatives, as they have already provided good base for cooperation of producers and developed important internal and external social capital.

Unlike the associations of producers, associations of cooperatives have problematic relation with their members and bad reputation among cooperation members. They are quite distant from their members, not familiar sufficiently with their problems, their relations are often reduced to payment of members fee, and even basic support by association of cooperatives to its members was not found during research. Only occasionally they would organize some activity related to the promotion of cooperatives, but direct support to the cooperatives is missing. It appeared that associations even do not have accurate evidence on their active members.

Local authorities were not interested in cooperative sector as appeared from the interviews with representatives of relevant departments in local governments. Representatives of cooperatives indicated on several occasions the conflicts that were developed between local governments and cooperatives in relation to the cooperative property. Departments for economy or agriculture were not equipped with monitoring mechanisms of cooperative sector. Programs that support association of producers exist, but they were delivered to associations of producers and not to cooperatives. There were also programmes for support to agriculture, but they were delivered to the individual farms and not to cooperatives. Agency for SME development is supporting only entrepreneurs and enterprises but not cooperatives.

Finally, national legal and institutional framework was also not supportive to the transformation and development of cooperative sector. New Law on cooperatives is for years in the preparation, but has not been enacted yet. Responsibilities of different ministries were not precisely defined so it was not clear if agricultural cooperatives should be under responsibility solely of the Ministry of Agriculture, or also of the Ministry of Economy. System of monitoring cooperative sector is non-existing, and support measures absent.

Conclusions

The research conducted on the inactive and active agricultural cooperatives as well as on the representatives of various relevant institutions and organizations that can provide support to the cooperatives has clearly indicated poor conditions of cooperative sector in the Region of Stara planina and the absence of any system for support. After two decades of the deterioration of the cooperative sector, in the four municipalities from the Region, only nine active agricultural cooperatives were found. Research findings indicated important differences between old, inactive cooperatives, those who were in the process of transformation and newly established ones. It appeared that inactive cooperatives were mostly founded during socialist phase, much larger in the terms of property than new ones but they failed to adjust to the new market conditions and they ceased their operations. Active cooperatives were facing serious problems in the many aspects. They have problem transform the property ownership, to provide stable market position, their management often lack business skills and entrepreneurial potential. They do not invest strategically in technological, organizational innovations or in human resources development. In order to cope with the unfavourable environment, cooperatives usually depart from the basic principles of cooperation, such as openness, solidarity and democratic decision-making.

Research on available support to cooperatives reveals that there is no any systematic plan, strategy that would define objectives and means of support to the cooperative sector, nor any coordinated, continuous activities of support. It looks like cooperatives were not eligible for any kind of support, and care for cooperatives is nobody's responsibility. Yet, transformation of cooperative sector and its further development can contribute to the regeneration and promotion of agricultural production of small farmers, and broader development of social economy and rural communities.

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MARKET NICHEs FOR SOCIAL ENTERPRISES

Abstract

The paper is occupied by market aspects of social enterprises, as social entrepreneurs are the revolutionaries that make large scale social impact in their communities around the world. Social entrepreneurs are seen in this paper as change friendly, market opportunity-oriented, innovative, and resourceful value creators. They have to see resources and find a way to mobilize or move them to areas of higher productivity and yield. They are supposed also to find a way to create value and be competitive at the market. In the paper are more detailed researched the ways social entrepreneurs have to act to be change agents in the social sector by: adopting a mission to create and sustain social value on the market, relentlessly pursuing market niches opportunities to serve their mission, continuously innovating, adapting and learning, acting boldly without being limited by resources currently in hand. The paper emphasizes the role of education and business planning, managerial skills and entrepreneurial talents to help solve social problems through the provision of socially important goods and services.

Keywords: *Social Entrepreneurship, Market Niche, Business Planning, Opportunity, Competitiveness*

Introduction

Entrepreneurship and enterprise development are increasingly recognized as a pillar of sustained economic growth and innovation in both developed market and emerging market (transition) economies. The growth of the small and medium private sector is expected to be an effective means of promoting economic restructuring and raising competitiveness.

