



Social Enterprise Ecosystems in Croatia and the Western Balkans

A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia

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**SOCIAL ENTERPRISE ECOSYSTEMS IN CROATIA AND THE WESTERN BALKANS:
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FYR MACEDONIA, MONTENEGRO AND SERBIA**

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CHAPTER 1

Introduction

In November 2016 – January 2017 NESsT¹ conducted in-depth research on the social enterprise ecosystems in Croatia and six countries in the Western Balkans in order to map out the legal and policy environment, current stakeholders, the financial and non-financial support needs of social enterprises and the financing and capacity-building options available to them.

It is the first comprehensive research of this kind, covering seven countries in the region: Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia. Its ultimate purpose is to inform key stakeholders in the region on how best to move forward to strengthen social enterprise in the region.

Following this introduction, **Chapter 2** explains the research methodology and how it builds on the social enterprise mapping studies that were published by the European Commission (EC) in 2014² and published in a series of country mappings. **Chapter 3** gives a brief explanation of some of the basic concepts, including the European Union (EU) definition of social enterprise, which we agreed to use for the study. **Chapter 4** provides a regional overview and comparative analysis, and gives a summary of the key findings.

To place Croatia and the Western Balkans into a global context, **Chapter 5** includes the case studies of two countries with very different social enterprise ecosystems – the United Kingdom and Taiwan. We examine these two examples and identify issues and challenges, summarize lessons learnt and explore their possible application in Croatia and the Western Balkans. **Chapters 6** includes our conclusions and possible next steps. **Chapters 7 to 13** are the individual country studies; they each follow a uniform structure and end with local analysis and a set of recommendations for action.

The study synthesizes information and data from many documents, reports, statistics and websites. It includes the views of more than 90 important local and regional stakeholders, who were available to the research team for interviews and to share their visions and conclusions. NESsT would like to thank all of them, as without their openness and active participation, this research and the final study would not have been possible.

¹ NESsT is an international nonprofit organization which invests in entrepreneurial solutions that lift people out of poverty in emerging market countries.

² Wilkinson, Medhurst, et al. 2014

CHAPTER 2

Research Methodology

DESK RESEARCH AND INTERVIEWS

The market studies in this research rely on secondary as well as primary sources. As there is only limited secondary information and data available for most of the seven countries, field research and interviews of local stakeholders form the backbone of the study. Where available, quantitative information and statistics are captured and integrated, while in some cases NESST made estimates based on our own findings. Hence the importance of interviews and primary information; they confirmed our assessment, and provided valuable insight into current challenges and opportunities, as well as indicated future directions in terms of needs and growth.

The list of interviewed stakeholders is presented in Appendix 2 (see page 231). We made sure that four key stakeholder groups would be represented: financiers, funders/ capacity providers, public sector bodies and social enterprises. Interviewing people from these four groups gave us the perspectives of the social enterprises on the one hand, and their supporters and regulators on the other. We were also able to capture the views of actors on the both the demand and supply side of finance.

When selecting social enterprises to be included in the research, we tried to reflect the composition of the universe: from early stage to mature businesses, and ideally from different fields of activity and impact areas. In terms legal forms, we assessed those that comprise civil society organisations (CSOs), such as associations, cooperatives, foundations, nonprofit organisations, since these constitute the majority of social enterprises in the countries included in the study. However, we also assessed small and medium size enterprises (SMEs),

specifically those having social goals, in order to ensure inclusion of for profit social enterprises as well.

When reviewing other stakeholders, we wanted to interview some that are already engaged with the sector and others that are just becoming interested. There may be gaps in the list of stakeholders in certain countries reflecting the fact that these ecosystems are for the most part relatively nascent, and certain types of actors are still weak or missing altogether.

We also interviewed regional stakeholders, such as funders and support organisations, in order to gather information that might be relevant for more than one of the concerned geographies. The seven countries represent very small markets individually; therefore, most donors, investors and support organisations consider them as one region and develop their strategies and programmes accordingly.

BUILDING ON THE EUROPEAN COMMISSION MAPPING STUDY STRUCTURE AND METHODOLOGY

In 2014, the European Commission (EC) published a series of in-depth mapping studies about the features of social enterprise in the 28 EU member states and Switzerland. The studies describe the social enterprise ecosystems across countries and the challenges that constrain their development. Each country study follows the same logic and structure and an overall Synthesis Report summarizes Europe-wide findings and challenges.³

³ Wilkinson, et al. 2014



Optimist is a civil society organisation in Serbia that started a program for economic empowerment of Roma families through the production of vegetables. See page 212 for more information

Country reports within the EC study describe the legal and policy environment, public sector schemes targeting social enterprises, support structures available to them, the demand and supply side of the social investment market; and give a detailed map of key stakeholders. Croatia was included among the countries of the mapping and a comprehensive study was produced with a set of recommendations for further development.⁴

Our research aims to offer new information and perspectives on the other six countries in the Western Balkans, following the same research logic and report outline as the EC mapping studies. It also provides an update on the state of the Croatian social enterprise ecosystem and sheds light on progress and new developments since 2014. While we build on the EC mapping structure in our country studies, we also offer a more detailed analysis of the financing and social investment landscapes; identifying needs and gaps, and recommending possible solutions that can benefit social enterprises at different stages of development.

⁴ Kadunc, Singer and Petricevic 2014

CHAPTER 3

Social Enterprise Basics

THE DEFINITION OF SOCIAL ENTERPRISE

For the purposes of this research, we used the following social enterprise definition adopted by the European Union (EU): “Social enterprises seek to serve the community’s interest (social, societal, environmental objectives) rather than profit maximization. They often have an innovative nature, through the goods or services they offer, and through the organisation or production methods they resort to. They often employ society’s most fragile members (socially excluded persons). They thus contribute to social cohesion, employment and the reduction of inequalities.”⁵

Other definitions exist, but this research uses this same EU definition to keep consistent with the EC mapping studies. According to our initial findings, most of the seven countries use this definition with modifications or additional criteria, so sticking to it seemed to be the most logical step. In countries where interesting additional elements or inconsistencies were discovered, those were pointed out in the legal framework section of the country study. In most countries, additional criteria on legal form or intended social impact are added to aid the implementation of the legislation by public sector agencies. In Croatia, for example, the Strategy for Social Entrepreneurship Development lists nine criteria which social enterprises need to meet to obtain the official status (Croatia Country Study, page 75). In Serbia, the government uses the term social enterprise to mean only initiatives that employ people who face challenges in the labour market (Serbia Country Study, page 191).

THE LIFE CYCLE OF SOCIAL ENTERPRISES

To give a true picture of the level of development of the social enterprise universe in the countries of this research, we mapped social enterprises according to

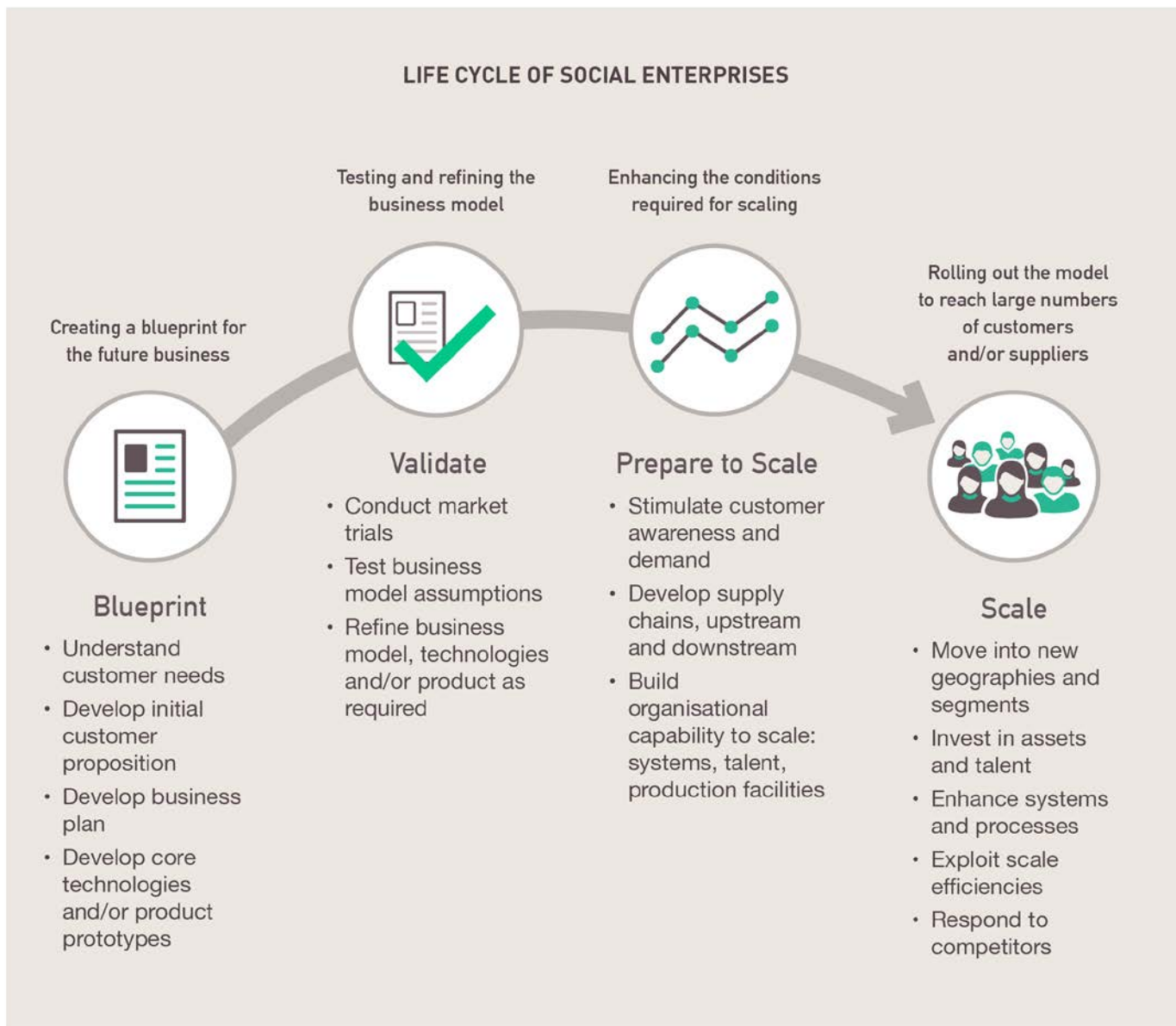
number, legal form, size in terms of number of employees, field of activity and target groups. However, we also assessed them according to their level of development along the life cycle. Throughout the studies, we refer to these stages of development, as they are very relevant for assessing the kind and amount of support – financial and non-financial – that social enterprises need and are able to absorb.

Figure 1 (page 5), shows that the life cycle of social enterprises is comprised of four phases of development: blueprint, validate, prepare to scale and scaling. The blueprint or start-up phase is all about business planning, market research, financial forecasts and risk assessment. Enterprises take their models to the market in the validation phase, when they obtain crucial information from customers, suppliers and financiers about the viability of their business models. They can use this information to modify the model or decide that it is not going to work after all. A validated business model can be prepared for scaling; this is a phase for building organisational capacity and market demand. Scaling is a phase only the best social enterprises reach: rolling out the business model to reach more beneficiaries and customers and expand the social impact and financial success of the enterprise.

Country studies contain an assessment, where possible backed by statistics, of the social enterprise landscape and provide case studies of a number of enterprises that illustrate the different life cycle stages, often within the brief history of one single social enterprise.