Social entrepreneurship is an emerging field that aims to address social problems in an innovative, sustainable, and effective way. Social Enterprise emerges as a common response to many common problems in transition economies as Serbia is: structural unemployment, government budget deficits, inadequacy of traditional social policies and need for more active social integration measures.

The processing problem in the social reform under tightening government budget is before all: *recommodification* - the need to push people back into the labor market, to channel people back to private source of welfare services; *updating* - the need to adjust to new needs and demands amid socio-demographic changes and, *rationalization*-the need to be cost-effective in delivering high-quality welfare services. There are numerous examples in the social sector that

prove social entrepreneurship is not just a good idea, it is a necessary evolution in nonprofit and profit practice.

Throughout the region, new and operational enterprises face difficulties related to the inefficiency of governance, heavy taxation and complicated tax administration, and difficult access to finance. These barriers are particularly high in the countries with in development of market economies, which find themselves at various stages of developing market institutions.

This paper serves as our case for how to mobilize resources for social enterprise initiatives to be better connected to the *Market* –sells of goods and services, *State*- public subsidies, contracting, support measures and infrastructure, and to *Society* support- volunteer work, donations, training and consultancy.

Definitions and literature overview

“*Entrepreneurship*” can be defined as profit-oriented economic activities (and related stream of decision-making) undertaken under conditions of risk and uncertainty. It also relates to innovation because entrepreneurs try to discover “new combinations” of the factors of production in order to make a profit. (7)

The idea of “*social entrepreneurship*” has struck a responsive chord. It is a phrase well suited to our times. It combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance. Major social sector institutions are often viewed as inefficient, ineffective, and unresponsive. Social entrepreneurs are needed to develop new models for a new century.

The language of social entrepreneurship may be new, but the phenomenon is not. W. Schumpeter notes, we have always had social entrepreneurs, even if we did not call them that. They originally built many of the institutions we now take for granted. However, the new name is important in that it implies a blurring of sector boundaries. In addition to innovative not-for-profit ventures, social entrepreneurship can include social purpose business ventures, such as for-profit community development banks, and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents. The new language helps to broaden the playing field. Social entrepreneurs look for the most effective methods of serving their social missions.

Though the concept of “social entrepreneurship” is gaining popularity, it means different things to different people. This can be confusing. Many associate social entrepreneurship exclusively with not-for-profit organizations starting for-profit or earned-income ventures. Others use it to describe anyone who starts a not-for-profit organization. Still others use it to refer to business owners who integrate social responsibility into their operations. What does “social entrepreneurship” really mean? What does it take to be a social entrepreneur? To answer these questions, we should start by looking into the roots of the term “entrepreneur.”

Defining Social Entrepreneurship

Any definition of social entrepreneurship which is used for the purpose of this paper should reflect the need for a substitute for the market discipline that works for business entrepreneurs. We cannot assume that market discipline will automatically weed out social ventures that are not effectively and efficiently utilizing resources. The following definition combines an emphasis on discipline and accountability with the notions of value creation. (8) In brief, this definition can be stated as follows:

Social entrepreneurs play the role of change agents in the social sector, by:

- *Adopting a mission to create and sustain social value (not just private value),*
- *Recognizing and relentlessly pursuing new opportunities to serve that mission,*
- *Engaging in a process of continuous innovation, adaptation, and learning,*
- *Acting boldly without being limited by resources currently in hand, and*
- *Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.*

This is clearly an “idealized” definition. Social sector leaders will exemplify these characteristics in different ways and to different degrees. The closer a person gets to satisfying all these conditions, the more that person fits the model of a social entrepreneur. Those who are more innovative in their work and who create more significant social improvements will naturally be seen as more entrepreneurial. The truly Schumpeterian social entrepreneurs will significantly reform or revolutionize their industries. Each element in this brief definition deserves some further elaboration:

- *Change agents in the social sector:* Social entrepreneurs are the reformers and revolutionaries described by Schumpeter, but with a social mission. They make fundamental changes in the way things are done in the social sector. Their visions are bold. They attack the underlying causes of problems, rather than simply treating symptoms. They often reduce needs rather than just meeting them. They seek to create systemic changes and sustainable improvements. Though they may act locally, their actions have the potential to stimulate global improvements in their chosen arenas, whether that is education, health care, economic development, the environment, the arts, or any other social sector field.
- *Adopting a mission to create and sustain social value:* This is the core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible businesses. For a social entrepreneur, the social mission is fundamental. This is a mission of social improvement that cannot be reduced to creating private benefits (financial returns or consumption benefits) for individuals. Making a profit, creating wealth, or serving the desires of customers may be part of the model, but these are means to a social end, not the end in itself. Profit is not the gauge of value creation; nor is customer satisfaction; social impact is the gauge. Social entrepreneurs look for a long-term social return on investment. Social entrepreneurs want more than a quick hit; they want to create lasting improvements. They think about sustaining the impact.
- *Recognizing and relentlessly pursuing new opportunities:* Where others see problems, entrepreneurs see opportunity. Social entrepreneurs are not simply driven by the perception of a social need or by their compassion, rather they have a vision of how to achieve improvement and they are determined to make their vision work. They are persistent. The models they develop and the approaches they take can, and often does, change, as the entrepreneurs learn about what works and what does not work. The key element is persistence combined with willingness to make adjustments as one goes.

Rather than giving up when an obstacle is encountered, entrepreneurs ask, “How can we surmount this obstacle? How can we make this work?”

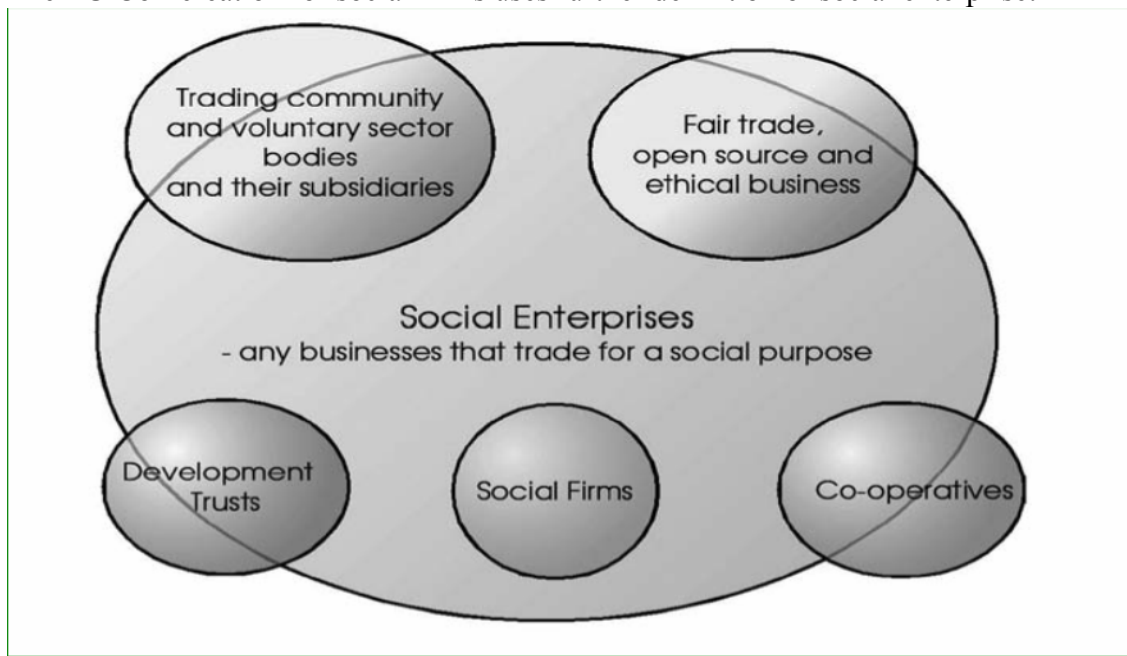
- *Engaging in a process of continuous innovation, adaptation, and learning:* Entrepreneurs are innovative. They break new ground; develop new models, and pioneer new approaches. However, (6) innovation can take many forms. It does not require inventing something wholly new; it can simply involve applying an existing idea in a new way or to a new situation.
- *Acting boldly without being limited by resources currently in hand:* Social entrepreneurs do not let their own limited resources keep them from pursuing their visions. They are skilled at doing more with less and at attracting resources from others. They use scarce resources efficiently, and they leverage their limited resources by drawing in partners and collaborating with others. They explore all resource options, from pure philanthropy to the commercial methods of the business sector. They are not bound by sector norms or traditions. They develop resource strategies that are likely to support and reinforce their social missions. They take calculated risks and manage the downside, so as to reduce the harm that will result from failure. They understand the risk tolerances of their stakeholders and use this to spread the risk to those who are better prepared to accept it.
- *Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created:* Because market discipline does not automatically weed out inefficient or ineffective social ventures, social entrepreneurs take steps to assure they are creating value. This means that they seek a sound understanding of the constituencies they are serving. They make sure they have correctly assessed the needs and values of the people they intend to serve and the communities in which they operate. In some cases, this requires close connections with those communities. They understand the expectations and values of their “investors,” including anyone who invests money, time, and/or expertise to help them. They seek to provide real social improvements to their beneficiaries and their communities, as well as attractive (social and/or financial) return to their investors. Creating a fit between investor values and community needs is an important part of the challenge. When feasible, social entrepreneurs create market-like feedback mechanisms to reinforce this accountability. They assess their progress in terms of social, financial, and managerial outcomes, not simply in terms of their size, outputs, or processes. They use this information to make course corrections as needed.