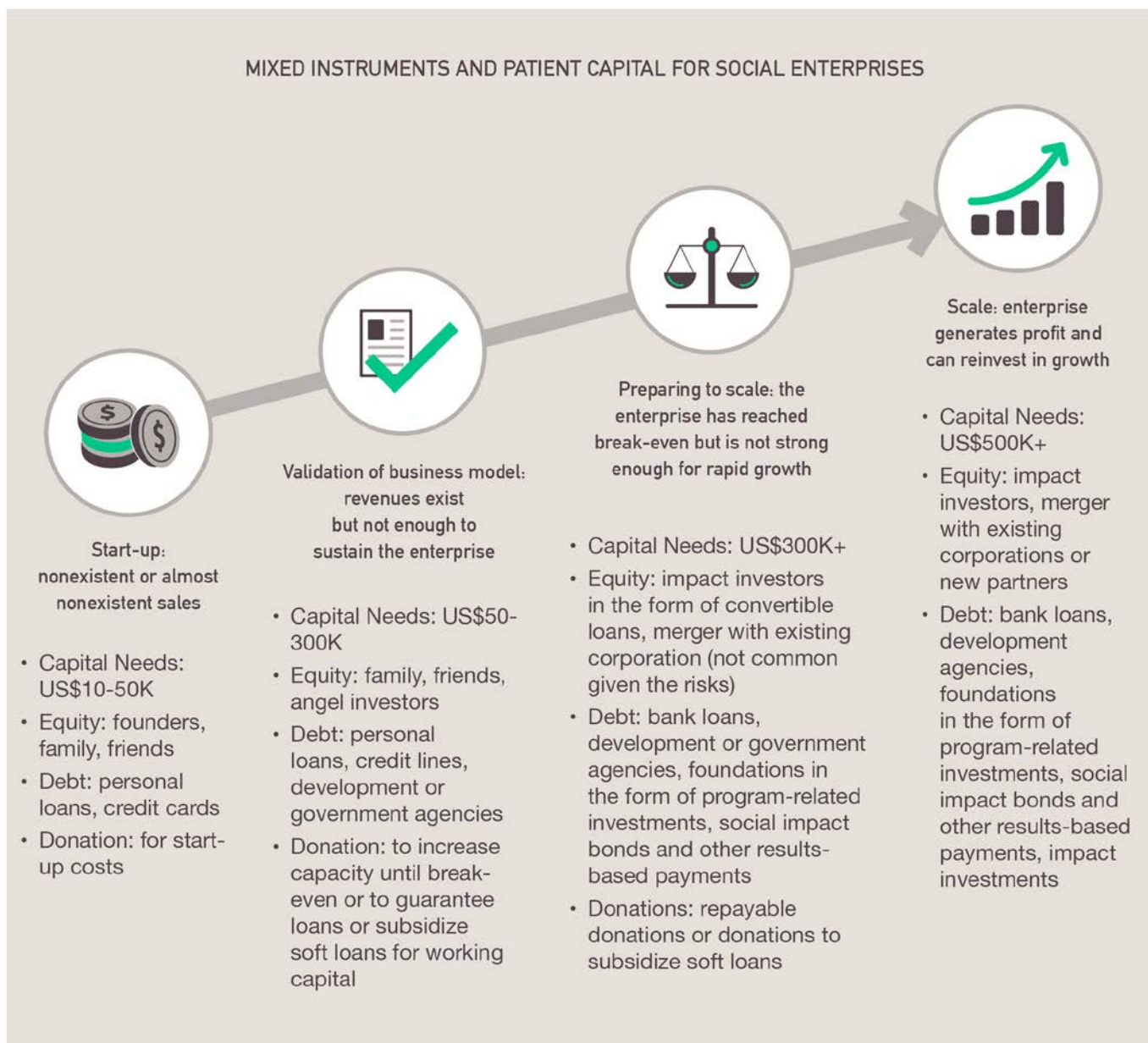
⁵ European Commission 2017

Figure 1: Life Cycle of Social Enterprises⁶



⁶ Koh, Karamchandani and Katz 2012

Figure 2: Mixed Instrument and Patient Capital for Social Enterprises⁷



⁷ Etchart and Comolli 2013

THE FINANCING NEEDS OF SOCIAL ENTERPRISES

This research approached funding and financing needs also from the stage of growth perspective. Social enterprises need capital to grow. The type and amount of capital are closely tied to the level of development of the enterprise as well as the sophistication of the financial market it operates in. As illustrated in Figure 2 (page 6), start-up social enterprises need mostly grants and non-recoverable types of capital until breaking-even. Validate and prepare to scale social enterprises require more substantial amounts of capital and are able to repay it, but with softer terms and supported by philanthropic sources of capital. And finally, scaling social enterprises can take investment capital with more commercial terms.

When describing and analysing the demand and supply side of finance, the country studies point out possible mismatches and opportunities. They recommend that stakeholders develop financial instruments that are appropriate and affordable for the existing social enterprise market, and take into account how they are likely to grow going forward. Social enterprises already in the market will need finance and capacity building to accompany them on the growth journey and prepare them to be investment ready; while the increasing number of start-ups will most likely continue to require grants and non-reimbursable funding. The use of equity is not appropriate in most early stage enterprises, given the lack of exit mechanisms and frameworks. In the case of CSOs, their legal form prevents them from distributing profits.

CAPACITY-BUILDING NEEDS OF SOCIAL ENTERPRISES

Social enterprises have diverse capacity-building, technical assistance and mentoring needs throughout their life cycle and having access to the right support at the right time can be just as important for their development as access to appropriate capital. In a number of financing models (for example venture philanthropy) funders and investors offer a combination of financial and non-financial support. The latter can comprise of training, workshops, specialized tools, technical assistance, mentoring or coaching; it can take place in groups or one-on-one, depending on resources and the needs of the enterprise. According to a 2015-2016 survey of European Venture Philanthropy Association (EVPA) member organizations,⁸ 85% of the respondents offer strategic support to their investees; 73% help them improve their financial management skills, 77% support them in the revenue-generation strategy, 67% help them with their fundraising strategy and 66% offer operational support. Capacity building may take place independently and be provided by specialized programmes or support organisations, who provide knowledge, skills and expertise.

The four life-cycle stages have different objectives of business development and therefore need a different level and combination of capacity-building support. Table 1 (page 8) shows the main objectives of each stage, as well as the corresponding capacities that need to be developed to reach them. The table also shows different formats that this support that can be provided by investors or expert organisations.

⁸ Boiardi and Gianoncelli 2016

Table 1: Capacity-building and Support Needs in Different Stages of Social Enterprise Development

| | Blueprint | Validate | Prepare to scale | Scale |
|------------------|---|--|---|--|
| Objectives | <ul style="list-style-type: none"> • Understand customer needs • Develop business proposition and business plan • Prototype and test | <ul style="list-style-type: none"> • Conduct market trials • Validate business model assumptions • Refine model/products, if needed | <ul style="list-style-type: none"> • Stimulate customer demand • Develop supply chain • Improve organisational capacity to scale | <ul style="list-style-type: none"> • Move into new geographies and segments • Develop new systems • Respond to competitors, invest in assets and talent • Exploit scale efficiencies |
| Areas of support | <ul style="list-style-type: none"> • Strategic thinking • Market research & business planning • Basic financial modelling • Financing strategies and instruments • Social impact measurement | <ul style="list-style-type: none"> • Marketing & sales • Financial modelling (cost/revenue structure) • Financing & fundraising strategy • Impact measurement • Leadership • Operating systems and processes | <ul style="list-style-type: none"> • New markets • Brand building • Human resources • Sophisticated financial modelling • Scaling strategies • Investment strategy • Alliance & partnership building | <ul style="list-style-type: none"> • Growth strategies • Negotiations • Governance structures • Senior management • Investment model & strategies • Systems • Strategic planning & management |
| Methodology | <ul style="list-style-type: none"> • Training • Workshops • Mentoring • Specialised tools | <ul style="list-style-type: none"> • Workshops • Mentoring • Coaching • Specialised tools • Industry specific advice | <ul style="list-style-type: none"> • Workshops • Networking events • Mentoring • Specialised tools • Peer learning • Industry specific advice | <ul style="list-style-type: none"> • Mentoring • Coaching, • Industry specific advice |

Source: NESsT

CHAPTER 4

Regional Overview of Social Enterprise Ecosystems

The countries in the Western Balkans and Croatia can be considered as a homogeneous region for social enterprise development and social finance programmes. They share a common history, similar challenges in economic development and struggle with the same social issues in their transition to democracy and a market economy.

Amidst the exciting and often difficult changes, people and organisations still look to the governments for guidance and support in most countries and have not left their dependence on the state behind.

While there are many similarities, it is also true that following the break-up of Yugoslavia the individual countries took different paths, some of them very dramatic and violent, which left a mark on their relationship with each other. In spite of this shared past, people in the Western Balkans do not always find it naturally easy to cooperate with each other and create successful joint initiatives.

CONTEXT AND ECOSYSTEM FOR SOCIAL ENTERPRISES

Six of the seven countries, with the exception of Croatia (already an EU member) are candidates for EU membership, and are working hard to harmonize their legal and economic framework with EU standards. They already benefit a great deal from European financial support, which is expected to increase, if they become EU members.

The smaller Western Balkan countries of the region are some of the poorest in Europe, with ethnically diverse

and socially and economically disenfranchised groups of the population. In addition to high levels of poverty and unemployment, social exclusion and discrimination are on the top of the list of priorities of the governments. They all have national social inclusion or employment strategies and allocate significant resources (often obtained from the EU) toward poverty alleviation and employment creation.

Appendix 1 (page 224), provides a summary table of the ecosystems of the seven countries.

A government **social enterprise strategy** exists only in Croatia at the moment, while in the other countries social enterprise development is seen as part of the social inclusion strategy or the policies benefiting people with disability. In countries with more advanced social enterprise ecosystems, governments played a beneficial role by launching social enterprise development strategies, so that stakeholders can work towards a common vision and decide their position in the ecosystem.

In some countries, for example in Serbia, where the government has no such strategy, other stakeholders decided to create one: the Coalition for the Development of Social Entrepreneurship founded by leading support organisations in 2010. The Coalition has started to offer policy advice, advocacy and research on the social enterprise sector.

Public sector schemes do not target social enterprises in most countries; they focus either on pressing social problems, for example youth unemployment, or on supporting entrepreneurship in general. The hope is that social enterprises would become increasingly aware of

these schemes and successfully apply to them. In practice, however, they are often not eligible to benefit from this support due to their legal form or the fact that they do not meet other business-related criteria. The only exception to this is Croatia, where public sector funding from European Social Funds (ESF) sources was used specifically for social enterprise support programmes (Croatia Country Study, page 75).

Some of the countries have a **law on social enterprises** in place (Albania and Kosovo, while Serbia has a draft), to provide a clear definition and some committed public resources for supporting the sector. The approach tends to tie social enterprise to a specific legal form, leading to the exclusion of many already existing social enterprises that do not meet the definition. In other cases, such as Serbia for example, the intention is to tie social enterprises closely to employment models and thus limit them to work integration social enterprises (WISE). While it is true that most social enterprises in the region address employment and employability barriers, such narrowing of the term excludes promising and innovative service-delivery models that address gaps in poverty reduction, education or social service fields. Also, the presence of a law in these cases, is not backed up by the strong political will that would be required to really build the sector.

The **support infrastructure** is in its early stages of development, with only a few active support organisations actively working in the region. They provide a wide range of capacity-building and training courses related to business planning, product development, sales and marketing. These organisations tend to be local initiatives backed by one-off project funds, so they all struggle with sustainability. One of the few visible success stories in social enterprise support and education is the Youth Bank of the Mozaik Foundation in Bosnia & Herzegovina. It has already supported 16,800 young people through 1,800 community projects that offered education and training in self-employment and social entrepreneurship, and funded 21 businesses since 2009. Mozaik is working

with partners in Serbia, Albania and Kosovo to replicate the Youth Bank model and turn it into a regional social entrepreneurship programme for young people (Bosnia & Herzegovina Country Study, page 52).

Social entrepreneurship is not, for the most part, included in **school and university** curricula; courses are delivered by donor-funded support organisations on a project basis or at university level in some countries. The lack of education and training opportunities leads to a shortage of qualified professionals at the social enterprise level and creates a succession gap in management, as no young generations are stepping in.

Serbia and Croatia are the two countries where **networks** and support organisations have already been set up, are becoming more visible and can count on more resources for further development. Some of these networks have become members of larger regional ones such as the European Venture Philanthropy Association or Euclid, thus linking up with European counterparts and exposing the Croatian and Western Balkans ecosystems to new ideas. Serbia has a Coalition for the Development of Social Entrepreneurship and a Social Economy Network with 40 members, while in Croatia there is a Forum of Social Entrepreneurs, which promotes the social economy. There is plenty of cross-border communication and information sharing happening between individual organisations, but there is no regional network or joint project which would involve several countries. There are **also private sector CSR related networks** that provide support to social enterprises in most of the countries.

Award programmes and competitions exist in several countries and are highly effective in raising the visibility and recognition of successful social enterprises and the sector. They also provide capacity-building support and small grant funding to the winners. Partners Albania runs the “Philanthropy for Green Ideas Competition,” which serves as an incubator for small-scale green economy social enterprises (see Albania Country Study, page 28). The Dokukino Foundation runs a Social Impact Award



The Association for Economic Empowerment of women – “Krushevo Women” – aims to reduce poverty among women in FYR Macedonia by supporting women entrepreneurship and nurturing traditional values.

programme in Bosnia & Herzegovina, while the Impact Hub operates a year-long educational programme on social entrepreneurship targeting students in Croatia.

There seem to be only a few **regional or cross-border cooperation** or support programmes in place, which is surprising, given the similarity in social issues as well as the level of development of the social enterprises in the different countries. Apart from the European Commission, Erste Bank Group, UniCredit Foundation and Yunus Social Business, are the only regional players that run social innovation and social enterprise support programmes across the region (see descriptions below).

The EU’s Technical Assistance to CSOs in Western Balkans and Turkey (TACSO) Programme has supported several social enterprise development programmes using a civil society lens. “Smart Start” is a recently launched EU-funded regional project run by six partners from Bosnia & Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Turkey. It represents an important step in raising the visibility of social entrepreneurship, fostering regional cooperation and providing start-up capital to young social enterprises (Bosnia & Herzegovina Country Study, page 52).

More broadly, the EU leads and coordinates the Western Balkans Enterprise Development and Innovation Facility

(“WB EDIF”), a platform that provides a comprehensive set of complementary measures to improve access to finance for SMEs and fosters economic development in the Western Balkans and Croatia. WB EDIF mobilizes funds from the EU, the European Bank for Reconstruction and Development (EBRD), the EIB Group, other bilateral development agencies, countries of operation and other bilateral donors. It has been designed to offer complementary financial instruments addressing the entire range of SME financing needs in the region. The platform consists of five different pillars which are implemented and coordinated by the EBRD and EIB Group: (i) the Enterprise Innovation Fund (ENIF), which supports innovative SMEs from the early to the development stage of the businesses by providing equity finance; (ii) the Enterprise Expansion Fund (ENEF), which supports the further expansion of established SMEs with a high potential to grow; (iii) the Lending Pillar which groups different financial instruments deployed by the IFIs (such as the SME Competitiveness Programme of the EBRD); (iv) the Guarantee Facility, under which guarantees are provided to financial intermediaries to incentivize them to build up new SME loan portfolios, thereby improving SMEs’ access to bank lending; (v) the Support Services Facility, which complements the WB EDIF’s financial instruments by supporting both governments of beneficiary economies in implementing key policy reforms as well as

end beneficiaries (SMEs) via capacity-building initiatives, targeted advisory support and, in general, enhancement of their access to finance.

In addition, EBRD had been supporting capacity building of SMEs through access to advisory services funded under national IPA programmes in a number of countries in the Western Balkans.

THE MAPPING OF SOCIAL ENTERPRISES

It is very difficult to give an accurate estimate of the **number of social enterprises**, even in countries with more advanced ecosystems such as Croatia and Serbia. The size of the social enterprise “sector” varies between 20-30 (the smallest in Montenegro) and 1,196 (the largest in Serbia), although these estimates always depend on the social enterprise definition that is being used. In Serbia, cooperatives are included in the mapping of social enterprises and make up 65% of the total number; this distorts the picture, as most agricultural cooperatives are not socially-driven businesses (Serbia Country Study, page 191). Some in Croatia consider artisans, small farmers and crafts people to be social enterprises, and say that the total number could be as high as 18,000 in that country. In all seven countries, CSOs drive the growth of the sector and, except in Serbia, they are the most frequent legal form for social enterprises (50% in Croatia). Companies, such as sole proprietorships and limited liability companies, are also included in some cases.

Regardless of its size, this is an emerging sector everywhere, with most social enterprises **in the blueprint or validation stage**, just launching or testing their business models. Most of them have not reached break-even and are struggling with sustainability; very few are ready to scale. This is owing partly to the novelty of the concept, but also to insufficient funding and lack of capacity-building and business planning support available for young enterprises. Many good ideas never make it to the launch stage; they remain a plan or turn into a modest revenue-generating activity within the bounds of a CSO.

Social enterprises use entrepreneurial models to address the **critical social issues** identified in research and government strategies. The vast majority in Croatia and the Western Balkans are work integration social enterprises (WISE) and focus on job creation or opportunities for entrepreneurship and income generation of women, youth, people with disabilities, refugees and rural communities. Almost every country study highlights an example of a women-led social enterprise, as they are success stories of committed and entrepreneurial enterprises that empower women. The Centre for Women’s Rights and Cooperative Rukatnice are both social enterprises in Montenegro, which were set up to provide employment opportunities and income to women affected by violence. Both businesses are now beyond the start-up stage, have tested their model and are looking for new markets and new ways of financing their growth (Montenegro Country Study, page 167).

People with disabilities are a key target group for social enterprises of various forms and sizes and their training and employment models are subsidized by the governments in all countries. Service-provision models are relatively rare, because social enterprise beneficiaries often cannot afford to pay for the service, nor are governments systematically including social enterprises in their procurement efforts.

Social enterprises are active in a wide range of industries and services including agriculture, the production of products for household use, décor and gifts, hospitality, tourism, and food services, social, education and healthcare services, to name just a few. They focus on the domestic markets for the time being, which is understandable given their small size and young age, but small local markets could soon become a limitation to the growth of the business and to scaling the impact.

Social impact and performance measurement is an area to be improved in all the ecosystems explored. Social enterprises do their best to measure at least the output of their activities, so they are able to report on

number of beneficiaries employed or revenue-generated, but they need further support and tools in order to capture outcomes and impact. They need to become better at communicating their results as well, in order to make partners and funders understand what difference their work makes in local communities.

Financing strategies of social enterprises rely mostly on grant-funding, given that the majority of the social enterprises are start-ups or early-stage businesses. CSOs' own resources or government grant schemes have provided most of the initial capital, often from social, employment or other development programmes and funds. These have channelled EU funding to social enterprises in the region from IPA9, TACSO and European Social Funds (ESF) programmes. There are no dedicated social enterprise programmes and funds, although expectations from governments are high in this regard. A large number of start-up social enterprises have benefited from private sector support, e.g. from banks or companies. International donor agencies have also contributed to the first social enterprise development programmes. With EU accession, it is expected that foreign donor support will be significantly reduced going forward, so social enterprises have started to think about other types of finance, including the use of loans.

Most commercial banks do not offer loan products to social enterprises yet, because they are seen as risky businesses that lack repayment capacity or collateral and have little experience managing debt. At the same time, pilot programmes are underway to come up with adequate financial instruments for more advanced social enterprises. Most of the need is in the lower range, between EUR 10,000 and 25,000, while consolidated businesses need EUR 50,000 and up. The sector in a number of countries would prefer grants and simple

patient loans with favourable conditions, preferably combined with a technical support or capacity-building package.

All of the countries in the Western Balkans have active **microfinance and SME development** programmes, except Serbia, where microfinance faces barriers due to excessive regulation and the involvement of commercial banks. Social enterprises that operate as cooperatives or for profit companies do take advantage of micro and small loans, but CSOs are not eligible. As social enterprises mature, and they become investment ready, their eligibility for these loans should be reconsidered. Access to loans will need to be accompanied with efforts to reduce their reluctance to take on debt as well as to access the kind of patient debt that is needed. Entrepreneurship development programmes offer another promising opportunity, as they usually include a combination of grants and technical support, but eligibility is always a question for CSOs.

THE SOCIAL INVESTMENT MARKET

The social investment markets are quite small in most of the seven countries. There is little demand for repayable finance in most of them, as existing social enterprises cannot yet absorb repayable finance. Their business models need more time to mature and revenues to become robust and sustainable enough. Their dependence on EU funding and preference for grants, also makes them reluctant to consider investment capital as a viable option. However, in the interviews conducted for this study, many of the more advanced models did say they would consider taking loans.

As mentioned, there are only a few pioneering regional players on the social finance supply side. Erste and UniCredit have piloted or are now piloting lending programmes on a small-scale, although Erste Group is

⁹ The Instrument for Pre-Accession Assistance (IPA), is a funding mechanism of the European Union offering funding to EU candidate countries and potential candidates.

planning to roll out its social banking initiative to all of the countries where it operates by 2019. It aims to address the financing needs of traditionally unbanked groups, such as low income individuals, first time entrepreneurs and social organisations; and it is backed by the EaSI¹⁰ guarantee facility. Yunus Social Business has an offer in FYR Macedonia, Albania and Bosnia & Herzegovina, but has invested only in few Balkan social enterprises so far. The investment initiatives combine their finance offer with training support or participation in a business accelerator programme in order to build capacity and secure the repayment of their investment.

Recently, a group of stakeholders has launched the CEE Social Investment Task Force. The Task Force aims to catalyse the patient, early-stage social investing sector in the region by creating a movement embracing investments in organisations that create social impact and offer financial returns. The initiative was launched at the European Venture Philanthropy Conference in November 2016 by NESsT and the EVPA. It is part of a global movement of task forces that have been created through the initiative of a Global Steering Group based in London.¹¹ The CEE Task Force will work to implement an agenda to ensure that this market grows in the coming years.

COMMON CHALLENGES AND OPPORTUNITIES

This research has identified a number of challenges and opportunities that stakeholders in the social enterprise ecosystems face across the region, as illustrated in Table 2 (page 15).

Tackling these challenges and opportunities needs a regional approach among large players and a consistent effort of committed local organisations that are willing to form regional alliances and work on solutions together. Many of the recommendations in the country reports

¹⁰ EaSI is the Programme for Employment and Social Innovation of the European Union. One of its axes targets better access to finance for micro and social enterprises

address these challenges at a local level. A series of **regional solutions** are elaborated in the Conclusion.

Governments can play a crucial role in creating a more advanced ecosystem in their own countries. While these solutions would need to be implemented at the national level, we include them in the regional summary, as they apply to all countries in the region. Governments should:

- Not regulate nascent ecosystems or create a strict legal definition of social enterprise, as that will stifle the development of a variety of business models
- Allow a broad range of activities and social impact areas and not reduce social enterprise to employment models only
- Open the public-sector markets, and the use of public procurement to social enterprises, so they can compete with other market actors
- Support infrastructure organisations in their training and capacity-building efforts, rather than running such programmes directly; provide funds to help these organisations in their sustainability efforts
- Support and fund research and tools development programmes, whose results can be shared and used for further capacity development and to avoid duplication of efforts
- Encourage participation and co-investment, rather than over controlling and reporting, since governments usually do not have the resources to fully fund these initiatives and they would be well-served to leverage additional resources

through a EUR 96 million guarantee scheme managed by the European Investment Fund.