Entrepreneurs need not be inventors. They simply need to be creative in applying what others have invented. Their innovations may appear in how they structure their core programs or in how they assemble the resources and fund their work. On the funding side, social entrepreneurs look for innovative ways to assure that their ventures will have access to resources as long as they are creating social value. This willingness to innovate is part of the modus operandi of entrepreneurs. It is not just a one-time burst of creativity. It is a continuous process of exploring, learning, and improving. Of course, with innovation comes uncertainty and risk of failure. Entrepreneurs tend to have a high tolerance for ambiguity and learn how to manage risks for themselves and others.

Social Enterprises, (2) the main sector of activities concerned in this paper, are understood as businesses that trade in the market in order to fulfill social aims. They bring people and communities together for economic development and social gain. They come in a variety of forms including; employee owned businesses, credit unions, co-operatives, development trusts, social firms, community businesses and charities trading arms. Common characteristics of such Social Enterprises could be grouped as:

- *Enterprise Oriented* - they are directly involved in the production of goods and/or provision of services to a market. They seek to be viable enterprises, making a surplus from trading.
- *Social Aims* - they have explicit social aims such as job creation, training and provision of local services. They have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact.
- *Social Ownership* - they are autonomous organizations with a governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups, etc.) or by trustees. Profits are distributed as profit sharing by stakeholders or used to improve the enterprise, or for the benefit of the community.

The EU Conference for social firms uses further definition of social enterprise:



Source: (5)

Market niches for social enterprises

Key Market Sectors where Social Enterprises most often found their business activities with social aims could be grouped as:

Food and Drink - Social Enterprises in this sector are as diverse as a:

- Community cafe, to manufacturing or selling fair-trade or organic products, to running a hospitality venue. Catering has doubled its attractiveness as a field for founding a social enterprise from 12-23%

Retail, (9)- Social enterprise retail outlets are increasing popping up online, as well as on streets, selling a wide range of products and services, from clothes to computers, which are either ethical in nature, or sold commercially to redistribute profit to charitable causes.

Manufacturing of various goods like:

- Textile production, goods of leathers, shoes production, wood production, metal and metal goods, products of plastic material
- Packaging and filling in some products

Creative Industries, (10) - Whether it's in media, theatre, art or design, social enterprises are utilizing the arts in a range of ways, to engage and rehabilitate disaffected individuals, promote local heritage, showcase budding talent or broadcast matters that should be in the public eye. In creative industries are very much active initiatives for founding social enterprises in publishing industry, graphic, graphic design craft, souvenir production.

Education and Learning, (11) - Developing people's knowledge and skills is a sustained marketplace, and social enterprises are established to deliver mainstream, online, and alternative education methods to different industries and specialized audiences. Example social enterprises include training, formal and informal education which have increase market share in social enterprises market niche from 9% to 11%, in last year, what is permanently increasing as the most popular sector for social enterprises.

Transport, (12) - It can be seen an evolution of transport, as attention is turned to energy efficient transportation models, shared transport schemes and community owned transport. Transport agencies are also very interested for social entrepreneurs, as well as translating services.

Services – Social entrepreneurs are situating their business interest more than privies years in: mobile cleaning service, personal repairing services, call-centers services, information technology and computers repairing, photocopying services.

Leisure and Culture, (13) - Leisure and Culture is a major growth sector for social enterprise. Many public leisure centers are being managed by social enterprises, whilst social entrepreneurs are setting up alternative sport initiatives for community and education purposes. There is also an increase in eco-tourism and cultural attractions to celebrate local heritage or the arts, hosting houses, motel and hotel industry, traveling

Health and Welfare, (14) - The government is currently placing a large emphasis on contracting with social enterprises to deliver health and welfare services, and there is major emphasis on stimulating new and supporting the growth of existing social enterprises to deliver mainstream and niche services.

Environment, (15) - With the introduction of increasing legislation, attention is placed on environmental practices for waste management, energy efficiency, and sustainability. We are seeing a change in manufacturing, construction, energy and recycling processes and practices within our households, in the community and in our workplace. The recycling as a market niche for social entrepreneurship has risen 10.5% to 12% in 2011, as well as horticulture.

Market niche Social firms also may achieve success by finding the right market niche. Many enterprises gain a market edge by competing for contracts with public agencies, such as hospitals, which often have a special interest in the social inclusion of people with disabilities or a strategic need to be seen to serve the public interest. Social firms also may have practical market advantages. The cleaning business in Pordenone, Italy, successfully developed contracts with public facilities in part because the unionized workforce it replaced was relatively inefficient. The market niche may come from workers' special qualities. People with disabilities, for example, may have unusual reserves of empathy and patience when employed as home health aides. The public orientation of social firms can help them earn contracts through a willingness to tackle community problems. Managers of the Trieste cooperatives, for instance, met with local officials to discuss ways to clean up a run-down section of the city and discovered that a significant problem was the number of abandoned motor-scooters littering the streets. They devised a plan for a scooter-salvaging workshop to be staffed with young disadvantaged people, many of whom have a prior history of disassembling scooters on the street to steal parts. Other business strategies Social firms often select labor-intensive business options to maximize employment while minimizing capital investment. Common choices include cleaning services; handmade products, like wooden toys; organic food production that is not driven by investments in machinery and fertilizer; car washes; and bicycle repair. At times, however, a social firm consortium may choose to develop a business that is profitable but employs relatively few people with disabilities in order to use these earnings to offset other losses. A profitable venture of this type is the consumer-employing pharmacy in Boulder, Colorado. Managers of social firms emphasize the need to maintain diversified products and revenue sources in order to adapt to changing market circumstances and provide a range of work opportunities. Creating high-quality products in a pleasant work environment is often an emphasis. Other reasons for success A factor that has helped advance the social firm model for people with mental illness in Europe is the lack, until recently, of adequate rehabilitation alternatives. As the supported employment model is promoted outside the United States, social firms will face a challenge. They may still be attractive, despite the competition, because they offer opportunities for empowerment that are compatible with recovery principles. A reason for the success of alternative businesses in Toronto is the longstanding strength of the consumer movement in that city. Social firms also provide a greater opportunity for developing a sense of community in the workplace. One manager of a social firm in Trieste described this community feeling as "una piccola famiglia allargata"—a small extended family. In a worker cooperative, this communality can become altruistic, as when Trieste social firm employees choose to renounce their annual bonus to help the firm's financial bottom line. The supportive atmosphere may explain why the rate of transition from social enterprises into competitive employment is low in most countries. Social firms offer another advantage over supported employment. Studies show that belief in an organization's social mission enhances worker participation and promotes organizational success. Social firms can build a sense of purpose among the workforce, resembling commitment to a social movement. This phenomenon is greater when social firms adopt an organizational