¹¹ More information is available at <http://socialimpactinvestment.org/>

Table 2: Common Challenges and Opportunities in the Region

| Ecosystem | |
|---|--|
| Challenges | Opportunities |
| <ul style="list-style-type: none"> • Absence of strategic approach and commitment of governments to social enterprise development; even if there is a strategy, implementation is lacking • Focusing too much on the regulatory aspect carries the risk of neglecting support policies. There is also a danger here of getting stuck in a definition discussion and legal interpretation of social enterprise • Regulatory frameworks often contain contradictions, which stifle social enterprise growth • Potential stakeholders from both the private and public sectors are not aware of and do not understand social enterprise models and success stories; lack of general public awareness • Lack of information and research about social enterprises locally and regionally • Social enterprises cannot access public sector markets (social service provision) due to lack of contacts, capital and non-transparent public procurement contracting procedures | <ul style="list-style-type: none"> • Active local CSO and social enterprise support organisations and networks that help social enterprises as well as advocate on their behalf • Emergence of the CEE Social Investment Task Force, which wants to promote impact investment in Central and Southern Europe • Growing importance and availability of European and regional networks, support programmes, funding schemes (such as those provided by WB EDIF) |
| Capacity building | |
| Challenges | Opportunities |
| <ul style="list-style-type: none"> • Social enterprise business models are not sustainable • Social enterprises lack business planning and financial management skills, which prevents them from strategic growth and repayable financing options • Lack of long-term capacity building offer • Weak social impact measurement culture and lack of tools and skills on the social enterprise side | <ul style="list-style-type: none"> • Growing interest and involvement of corporations that work regionally in supporting social enterprises through their corporate social responsibility and grant programmes • Examples of successfully scaling social enterprises who have used social investment are available for sharing |
| Financing | |
| Challenges | Opportunities |
| <ul style="list-style-type: none"> • Social enterprises cannot access appropriate and affordable financing that corresponds to their stage of development • Risk averse behaviour on supply side of finance leading to reduced availability of resources • Small size of sector is not attractive to budding investor interests • Social enterprises still not seen by corporations as service providers for their value chains | <ul style="list-style-type: none"> • Increasing availability of EU funding programmes for social enterprise development, training and capacity building, as well as social inclusion and employment programmes • Opening SME financing and entrepreneurship support facilities of local governments and foreign donors (via WB EDIF and separate IFI initiatives) to social enterprises • Presence of pioneer funders and social investors who are willing to pilot new ideas • Possible access to microfinance facilities |

Source: Author

Social Enterprise Ecosystem in the United Kingdom



As part of a global comparison, it is interesting to look at social enterprise ecosystems in very different geographical and cultural contexts, and explore their responses to the same challenges that the research has found in Croatia and the Western Balkans.

The social enterprise ecosystem in the UK is one of the most developed in the world and certainly Europe. In 2015 there were 78,000 social enterprises employing 2 million staff members and contributing GBP 37 billion (over EUR 43 billion) to the GDP.¹² The ecosystem relies on a large number of active stakeholders, has enjoyed strong government support and numerous regulatory as well as financing and capacity-building initiatives.

The first social enterprise action plan was published in 2006 and the UK government launched its first social investment strategy in 2011. The UK set-up the first social investment wholesale bank, Big Society Capital with GBP 600 million to invest, which has poured millions of pounds to support the charity and social enterprise financing infrastructure since 2012.

Funding Early-Stage Social Enterprises

The UK has a very diverse social enterprise community and annual turnover can range from a few thousand pounds to over 5 million. The majority is in the middle; they operate as micro and small businesses and often find it very difficult to obtain long-term, flexible, risky and affordable finance¹³ for business development. The financing gap is in the GBP 5,000-25,000 range¹⁴ where some form of grant or a simple loan product would be most preferred. Charities and social enterprises were hit by public sector cuts in recent years, which meant that central and local government grants have disappeared or have been substantially reduced, or that organisations have had to suddenly start competing for service provision contracts. Even though the UK has a long tradition of social enterprises bidding for contracts, changes in commissioning practices (large contracts, preference for prime providers) saw them squeezed out of this market. Two of the solutions that were identified to address the growing finance gap were:

1. Engagement of social investors to finance the working capital and cash flow needs of successful contractors

¹² Source: Social Enterprise UK, 2015

¹³ Floyd, Gregory and Wilson 2015

¹⁴ Baker and Goggin 2013

2. Incentivise local authorities to engage in commissioning social enterprises to deliver services based on agreed outcomes

Social investors are increasingly interested in working with smaller organisations, as long as the investors and/or the investees can find a co-financing partner, ideally the government or a trust/foundation, who is willing to shoulder the risk. The Access Foundation's Growth Fund¹⁵ does just that. Working through selected social investors, the Fund provides financing for small loans or blended finance (loans and grants) of up to GBP 150,000. Organisations can use such finance for strengthening their business model or for upfront finance of their commissioning contracts.

The Life Chances Fund¹⁶ is a GBP 80 million fund launched by the government in 2016 in order to contribute to payment by results contracts, if they involve social investors and use the social impact bond mechanism. It offers a top up of 20% to the contracting commissioners and provides expert support in measuring the social outcomes. The government wants to achieve multiple objectives through this fund; for example, increase the number and use of social impact bonds,¹⁷ encourage innovation in service delivery and build a clear evidence base about successful models. The Fund is most likely going to increase finance available to charities and social enterprises and enable

them to compete more successfully for public-sector contracts.

While social investment is on the rise, there is increasing visibility and popularity of community-based financing structures, such as community shares¹⁸ and crowdfunding.¹⁹ These structures are often best suited for use by social enterprises as well, which are embedded in local communities. Although still on a relatively small scale in the UK, community shares, a form of direct investment, is the fastest growing area. Dedicated platforms raised GBP 36 million in 2015.²⁰ These new ways of raising funding or investment are often the perfect supplement to social investment.

Capacity-Building Models

Although there have been examples of capacity-building programmes funded by trusts and foundations or the government, the UK has a market-based approach to training and capacity building for charities and social enterprises. The Big Potential Fund²¹ and the City of London Corporation's Stepping Stones Fund²² support investment-readiness projects and offer grants of up to GBP 150,000 that organisations can use to pay specialist consultants or support providers in the market. This way they make sure capacity building is bespoke to each social enterprise and at the same time, strengthen the support infrastructure and the sustainability of specialist providers.

¹⁵ Access - The Foundation for Social Investment n.d.

¹⁶ Cabinet Office of the United Kingdom 2016

¹⁷ A social impact bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner. If the social outcome improves, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes are not achieved, the investors stand to lose their investment. (Social Finance 2017)

¹⁸ Restricted to cooperatives and community benefit societies, they are shares in enterprises serving a community purpose

and are usually bought by the community themselves. They are usually redeemable, are of fixed term and carry a low interest rate or income which may be supplemented by in-kind benefits. (Varga and Hayday 2016).

¹⁹ Funding that pools often small contributions from lots of individual investors via an online platform. It can be donations and/or in-kind rewards or it can be debt and equity. The latter two are regulated. (Varga and Hayday 2016)

²⁰ Parke and Rowell 2016

²¹ Social Investment Business n.d.

²² City Bridge Trust n.d.

Role of Government

The UK government has been offering strong support to social enterprise development and social finance from as early as 2003. It has drawn up a social enterprise strategy and has created a unit within central government, which is responsible for the implementation of measures and engagement of stakeholders. It has supported the ecosystem in five main ways: 1) ensuring an enabling legal and regulatory environment; 2) providing significant amounts of grants and repayable finance; 3) encouraging other stakeholders, mostly funders and investors to enter the market; 4) commissioning research about the needs of the sector and successful models; 5) using its convening power to bring key actors together and implement policies.

The legal environment in the UK is not based on a social enterprise law, which is quite different from the tendency in continental Europe to develop such laws, but rather on harmonizing existing legislation (for example tax relief) and introducing new social enterprise forms²³ that social enterprise may use, if these forms fit their mission and business goals. This strategy is quite effective since it does not try to fit diverse types of social enterprises into one definition.

Special pieces of regulation like the Social Value Act (2013)²⁴ help address the access to market issue for social enterprises by obliging commissioners to consider social and environmental value when making purchasing decisions. The Social Investment Tax Relief (SITR) is a mechanism that encourages individuals to support social enterprises.²⁵ They can deduct 30% of the cost of their social investment from their income tax liability.

²³ One such form is the Community Interest Company (CIC), which has been so successful, that the number grew to over 12,000 in just ten years. The CIC is a special type of limited liability company, which exists to benefit the community rather than shareholders. Its statutes must include an asset lock, i.e. a legal promise that the company's assets will only be used for

What Can be Learnt from the UK Example?

The UK and the Western Balkans are at different points on the development spectrum of social enterprise ecosystems and the UK offers inspiring examples of market and ecosystem-building measures. Having a social enterprise strategy and positioning it on the government agenda made a very big difference. It established priorities, gave credibility to targeted programmes and underpinned future measures. The UK approach seems to have been to offer opportunities and support, rather than regulation and definitions. This may be a historic and cultural difference between the UK and Southern Europe, but certainly something that encouraged social enterprise development.

The legal environment in the UK is generally enterprise-friendly and especially supportive of enterprises with social impact. Central and local government schemes have not discriminated against social enterprises, rather worked with them to design local solutions. Social-service delivery has been a major area of collaboration, as charities and social enterprises become contracting partners of local governments. Availability of funding has, of course, been very helpful and now that it has been reduced, partners have to find solutions together. This is where the role of the central government can be crucial; not only in direct funding, but encouraging the entry of private capital in the form of social investment, for example. Also, in providing public procurement opportunities to social enterprises. The latter could be an obvious near-term possibility even for the some of the earlier stage ecosystems described in this study.

its social purpose, and set limits to the money it can pay to shareholders.

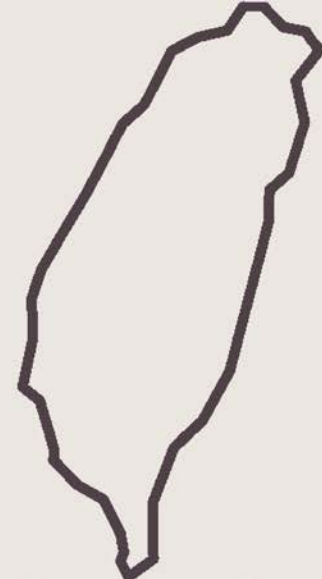
²⁴ Cabinet Office of the United Kingdom 2016

²⁵ Cabinet Office of the United Kingdom, HM Revenue & Customs and HM Treasury 2016

Another important conceptual basis of the UK ecosystem-building efforts is market orientation: while there are numerous examples of government funds and privately-funded programmes, both the financing and capacity-building services were expected to be provided by sustainable organisations. Support providers charge for their services and repayable finance (social and mainstream) has been encouraged from the beginning. The government realized the enormous resources that could be made available to the social enterprise sector with the right incentives and regulation.

And this is the third important feature to emphasize: leverage resources and encourage the growth of the ecosystem, rather than the government becoming the provider of everything to everyone. Guarantee schemes, capacity-building support, targeted subsidies and tax reliefs all helped the entrance of new actors, while the convening power of large organisations, the government or the City of London Corporation persuaded stakeholders to sit around the table to consider new investment and support models. Initiatives of the social enterprise sector, for example the Social Enterprise Coalition, were supported because government ministers realized that this way they would have someone else helping them do a better job.

Social Enterprise Development in Taiwan



Taiwan has a young social enterprise sector, which is not widely known by the public. The agreed definition of social enterprise is in line with the one used in the European Union (EU) and most other countries and over 80% of social enterprises emerged from the grassroots and community sector. There are over 30,000 registered social organisations focusing on very diverse social issues, covering: social services, charity and religious care, community service, culture and arts, environment and resource utilization, education, social justice, etc. These are the organisations that first encountered entrepreneurial models and ideas and started entrepreneurial activities. Even if many of them did not survive, they manage to raise the visibility of social enterprise models. Social enterprises take a variety of legal forms, including nonprofit organisations, community organisations, cooperatives, residential self-help groups and social enterprise start-ups.

Funding Early-Stage Social Enterprises²⁶

Early-stage social enterprises struggle to obtain start-up financing in Taiwan. If they are constituted in the nonprofit or community organisation form, they may apply to the Ministry of Labour for a three-year subsidy for purchasing equipment and to cover staff salaries. Other types of social enterprises must raise funding elsewhere; either turn to fundraising platforms or use their own resources. Young enterprises also face challenges when they need working capital to grow, because they are not in the position to provide collateral for loans and they do not have the business credibility. They are not eligible for loans from commercial banks.

DBS Bank (DBS) from Singapore was the first international financial institution that extended small loans to social enterprises in Taiwan. However, DBS must perform as a commercial bank and faces regulatory limitations. It is required to strictly assess the borrower's financial situation and establish credit risk. Currently, the financial service DBS offers is a "social enterprise account," which makes it easier for the bank to assess the credit application and for the social enterprise to receive a loan. The DBS finance offer is based on long-term interaction and a real understanding of the business cycle of the social enterprise.

DBS is expanding its operations in the Taiwan financial market, so they pay special attention to their mission of supporting social enterprise development in Asia. Starting in 2012, DBS has sponsored several social enterprise promotion activities. In 2013, DBS sponsored

²⁶ Hu 2016

the Social Enterprise Carnival that invited over 50 social enterprises to exhibit and market their products. During 2013 and 2014, through the Taiwan Social Enterprise Innovation and Entrepreneurship Society (TSEIES), the national body responsible for fostering social enterprise in the country, DBS sponsored eight social enterprise start-ups by providing each with TWD 500,000 (EUR 125,200). Some of these award-winning ventures are now highly recognized social enterprises.

Role of Government

In 2009, the concept of social enterprise was introduced formally as an academic term in public policy management, social sciences and conferences, by the Ministry of Labour. In the past three years, social enterprises gained the attention of the Taiwanese government, venture capital companies and universities. They have regarded social entrepreneurship and social enterprise as a new method and a potential opportunity to deliver social good. The government has taken on a number of roles in the ecosystem: funder, infrastructure provider, initiator of enabling legislation and the promoter of social enterprise models.

In 2015, government agencies actively engaged in social enterprise issues. In addition to allocating funding to support some organisations, the Ministry of Labour co-hosted large scale international fora, training courses and social enterprise contests in five local regions. These awareness-raising activities and training were very similar to those organized by CSOs over the years. In addition, the five outstanding teams of the social enterprise contest were awarded with TWD (Taiwan Dollar) 1 million (about EUR 30,000) each as start-up financial support.

On the legislative front, in 2016 legislation similar to “The Benefit Corporation Act”²⁷ in the United States was going to be introduced, but eventually failed in the process. Most social enterprises are small companies or social organisations, so a B Corp Act was unable to gain traction with them. Legislators also proposed a “Social Enterprise Act,” trying to build a specific organisational identity for social enterprises, but this effort has not yet been concluded. TSEIES believes that the current Taiwanese social enterprise ecosystem does not need a social enterprise law; it would be more effective if current regulation, which does not recognize businesses with a social purpose, could be amended.

According to TSEIES, the roles a government should play include: providing public space and resources; inviting academic groups to integrate social organisations, communities, and business skills; constructing integrated entrepreneurial incubation services that can substantially support people with ideas.

Capacity-Building and Support Infrastructure

TSEIES was established at the end of 2009. It is one of the driving forces of social change in Taiwan. It has developed three-year development strategies in order to raise awareness, provide training and include social enterprise in university curricula. TSEIES also provides courses in individual and project planning, product design, social marketing, community enterprises and three-day social enterprise camps. Since 2011, Adventech Corp. has commissioned TSEIES to host the “Social Entrepreneurship Contest” targeting youth. In the process, the Contest offers mentors with a background in social entrepreneurship courses and practice to help the teams transform their social enterprise ideas into business plans and actions.

²⁷ Special legislation first introduced in the state of Maryland in 2010 to allow the registration of benefit corporations (B Corp). B Corps are for profit companies that include positive impact on society, workers, the community and the environment in addition to profit as its legally defined goals. B Corps are for-

profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. (Certified B Corporations n.d.)

Taiwan does not have professional start-up incubators. The Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs funded and encouraged several universities to set up campus “start-up incubators,” with an emphasis on technology innovation. A few universities launched “social venture start-up incubators” with very limited success. In 2015-2016, SMEA also launched a Social Enterprise Hub in an idle space in Taipei City offering entrepreneurial skills courses.

What Can Be Learnt from the Taiwan Case?

Taiwan has a dynamic but young social enterprise ecosystem, which was born less than 10 years ago. Over the past few years a number of successful models and best practices have been integrated with locally-developed grassroots social enterprises. The process has been recognized and assisted by the government, which plays a crucial role in the consolidation and growth of the ecosystem. It has provided an enabling environment and funded a number of capacity-building initiatives and awareness-raising campaigns, which increased the visibility of social enterprises. Such rapid progress would probably have not happened without the active and supportive government interventions.

Similar to Croatia and the Western Balkans, social enterprises in Taiwan find it challenging to access finance. Government subsidies and awards are offered to start-ups in their early years, but growing social enterprises do not have access to adequate resources (repayable or other) and private sources are scarcely available. A key challenge for all funders and financiers is to work together to create a financing continuum that offers funding to social enterprises at all stages of development.

TSEIES seems to be the national research, advocacy and capacity building body that has the best overview of the development of stakeholders and the entire ecosystem. It not only has relationships with social enterprises, but also with emerging new entrepreneurs, universities, nonprofit organisations, businesses, philanthropic investors and financial institutions such as DBS. TSEIES wants to continue building an empowering ecosystem for social entrepreneurship in Taiwan and it is very well-positioned to do so, relying on its wide network.

CHAPTER 6

Conclusion

The research in Croatia and the six target countries in the Western Balkans sheds light on a number of similarities and differences regarding the level of development of the social enterprise ecosystems. The country studies end with country-specific recommendations, and the regional comparison points to recommendations that could be implemented at the regional level for the benefit of all seven ecosystems and their stakeholders.

While there are differences in the size and level of development of the sector in the different countries, they all have emerging ecosystems, with a strong focus on defining and promoting the concept of social enterprise and the new business models and philosophy it brings. Placing them on a spectrum that takes into account the development of legal framework, the level and quality of finance and capacity support, and the vibrancy of ecosystem, Croatia and Serbia are perhaps the most developed, while Montenegro perhaps the least, with Albania, Bosnia & Herzegovina, Kosovo and FYR Macedonia, somewhere in the middle. However, there are definitely some best practices in each of the countries that could be replicated to the others.

There is a paradox in the development of the sector that is apparent in all of the seven countries. On the one hand, the majority of the social enterprises are relatively small, usually created by CSOs, and usually lacking business skills and risk appetite. Models used tend to be employment generation that focus on selling products

that are difficult to scale. There are fewer models of service provision and even less of innovation and the use of technology. On the other hand, the enabling environment is designed to maintain the status quo and foster more of these types of social enterprises. Regulatory frameworks tend to limit the level of economic activities for the most commonly used legal forms (associations and foundations) and tend to concentrate incentives for models associated with the employment of people with disabilities and other vulnerable groups. Since funding often comes from public monies, it cannot be designated toward other legal forms or for more entrepreneurial purposes. The result is limiting the universe and impact of social enterprise rather than on supporting entrepreneurial solutions that are also measurable and sustainable. This in turn creates a vicious circle that inhibits innovative models.

Although some CSOs opt to develop social enterprises using the company law, they are no longer eligible for incentives or philanthropic capital (grants and subsidies) that would help them to fund the start-up and validate period of their development. Even those social enterprises that choose to maintain their nonprofit status, find that there is really little grant funding available to them other than many small grants that they have received to launch their activities. There seems to be a “valley of death” after this initial stage, with very few options for soft capital needed to test and consolidate their business models and to build their teams and systems. Nor are there special benefits provided to most of them in accessing public procurement contracts at market prices, despite the closeness of these enterprises to the issues that these contracts are designed to address.

As a result of this situation, there are also few incentives for suppliers of capital to develop instruments for these enterprises. The few initiatives that exist in the region offering loan capital for social enterprises have met with a very thin pipeline; providing few reasons for others to follow. The over dependency on grants of many social enterprises is a show-stopper for investors.

A promising opportunity is that there are a number of public schemes in most of the countries that are targeting SMEs that could be leveraged by social enterprises. However, in none of the countries are CSOs eligible to apply to these schemes. By simply opening up this opportunity, CSOs would have access to larger pools of funding from both the national governments as well as the EU.

There are also innovations in some of the countries that are worth mentioning and potentially replicating.

Croatia's national strategy and ESF support for social enterprise provide a good basis to further develop the sector. There is a need to make sure that this translates into programmes and funding that meet the needs of social enterprises. SIPRU in Serbia, both as a funding arm and an advocate, is a strong model to understand and follow.

The draft Social Enterprise Law in Kosovo is relatively strong. It includes all legal forms and it does not limit models to that of employment. Ideally, the law will be backed up by enabling regulations and support mechanisms.

The future Ethical Bank in Croatia is proposing to introduce a lending scheme, offering loans with lower interest rates and favourable lending terms. This would be the first of its kind in the region.

The Innovation Fund provides funding and business support to SMEs that are bringing innovative models to the market in Macedonia. The Fund is an opportunity for socially-focused SMEs and could be considered an option for nonprofit social enterprises as well.

There are also several strong cases of social enterprises led by entrepreneurial teams that have been able to leverage some investment funding to grow. These provide great cases and role models for the sector.

And the Social Investment Task Force, with its goal of assessing the state of the social investment sector and ensuring that there are co-investments in the region, also holds great promise.

LESSONS FROM CENTRAL EUROPE

Similar to the Balkans, Central Europe also focused and continues to focus on efforts to define the sector as well as to raise awareness around it. Further, the countries of Central Europe have experienced a distorting of the market by the over-subsidizing of non-sustainable models in order to meet short-term economic and political objectives. However, in the past five to seven years, a small group of actors has begun to offer social enterprises new and alternative financing, helping them

to validate their business models and become investment-ready.²⁸

Croatia and the Western Balkans can learn from and build onto these experiences. Figure 3 (page 27) summarizes the essential elements needed to build a strong social enterprise ecosystem that delivers real impact. Although the research shows that while there is a need to continue supporting and deepening awareness-raising and sector-building initiatives, there is also a more urgent need to ramp up and intensify efforts to provide business advisory services and tailored financing to validate and scale social enterprises. By stressing the latter, there will be more investment-ready enterprises and more proven models that can have a tremendous demonstration effect on the sector.

To follow are a set of recommendations on what needs to be developed in order to build the social ecosystem in Croatia and the Western Balkans:

WHAT NEEDS TO BE DEVELOPED REGIONALLY?

Ecosystem Building

- The data deficit could be addressed by more targeted research focusing on the use of specific policies, instruments and support mechanisms, which could be made available to national governments for policy development purposes.
- A regional state of the sector report could be produced on a regular basis that would help regional investors and support organisations to adjust their programmes, and help all stakeholders appreciate the size and impact of the sector.
- The data could be converted into a joint regional data base showing who is who in each country and at a regional level. Such a database could become

an initial matching platform for investors and investees alike.

- Platforms that share information, tools and best practices across Croatia and the Western Balkans could be streamlined and linked up with each other and existing platforms in Central and Eastern Europe in order to avoid duplication of efforts.
- A regional annual social enterprise day could be launched and held in a different location each year in order to showcase the development of the ecosystems and to motivate stakeholders.
- Information events focusing on social enterprise and impact investing could be streamlined and better coordinated with events in Central and Eastern Europe and thus provide exposure to other European models and ideas, and include Croatia and the Western Balkans in larger networks and coalitions.

Capacity Building

- Skill and capacity gaps could be addressed with regional capacity-building and training programmes, using tested know-how and material.
- Regional private sector players, such as companies or banks could become involved in mentoring and technical assistance support, as well as funders of such regional capacity-building programmes.
- Public sector officials should be provided with awareness building and capacity support to acquire a better understanding of social enterprise and how they can cooperate both at central and local government levels to support them.
- More cooperation and coordination with accelerators and incubators across the region, and with those in Central and Eastern Europe should be encouraged, so that the specific focus and value added by each is clear, and so that they pool resources in order to have greater impact. This could help provide

²⁸ For more information, see [Building the Social Investment Industry in Central and Eastern Europe: The Case of Romania](#) published by NESsT in 2016.

consistent and long-term support to individual social enterprises.

- Successful capacity-building programmes could be replicated using a regional “growth and replication fund.” This fund would target support programmes in all countries of the region and cover the costs of testing and implementing their models in new countries. It could lead to the dissemination of tools, literature and research in local languages, as well as cross-border partnerships of capacity-building organisations. Funding for replication could also become an important piece in their sustainability strategies and this could avoid duplication of efforts.