form, like a cooperative, that enhances solidarity and mutual support. Support entities have aided the dissemination of social firms.

Organizations like CECOP, (17) in Europe and CEGES, (18) in France facilitate technology transfer and provide business consulting, manager training, and other assistance.

Ordinarily, new businesses can get start-up assistance from local small-business development agencies, but this is more difficult for social enterprises. Training managers to work in social firms is complicated because few people with entrepreneurial skills have the knowledge and ability to work with people with psychiatric disabilities, whereas those trained in psychiatric social work often lack the necessary business skills. A support entity can also help develop promotional materials, directories, and technical guides. Support networks are valuable in linking social firms, other businesses, and legislators and can lobby for advantageous legislation. Social firms offer permanent or transitional employment for people with disabilities in an empowering, communal setting.

An entrepreneur's ability to attract resources (capital, labor, equipment, etc.) in a competitive marketplace is a reasonably good indication that the venture represents a more productive use of these resources than the alternatives it is competing against. The logic is simple. Entrepreneurs who can pay the most for resources are typically the ones who can put the resources to higher valued uses, as determined in the marketplace. Value is created in business when customers are willing to pay more than it costs to produce the good or service being sold. The profit (revenue minus costs) that a venture generates is a reasonably good indicator of the value it has created. If an entrepreneur cannot convince a sufficient number of customers to pay an adequate price to generate a profit, this is a strong indication that insufficient value is being created to justify this use of resources. A re-deployment of the resources happens naturally because firms that fail to create value cannot purchase sufficient resources or raise capital. They go out of business. Firms that create the most economic value have the cash to attract the resources needed to grow.

Barriers to social entrepreneurs

Markets do not work as well for social entrepreneurs. In particular, markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay. These elements are often essential to social entrepreneurship. That is what makes it social entrepreneurship. As a result, it is much harder to determine whether a social entrepreneur is creating sufficient social value to justify the resources used in creating that value. The survival or growth of a social enterprise is not proof of its efficiency or effectiveness in improving social conditions. It is only a weak indicator, at best. Social entrepreneurs operate in markets, but these markets often do not provide the right discipline. Many social-purpose organizations charge fees for some of their services. They also compete for donations, volunteers, and other kinds of support. But the discipline of these "markets" is frequently not closely aligned with the social entrepreneur's mission. It depends on who is paying the fees or providing the resources, what their motivations are, and how well they can assess the social value created by the venture. It is inherently difficult to measure social value creation. How much social value is created by reducing pollution in a given stream, by saving the spotted owl, or by providing companionship to the elderly? The calculations are not only hard but also contentious. Even when improvements can be measured, it is often difficult to attribute them to a specific intervention. Are the lower crime rates in an area due to the Block Watch, new policing

techniques, or just a better economy? Even when improvements can be measured and attributed to a given intervention, social entrepreneurs often cannot capture the value they have created in an economic form to pay for the resources they use. Whom do they charge for cleaning the stream or running the Block Watch? How do they get everyone who benefits to pay? To offset this value-capture problem, social entrepreneurs rely on subsidies, donations, and volunteers, but this further muddies the waters of market discipline. The ability to attract these philanthropic resources may provide some indication of value creation in the eyes of the resource providers, but it is not a very reliable indicator. The psychic income people get from giving or volunteering is likely to be only loosely connected with actual social impact, if it is connected at all.