Financing

- A regional financing approach should be considered to create a more robust investment pipeline and more secure investments. Regional funding opportunities could be set up along specific social issues that are common to all seven countries, for example youth unemployment or lack of access to health services. This would encourage the emergence of innovative models as well as the spreading of strong and tested ones from one country to another.
- Pooled resources could help address the lack of adequate financing. Social enterprises often complain about the mismatch between their needs and the offer at local level; this could be better resolved through a regional fund or financing facility.
- Regional players such as the European Commission and United Nations Development Programme (UNDP) could consider setting up or co-financing a Western Balkans and Croatia guarantee scheme, which could facilitate the use of debt and other social finance instruments for social enterprises.
- Public sector funding schemes across the region should consider direct financing for early-stage social enterprises, support for intermediary organisations to become sustainable, and to leverage private donors and investors for co-financing.

- Microfinance facilities and SME technical assistance programmes could be reviewed at a regional level and successful elements piloted as a regional programme also for social enterprises.

Moving through the ecosystem phases needs innovation and a risk-taking attitude from early pioneers and time for a critical mass of social enterprises to prove their business models. The process is not likely to be smooth and steady; there would be breakthroughs (such as the establishment of an ethical bank) and setbacks (for example the failure of some high profile social enterprises). The role of government will remain a central issue: an active and supportive government can be crucial to mainstream social enterprise and make sure that key elements of the ecosystem are in place. At the same time, too much government involvement and direct participation may discourage or squeeze out other stakeholders and thus be detrimental to the development of the social enterprise ecosystem. This study has shown that through a more aligned approach that overcomes barriers and seizes on opportunities, we can unlock the full potential of social enterprise to address the region’s urgent social needs.

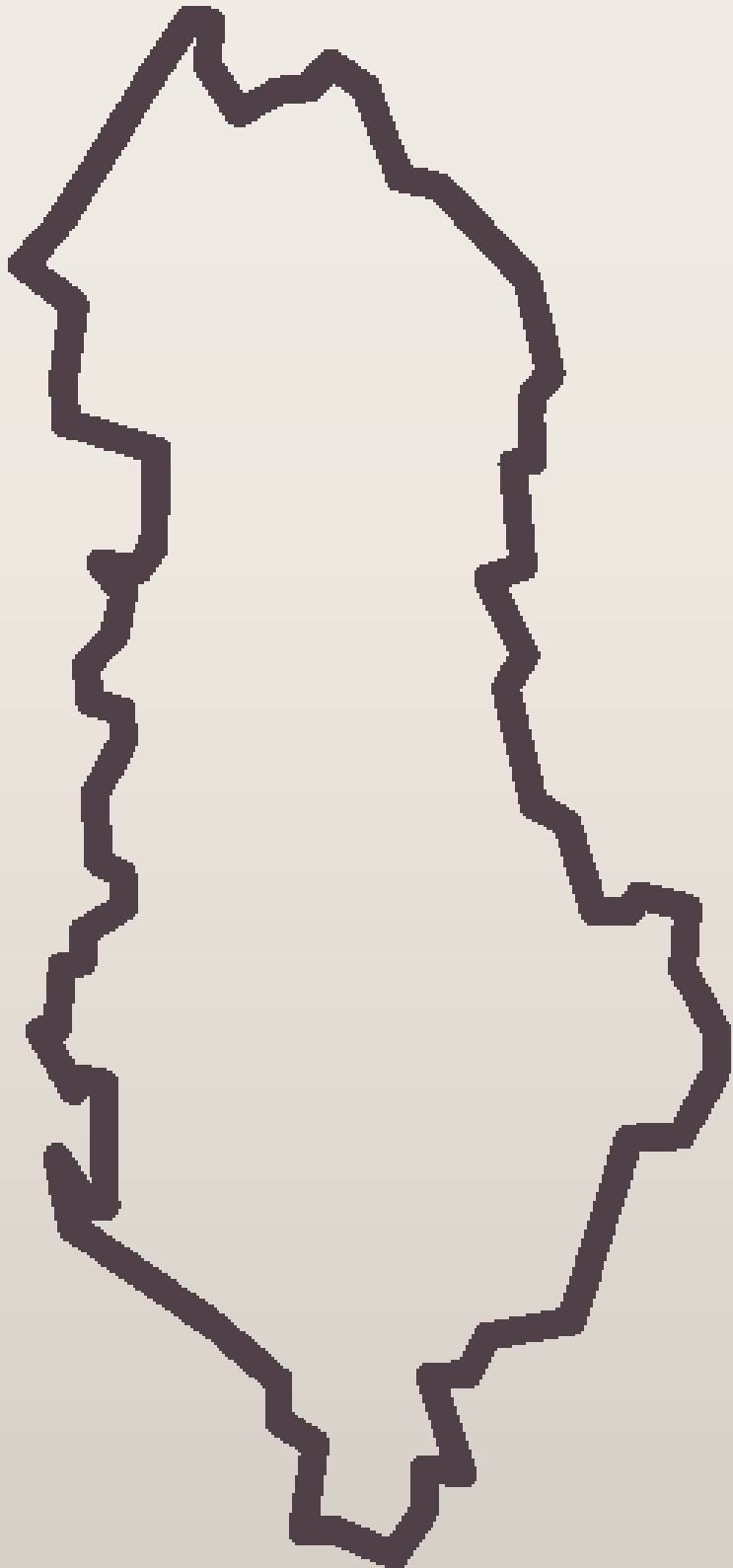
Figure 3. Essential Elements for Building a Social Enterprise Ecosystem



CHAPTER 7

Social Enterprise Ecosystem in Albania

Author: Nikica Kusnikova



Executive Summary

Albania has experienced significant progress in the past 25 years in transitioning to democracy and a market economy. Growth is projected to continue and the standard of living to further improve, turning Albania into a middle-income country. Poverty rates decreased to 14.3% in 2012 from 25% a decade ago.

Despite significant progress, the country is still burdened with unemployment, inequalities and social exclusion, in particular among agricultural workers, ethnic minorities, people with disabilities, women and youth. Social enterprises present an opportunity for economic and social inclusion, employment and the introduction of new services and social innovation to achieve more equitable development in the country.

Albania has a new law on social enterprises, which recognizes them as nonprofit entities that provide goods and services in predefined sectors of the economy. The focus is on the employment of vulnerable groups and the law fails to recognize the broader role of social enterprise in sustainable development. The *National Strategy for Employment and Skills 2014-2020* is the most important policy document that envisages the introduction of support measures for social enterprises.

The social enterprise sector is a new phenomenon of the past 15 years and is driven by nonprofit organisations. It is estimated that there are approximately 900 social enterprises in Albania. The majority are early stage businesses, providing goods and services, as well as social and work integration opportunities for vulnerable groups. They engage in diverse fields of activities, most often in agricultural production, education, social services to people in need, and vocational training and consultancy. Albanian social enterprises are small

entities averaging less than 10 employees. They mostly rely on grant and philanthropic funding for start-up investment and to cover operational costs.

Public sector support schemes for social enterprises are absent in Albania. Expectations are that the new law and the measures in the national employment strategy will lead to new support instruments soon. In the meantime, there are a couple of government schemes for SMEs, which could potentially be opened up for social enterprises as well.

The support infrastructure for social enterprises and the social investment market are still in their early stages. Regarding the demand side, most social enterprises are in their blueprint and validation stages, so they are not financially viable to absorb finance under commercial terms. At these stages of development, they would benefit from non-repayable finance, such as public grants, philanthropic support or seed funding. In addition, they need extensive and on-going technical assistance to build their skills in business planning, marketing and in setting up reliable financial planning and management systems.

On the supply side, except for the Yunus Social Business Balkans, there are no other specialised financiers for social enterprises. SME finance schemes and services are not available to social enterprises as most are nonprofit entities. Microfinance institutions and mainstream financial institutions have not yet identified social enterprises as potential clients. There are several award schemes which are important for the promotion of social enterprises models, but they have limited scope and can fund only a small number of social enterprises. Innovative long-term approaches based on public-private partnerships are needed in order to create a sustainable support infrastructure for different stages of social enterprise development.

Social and Economic Overview

After almost 50 years of strict communist regimes, Albania has made remarkable progress in building a democratic society and a modern, market-oriented economy in the past 25 years. With a population of 2.8 million and a GDP per capita of EUR 3,620²⁹, it has become a middle-income country and significantly reduced the level of poverty since the 1990s. Albania became a member of NATO and a *European Union* (EU) candidate country in June 2014.

The Albanian economy experienced strong growth starting in the year 2000 with 6% average annual growth up to 2008. Unfortunately, the extended economic crisis in Europe resulted in economic slowdown in Albania as well, but the economy managed to rebound in 2015 and the projected growth rate for 2016 is 3.4%³⁰. With support from international donors, the government has invested in improving the national road, rail and electricity infrastructure in order to remove key obstacles of economic growth in the past. The main industries are basic metals, cement, chemicals, the food and tobacco industries, hydropower, mining, oil, textile, and timber wood. Remittances have been a significant source of national income, although they significantly dropped in recent years. Similar to other countries in the region, social and economic growth is hindered by high levels of corruption, a weak judicial system as well as a challenging fiscal and budgetary environment. According to the European Bank for Reconstruction and Development (EBRD), conditions for doing business

remain challenging, especially for small and medium enterprises (SMEs), which are struggling due to limited access to finance, corruption and uncertainty over land and property rights.³¹ The challenge for the local economy is to switch from “consumption-fuelled to investment and export-led growth”³².

Poverty continues to remain a challenge coupled with unemployment and inequality. *World Bank* data indicates that in 2012, 14.3% of the population lived below the national poverty line.

Although this figure remains high, it is a significant improvement from a decade ago when the percentage was 25.4%. The main drivers behind poverty reduction are pension and salary growth, which resulted from economic growth and a certain level of wealth redistribution³³.

The labour market is characterized by a mismatch of supply and demand and increasing levels of unemployment particularly among some social groups. There is a relatively low level of activity with only 52.9% of the population being actively employed³⁴. The labour inactivity is high among women; 45% are outside the labour market compared to 26.6% of men. Agriculture, which contributes to around 42% of all employment is limited to small family operations, provides lower-skill and low-wage employment heavily relying on

²⁹ The World Bank 2015

³⁰ The International Trade Administration (ITA), U.S. Department of Commerce 2016

³¹ European Bank for Reconstruction and Development 2016

³² The World Bank 2015

³³ United Nations Development Programme in Albania 2011

³⁴ Albanian Institute of Statistics (INSTAT) 2015

subsistence farming, thus making rural areas vulnerable to poverty. The unemployment rate has increased in the last years and reached 17.5% in 2015, equally affecting men and women³⁵. Youth unemployment is almost double, and informal employment is widespread; 39.8% of employed women and 22.3% of employed men work in family businesses or at home. Long-term unemployment is very high affecting 66% of all the unemployed in 2015.

The classification³⁶ of disadvantaged groups from the employment point of view includes "long-term unemployed, individuals receiving economic aid or unemployment benefits, first entrants in the labour market aged 18-25, people over 45 years of age without higher education, people with disabilities, individuals from Roma and Egyptian communities, returned immigrants with economic difficulties and victims of trafficking"³⁷.

The United Nations Development Programme (UNDP) has noted in its report³⁸ that some vulnerable groups still remain at high risk of social and labour market exclusion. They highlight that the absolute poor tend to be concentrated in rural areas and mountain regions. Women from such families are particularly vulnerable as they have low levels of education and are often subjected to early marriage. Roma and Egyptians (11.669 in total based on the census from 2011) are among the most disadvantaged groups in the country. They lack education, often engage in the informal economy from an early age and mostly live in communities with no basic infrastructure.³⁹ People with disabilities face both social and economic marginalization in Albania. A working age person with disability is twice as unlikely to find employment as a person without disability.

³⁵ Albanian Institute of Statistics (INSTAT) 2015

³⁶ The decision No. 48 dated January 16, 2008, of the Council of Ministers, "On the measure and the eligibility criteria of employment promotion program for unemployed persons in difficulty"

³⁷ Partners Albania for Change and Development 2016

³⁸ United Nations Development Programme in Albania 2011

³⁹ Partners Albania for Change and Development 2016

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

Efforts to create a specific policy framework for social entrepreneurship resulted in the adoption of the *Law on Social Enterprises* in 2016. This law recognizes only nonprofit organisations that provide goods and/or services in the following fields: social services, employment of marginalized groups, youth employment, health, education, environment, promotion of tourism, culture and heritage, sports activities and promotion of local community development. A social enterprise has to have at least three full-time employees and at least 30% of its workforce from marginalized groups. The direct or indirect distribution of profit is prohibited. Furthermore, it requires collective participation in decision making by the employees and other stakeholders. The status of social enterprise is granted by the Minister of Social Welfare and the law is very restrictive when it comes to using the title “social enterprise.” If a legal entity identifies itself as social enterprise without receiving the formal status from the ministry, they can be issued a fine of EUR 220-290. The law offers declarative support but does not lay out any specific support mechanisms or incentives for social enterprises.

Some of the stakeholders interviewed for this study believe that even though the law has positively impacted the employment of marginalized groups, overall it is restrictive and can hamper the development of an innovative and entrepreneurial social enterprise sector. They believe that the new law leaves out many existing social enterprises and restricts legal forms different from nonprofit. This might dampen the entrepreneurial spirit of many individuals. Another flaw of the law is the lack of specific financial incentives; support measures are provided only for the employment of marginalized groups.

In addition to the Law on Social Enterprises, the most important pieces of legislation are as follows:

- Law on Nonprofit Organisations
- Law on Reciprocal Cooperation Companies
- Law on Agricultural Cooperation Companies

Social enterprises in Albania are incorporated as nonprofit organisations, companies or cooperatives. The majority belongs to the first category and is regulated by the *Law on Nonprofit Organisations* (NPOs), which recognizes three forms: associations, centres and foundations. Nonprofit organisations are allowed to engage in economic activities that are in line with their main social purposes. They are not obliged to register a separate business entity for economic activities, as long as those are not the sole purpose of the organization, and they are included in the statutory documents of the NPO. This enables social enterprises to function under this law.

However, the economic activities of NPOs are not necessarily tax-exempt; depending on the level of activity, NPOs might need to pay taxes but without necessarily enjoying some of the benefits that are provided to small and medium businesses in the country.

As a result, although not a common practice in Albania, social enterprises sometimes opt to be registered as sole proprietors or small-medium businesses. These legal forms are faster to register; they are VAT-exempt, have simpler accounting and taxation rules, and they have more opportunities to obtain funding and finance.

Cooperatives could also fall under the social enterprise category and they are regulated by the *Law on Reciprocal Cooperation Companies* and the *Law on Agricultural Cooperation Companies*⁴⁰. The laws allow many fields of activities including production and sale of various goods and services. Reciprocal cooperation companies are active mostly in the areas of lending, insurance and construction. Most cooperatives are de facto social enterprises thanks to their member base and their participatory decision making, yet they cannot obtain official social enterprise status, because the Albanian law requires social enterprises to be nonprofit entities. In this study, however, we consider them as part of the social enterprise universe.

Another form of social enterprise identified in recent research⁴¹ in Albania is the savings and credit associations regulated under the *Law on Savings and Credit Associations*⁴². However, since they operate in the area of microfinancing within this study they will be mapped as part of the support structure rather than as SEs. This is also in line with the Albanian Law on Social Enterprises which limits the formal status only to NPOs.

The promotion and development of social enterprise has been identified in several national policies. In the *National strategy for employment and skills 2014-2020*⁴³, the *Ministry of Social Welfare and Youth* sees social enterprise as a way to achieve smart and inclusive growth in line with the best EU practices. Under the goal to “Promote social inclusion and territorial cohesion”, the strategy envisages a specific objective related to social enterprise: “Promoting social entrepreneurship (social economy and the third sector jobs) and women’s economic empowerment.” Furthermore, it includes two measures: “1) Design and implementation of measures in relation to social entrepreneurship and 2) Creation of conditions for fostering female and male employment in

the third sector⁴⁴ (social enterprise focus).” Based on the Action plan accompanying the strategy, the main outputs under the first measure include:

- the definition of social enterprise in legislation;
- one-stop-shop consultancy for developing business ideas and start-up strategies;
- modularised training for start-ups and on-going consultancy for at least the first year of self-employment;
- basic and practical business skills courses on management, marketing, use of technology, building a business and launching start-ups. These courses are offered particularly to women and girls in rural areas;
- and increasing women’s access to training and to the labour market by supporting measures and initiatives that aim to reconcile work and family life (e.g. child care facilities).

Under the second measure the desired outputs include capacity building for non-governmental organisations (NGOs) to improve their management knowledge and skills; training for the establishment and implementation of new businesses; supporting cross-sector partnerships by training local and regional authorities and public institutions about civil society organisations (CSOs), and promoting cooperation between NGOs and the business sector.

To support the development of the social enterprise movement, in 2011 the Ministry of Welfare and Youth introduced special regulation for the establishment of the

⁴⁰ Partners Albania for Change and Development 2016

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ministry of Social Welfare and Youth of Republic of Albania 2014

⁴⁴ Term used in the document, but not defined, so presumably means civil society



Pana is a social business that people from marginalized communities to produce furniture, office accessories, jewelry and paintings from reclaimed wood. See page 43 for more information.

Agency for Social Business⁴⁵ Promotion in Albania. The state-owned joint stock company aims to support sustainable economic and social development through the promotion of social, sustainable, balanced and cohesive business at national level⁴⁶. The agency promotes microfinance and has supported and co-organized a number of promotional events. Their role has included support for the Government's social protection policies, their implementation and to improve cooperation between the public and private sectors⁴⁷. Last year the management of the agency was replaced, the web site is not operational and it is not clear what their future plans are. The new Law on social enterprises does not refer to the Agency as part of the implementation or support network.

The Ministry of Economic Development, Trade and Entrepreneurship is one of the institutions that is expected to play an important role in shaping the policy for social entrepreneurship in Albania. In pursuit of smart, sustainable and inclusive economic models, the *Investment and Business Strategy 2020* recognizes the need of dialogue among the business actors in order to support the development of various forms of business.

⁴⁵ According to the regulation regarding the establishment of the Agency, "social business" is a business that addresses social and environmental problems, where the realized profit is

not distributed but reinvested in the improvement of the social business or in other social businesses.

⁴⁶ Partners Albania for Change and Development 2016

⁴⁷ Bonatti, et al. 2014

Table 3: Key Stakeholders in the Social Enterprise Ecosystem in Albania

| Policymakers | |
|---|--|
| Organization | Role |
| Ministry of Social Welfare and Youth | <ul style="list-style-type: none"> Responsible for drafting and implementation of the Law on Social Entrepreneurship (SE) Responsible for granting the SE status Responsible for promotion of SEs according the law Responsible for drafting and implementation of the strategies related to employment and social welfare |
| Ministry of Finance | <ul style="list-style-type: none"> Responsible for drafting the tax and fiscal regulation for SEs Shareholder Representative of the State in the Agency for Promoting Social Business |
| Ministry of Economic Development, Trade and Entrepreneurship | <ul style="list-style-type: none"> Responsible for drafting and implementation of legislation and strategies related to SMEs |
| Ministry of Agriculture, Rural Development and Water Management | <ul style="list-style-type: none"> Responsible for legislation related to cooperatives and SCA |
| Local self-government units ⁴⁸ | <ul style="list-style-type: none"> Support and implement SE policies on their territories Stimulates participation of SEs in local public procurement in line with the law |
| Networks and Platforms | |
| Organization | Role |
| Albanian Social Enterprises Forum (informal) | <ul style="list-style-type: none"> Promotes social enterprises aimed at development of social services and welfare Supports regional networking between SE networks Provides capacity building opportunities for the SEs Advocates for encouraging legal framework |
| Funders | |
| Organization | Role |
| Yunus Social Business | <ul style="list-style-type: none"> Provides social impact financing to social enterprises Manages accelerator program for start-up SEs which includes mentoring, technical assistance and networking |
| Albanian Investment Development Agency (AIDA) | <ul style="list-style-type: none"> Aims to attract foreign direct investment, enhance competitiveness and innovation Provides financial support to SMEs through several grant programmes Supports SMEs in promotion, B2B, participation at fairs etc. |

⁴⁸ Role assigned in Article 6 of the Law on Social Enterprises

| | |
|---|--|
| Albanian Union for Savings and Credit Associations (ASC Union) | <ul style="list-style-type: none"> • Supports the SCAs with finances and technical assistance • Focused on modernization of agricultural production and rural development • Provides micro credits, small loans to SMEs and savings deposits |
| National Employment Service | <ul style="list-style-type: none"> • Provides subsidized employment and training |
| EU Funding (Civil Society Facility and IPA) | <ul style="list-style-type: none"> • Provides grant funding to NPOs for projects in various areas including social inclusion, employment of vulnerable groups, entrepreneurship development etc. • Provides grant funding to NPOs for capacity building programs for SEs |
| EU funding (WB EDIF) | <ul style="list-style-type: none"> • Provides financing solutions for SMEs, implemented and coordinated by the EBRD and EIB Group, including venture capital, risk-sharing, direct and indirect lending • Supports policy interventions to improve SME operating environment, capacity building initiatives and targeted advisory support (through EBRD's ASB programme) |
| Fondi Besa (BESA) | <ul style="list-style-type: none"> • Supports economic growth in urban and semi-urban areas by providing microfinance loans to SMEs • In cooperation with European Investment Fund provides microfinance to stimulate employment and social innovation targeting agriculture and youth entrepreneurship |
| Austrian Development Agency, Swiss Development Cooperation, UNDP and the United States Agency for International Development (USAID) | <ul style="list-style-type: none"> • Public-private partnership that supports micro-enterprises, small and medium enterprises and social enterprises |

Support Organisations and Institutions

| Organization | Role |
|--------------------------------------|---|
| Partners Albania | <ul style="list-style-type: none"> • Aims to support civil society and facilitate inter-sectoral cooperation to strengthen democratic institutions and advance economic development • Provides seed funding for start-up SEs through the "Philanthropy for green ideas" competition • Provides capacity building and mentoring in development of business plans • Supports exchange of experience and cross-sector cooperation for the SEs • Advocates for incentives for development of SEs • Promotes SE best practices |
| Agency for Social Business Promotion | <ul style="list-style-type: none"> • Has mandate by law to support and promote social enterprise and microfinance |

| | |
|--|--|
| Ashoka | <ul style="list-style-type: none">• Runs the Changemakers Exchange Programme which provides networking and exchange of experience to SEs from the Western Balkans |
| EU <i>Technical Assistance for Civil Society Organisations (TACSO) Project</i> | <ul style="list-style-type: none">• Supports SE development by commissioning relevant research, supports and organizes regional networking opportunities• Responsible for planning and implementation of the EU People 2 People Programme |

PUBLIC SECTOR SCHEMES

In Albania there are no specific public sector schemes targeting social enterprises currently. This research has identified other, more indirect forms of public support that might be relevant for social enterprises and they are outlined below.

[The Albanian Investment Development Agency \(AIDA\)](#)

aims to attract foreign direct investment, enhance the competitiveness of the Albanian economy by supporting small and medium enterprises and stimulate innovation. During the first three quarters of 2016, AIDA provided grant support to 63 SMEs, while 152 SMEs received support in terms of promotion, business to business (B2B), participation at fairs etc. There is no track record whether any social enterprise has used AIDA support. The financing is in the form of grant, in principle cost-sharing with the micro, small and medium business. AIDA has several funding programs such as: Competitiveness Fund; Creative Economy Fund; Women Entrepreneurs Support Fund; Enterprise Support Fund for “Start-up” Initiatives; SME Fund in tourist/historical areas; Innovation Fund and Innovation Voucher (details provided in Annex III). Most of these instruments could be accessed by social enterprises, if nonprofit forms became eligible. The Start-up Fund, for example, provides financial subsidies to newly established businesses in the form of grants of up to EUR 2,200 per project or to cover 70% of the incurred costs. The annual budget for the fund is about EUR 74,000.