The future of social enterprises niches as a Conclusion

Social enterprise sits at the meeting point of these other sectors. It is not a standalone sector. We can only understand its potential for growth through its interaction with these other sectors: i.e. the way it changes and in a sense infiltrates established sectors of activity.

The paper's argument is that social enterprise will grow through taking a larger share of the activities of these other sectors, taking into account trajectories for demographics, technology, values and market competition that will shape the context in which social enterprise operates.

The potential for social enterprise will depend on the way its unique strengths – to generate trust, to engage with users, to operate at low cost, to identify emerging needs – interact with the changing context.

Some future of this sector certainly lays in the: socialisation of business where the social enterprise will create new ways to do business. Social enterprise is often defined as finding business and market based solutions to systemic social issues, such as social exclusion, long-term unemployment and sustainability. A social enterprise puts a higher premium on its social mission and its social returns which moderate the way it runs its business. Factors would have to include changing consumer perceptions of business (continued rise of ethical consumption); changing attitudes of workers and staff who seek more responsible business; campaigns by NGOs and pressure from government; possible new reporting regimes; corporate social responsibility as a feature of competition; more pervasive, transparent, open and critical media. Other pressures may include attitudes in financial markets and investors' perceptions of reputational risks. One way social enterprise could grow is through a further socialisation of business culture, governance, norms and accountability. More mainstream businesses may try to model themselves as social enterprises in the way they operate and hold themselves to account. The spread of fair trade from a marginal campaign into the business mainstream might be a good example. Corporate approaches to 'carbon neutral' business might provide another example. Entrepreneurial social enterprises often open up markets or ways of doing business that mainstream businesses do not see, in part because social enterprises are driven to innovate in marginal markets even when there is little profit to be made. Social enterprises could be an important source of disruptive innovation, for example in the environmental services and technology sector. Finally, changing attitudes among young entrepreneurs who seem to favour a new mix of making money and social purpose could produce a new wave of social start-ups: commercial businesses with a stronger sense of social mission at their heart, along the lines of Innocent drinks. Policy could play several roles in furthering the socialisation of mainstream business through: helping open up new ethical markets; regulation, for example on

environmental standards; changes to corporate governance towards more social forms of accountability.

Socialising public services is also the field for increasing the role of social enterprise in future. The social enterprise sector is heavily dependent upon state funding and contracting out, especially in social care and local government services. In some respects the social enterprise sector has become a creature of public funding and an alternative to in-house public services. The main forces behind this would be: the growth of more open markets in public services, for example through individual budgets; decentralisation to local government and communities; innovation to tackle emerging social challenges. A good example of the first is the potential for the voluntary and social enterprise sector to play a much larger role in provision of social care as individual budgets come to play a larger role. As public services allow more choice and personalization, social enterprises play a larger role as service providers, brokers and navigators. If individual budgets spread into health and education then it's likely there will be growth in public social enterprises in these sectors as well. Moves towards more decentralisation and community ownership of assets could allow new growth of local mutuals, for example owning local assets such as parks. Environmental policy might create new social carbon trusts to manage local carbon budgets. Another possibility is growth of social enterprises around public priorities such as community safety and long term health conditions.

The social enterprise and social movements are also interesting for future emerging as the business expression of a social campaign or movement addressing a social need. Movements around child care, mental health and learning disabilities for example have produced both campaigns to change legislation but also new services for client groups. One way to plot the future of social enterprise is to examine the possible development of the social movements and campaigns that could spawn them.

Changes in technology, the growth of Web 2.0, are creating a new information and media backbone for democracy, allowing many more people to have their say in debates but also to mobilise one another in local action. Web 2.0 allows campaigns to be ultra local, organised around specific communities of interest and also global in scope. New social movements and campaigns may spawn social enterprises at similar scales. Some of these are likely to adopt Web 2.0 business models themselves. And the social enterprise are connected to the new forms of volunteerism, as the charity's commercial arm, too. However Web 2.0 has also given rise to growth of a new voluntary/social economy, the prime example of which is probably Wikipedia, the free encyclopaedia created largely by volunteers. Open source software – also often created by volunteers – is another example. (19)

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