In 1998 the Ministry of Labour and Social Affairs with support from the World Bank established two business incubators in Tirana and in Shkodra. The business incubator in Shkodra functions mostly as office space for businesses, while the one in Tirana also provides support in setting up businesses; they have supported 19 businesses since their establishment. Available reports suggest that the business incubators have not

been as successful as planned because after the initial 3-year funded period they failed to become self-sustainable.⁴⁹ There is no information about social enterprises using their services. Three new business incubators are planned to be launched with the EU Instrument for Pre-Accession Assistance (IPA) funding under the Business Incubator Programme within the *Strategic Program for the Development of Innovation and Technology for SMEs 2011-2016*.

The National Employment Service provides support measures for employers to encourage the employment of vulnerable groups. The so-called Employment Promotion Programmes (EPPs) offer two types of support: subsidized employment and training (on the job training, vocational training and internships).⁵⁰

The Municipality of Tirana has recently become interested in supporting women and young entrepreneurs. In the summer of 2016, the municipality launched a call for proposals for business plan ideas for women entrepreneurs in partnership with the United Nations Agency for Gender Equality. The initiative will provide the winners with grant support of EUR 2,000 – 3,000. It will also offer training in business skills and technical guidance in specific sectors or industries.

OTHER SUPPORT AND INFRASTRUCTURE

The support infrastructure for social entrepreneurship is still in the early stages of development. Most of the existing social enterprises have received grants and philanthropic support from international donors and local companies, in a few cases from [Yunus Social Business Albania](#) (see details in the following section).

⁴⁹ Partners Albania for Change and Development 2016

⁵⁰ International Labour Organization and EU IPA 2010 Project on Human Resources Development in Albania 2014

Business Planning and Capacity-building Support

The EU has been one of the key funders of social entrepreneurship initiatives in the last few years through the mechanisms of the IPA Civil Society Facility (CSF), IPARD in the area of agriculture, IPA Cross Border Cooperation, People to people and others.⁵¹ This enabled organisations, especially nonprofits, to develop business plans and launch social enterprises. Similarly to other countries in the region, this type of financial support is challenging as it does not provide long-term funding.

Other donors that have been supportive of social enterprises include the [Austrian Development Agency](#), [Swiss Development Cooperation](#), [UNDP](#) and the United States Agency for International Development, USAID. In 2016 USAID announced a partnership with Yunus Social Business Balkans in a three-year, USD 3.2 million (EUR 3.02 million) public-private partnership project aiming to support micro, small and medium-sized enterprises and particularly social enterprises in Albania.

Yunus Social Business Albania/Balkans (YSB) was initially set up in Albania in 2012 with the Fund being launched in 2013 (registered as a Foundation). They were established by the initiative of the government of Albania after meeting with Muhammad Yunus. Starting in 2015, they extended their operations to the wider Balkan region. YSB uses Yunus' definition of social business, namely that the business has to solve social or environmental problems, use profits to increase social impact, pay no dividends and be self-sustainable thanks to its business success. YSB Albania/Balkans supports early stage social enterprises established as limited liability companies (in some cases owned by an NPO). They focus on agriculture and manufacturing, expecting more significant social impact in these industries. YSB provides two types of support: a) entrepreneurship services through the acceleration programme (needs

assessment, start-up support with market research, networking, access to market, financial analysis etc.) and b) financing. Information on the YSB website indicates that in the last three years YSB has supported seven social enterprises in Albania.

[Partners Albania](#) is a local foundation working to support civil society and to facilitate inter-sectorial cooperation to strengthen democratic institutions and advance economic development. Social entrepreneurship and innovation is one of their programmes, which encourages the development of social entrepreneurship through a) seed funding support to start-ups; b) exchanges and cooperation among organisations and entrepreneurs, investors and private sector at national and international level; c) facilitation of dialogue with state actors to encourage incentives for the development of social enterprise; d) networking and promotion of best practices through media programmes and articles.

Seed funding is provided mainly through the "Philanthropy for green ideas competition." The competition serves as an incubator for small scale green economy social enterprises. The programme supports individual social entrepreneurs, small business ventures and CSOs. It is a joint fund created from contributions from local companies, private donors and support from the Rockefeller Brothers Fund. It offers grants in the amount of USD 10,000 (EUR 9,380) for equipment and start up operational costs for one year.

Partners Albania also provides capacity building for the preparation of business concepts and business plans. The process involves banks and telecommunication companies who offer mentoring on finance and marketing. Three ideas are awarded mentoring support and one of them has the opportunity to win a regional financial award of EUR 10,000 as well. One of the future

⁵¹ Partners Albania for Change and Development 2016

plans of Partners Albania is to establish a professional help-desk service to support social enterprises.

The Changemakers Exchange Programme is implemented by Ashoka and it provides networking opportunities and exchange of experience with social entrepreneurs from Austria. This programme is available to social enterprises from all the Western Balkans.

The Albanian Forum of Social Enterprises was established in 2012 as an informal network of over 100 social enterprises and NPOs. The Forum received support from the EU Technical Assistance to CSOs (TACSO) Project and was involved in drafting of one of the first studies on social enterprise in the country. The forum was seen as a platform for exchange of information, networking, mutual aid and promotion. Unfortunately, it seems to have lost momentum and there is no information about its activities in the last couple of years.

Access to Support Schemes and Financing Available to SMEs

The European Investment Fund (EIF) and a non-bank microfinance institution Fondi Besa (BESA) set up an employment and social innovation microfinance instrument in the middle of 2016. Under the guarantee agreement with the EU Programme for Employment and Social Innovation (EaSI), this instrument is intended to support around 5,000 micro enterprises in Albania. The fund will have a loan portfolio of around EUR 22 million and will target the agricultural sector and youth entrepreneurship. The maximum amount per loan would be around EUR 25,000 for up to 60 months and maximum 20% annual interest rate.

A number of start-up and SME accelerator initiatives have been established in recent years with support from the donor community and corporate funding. Examples include Protik Start-up Accelerator Programme, Officina – Accelerator Tirana, Albanian Innovation Accelerator in Durrës or Innovation Hub in Tirana. Even though they could serve as support infrastructure for start-up social enterprises, it is not clear whether these accelerators have such an objective and if they are sustainable.

The EBRD's Advice for Small Businesses (ASB) programme could also be considered as a potential player in the support infrastructure, although they provide support mostly to SMEs. Social enterprises have not been targeted by EBRD in Albania since they are still in the start-up phase, while EBRD is looking for financially stable companies with potential to grow. Nevertheless, the Bank has been engaged in events related to social entrepreneurship and has supported the work of different stakeholders through the exchange of ideas.

Advice for Small Businesses targets the needs of SMEs. In a cost-sharing scheme, the companies can engage local consultants or international experts to improve their business. To be eligible, companies have to be majority locally-owned and at have at least two years of track record. Over 630 SMEs have received support from ASB in Albania so far. The EBRD ASB team also runs Market Development Activities to develop the local consulting market by offering training based on its own curricula.

EBRD's Finance and Advice to Women in Business is also available to the women led small businesses in Albania. The programme provides female entrepreneurs with entrepreneurial skill courses, business advice, coaching and mentoring, as well as access to specific financial products.

In terms of financing, EBRD offers direct financing to SMEs through its direct financing instruments and through its partner bank. Recently EBRD has also partnered with the Albanian government and local banks to create an agribusiness facility to improve access to finance in this area.

The EBRD also provides its financing and advisory services through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), a platform established by the EU to provide a comprehensive set of complementary measures to improve access to finance for SMEs and foster economic development in Albania and the wider Western Balkan region. The platform consists of five different pillars implemented by the EBRD and EIB group, which broadly include direct and indirect financing solutions to SMEs at different stages of development, policy interventions to improve the SME business environment and targeted advisory support.

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

Social entrepreneurship has not yet been recognized as a significant part of formal higher and vocational education. Most of the training is non-formal, consisting of courses and workshops provided by CSOs and other actors (see detail in the previous section about support infrastructure).

Small changes are taking place now in private universities, which have been the first to spot the gap and initiate the development of curricula on social enterprise in a collaborative manner⁵². There is also some new interest among academics: young scholars started to choose social entrepreneurship as a subject for post-graduate dissertations.

⁵² Bonatti, et al. 2014

Mapping of Social Enterprises

The social enterprise sector in Albania started to emerge in 2001 and is comprised of approximately 60 to 80 entities.

LEGAL FORMS

Focusing mostly on nonprofit organisations (NPOs) which are the most frequent legal form of social enterprise in Albania, the EU Technical Assistance for Civil Society Organisations (TACSO) Project commissioned research⁵³ to estimate the number of social enterprises. The starting point was the 900 nonprofit organisations that are engaged in economic activities according to information available from the Directory of the Ministry of Finance. Using the definition of the Social Business Initiative of the European Commission, 80 of them were classified as social enterprises. Experts from Partners Albania have also conducted research and believe the number to be around 60.

Social enterprises in Albania are most frequently incorporated as NPOs (associations, centres and foundations). Others are sole proprietors, companies of reciprocal cooperation (mutuals) and cooperatives.⁵⁴

SIZE

Similarly to other countries in the region, Albanian social enterprises are small entities. The ICSEM⁵⁵ research indicates that 70% of the surveyed businesses have less than five employees. If we take the wider group of NPOs with economic activities from the TACSO research, the majority of social enterprises declared less than 10 employees.

In terms of finances, data confirms that a significant number has assets and income up to EUR 50,000. The services provided by social enterprises are either free of charge for the beneficiaries or cost lower than market price. The majority of the enterprises are not able to cover the start-up and operational costs from their economic activity. They mostly rely on grant and philanthropic funding for start-up investment and for covering the deficit in their operational costs. This presents a challenge to their sustainability and business model. Many social enterprises also receive in-kind support in the form of space, equipment and machinery. The majority reinvests the profit (if any) in the social enterprise or in the expansion of the social mission of the organization.

In general, most of the social enterprises are in the blueprint and validation stages of development; only a few of them are ready for scaling, for example *Pana* (see box on page 43).

⁵³ Asmundo 2013

⁵⁴ Partners Albania for Change and Development 2016

⁵⁵ Ibid

TARGET GROUPS

The main target groups of Albanian social enterprises are farmers (for cooperatives), ethnic minorities such as Roma and Egyptians, people with disabilities and unemployed women, children and youth (Graph 1). This is not surprising as these are also the groups identified as most vulnerable from the point of view of social and labour market exclusion. The research conducted within the International Comparative Social Enterprise Models (ICSEM) Project estimates that among thirty interviewed social enterprises (including cooperatives and savings and credit associations), 33% serve farmers, 27% general society and 13% small businesses. See Graph 1 (page 44).

FIELDS OF ACTIVITY

In terms of their missions, tentatively half of the social enterprises provide goods and services, as well as social and work integration opportunities for vulnerable groups. The majority offer more than one service to their target groups. They engage in diverse fields of activities, most often in agricultural production, vocational training and consultancy and social services for individuals and groups in need. Other types of services provided by social enterprises include educational (for children, complementary educational services, afterschool activities etc.) and health services⁵⁶. Those that deliver services other than social services, mostly engage in activities such as traditional crafts, tourism and hospitality⁵⁷.

PANA

[Pana](#) is a social business established in 2013 by social entrepreneur Pezana Rexha. The enterprise has a twofold mission: (1) to preserve the environment by upcycling reclaimed wood and (2) to employ people from marginalized communities (Roma, returned immigrants, people with disabilities, retired people and orphans). Pezana was motivated by the fact that people can change their lives through professional work; this will not only generate income but also restore their dignity. Pana produces furniture, office accessories, jewelry and paintings from reclaimed wood; 90% of its production is hand-made. Its customers are mostly businesses (70% of the income) and families (30%). They provide below the market price products for new businesses, in order to help them in their start-up phase. Pana believes that the uniqueness of its product is what attracts customers and not the social focus of the enterprise. At the moment, they employ 12 full-time and 4 part-time employees, the majority from vulnerable groups of society (3/4 of the staff).

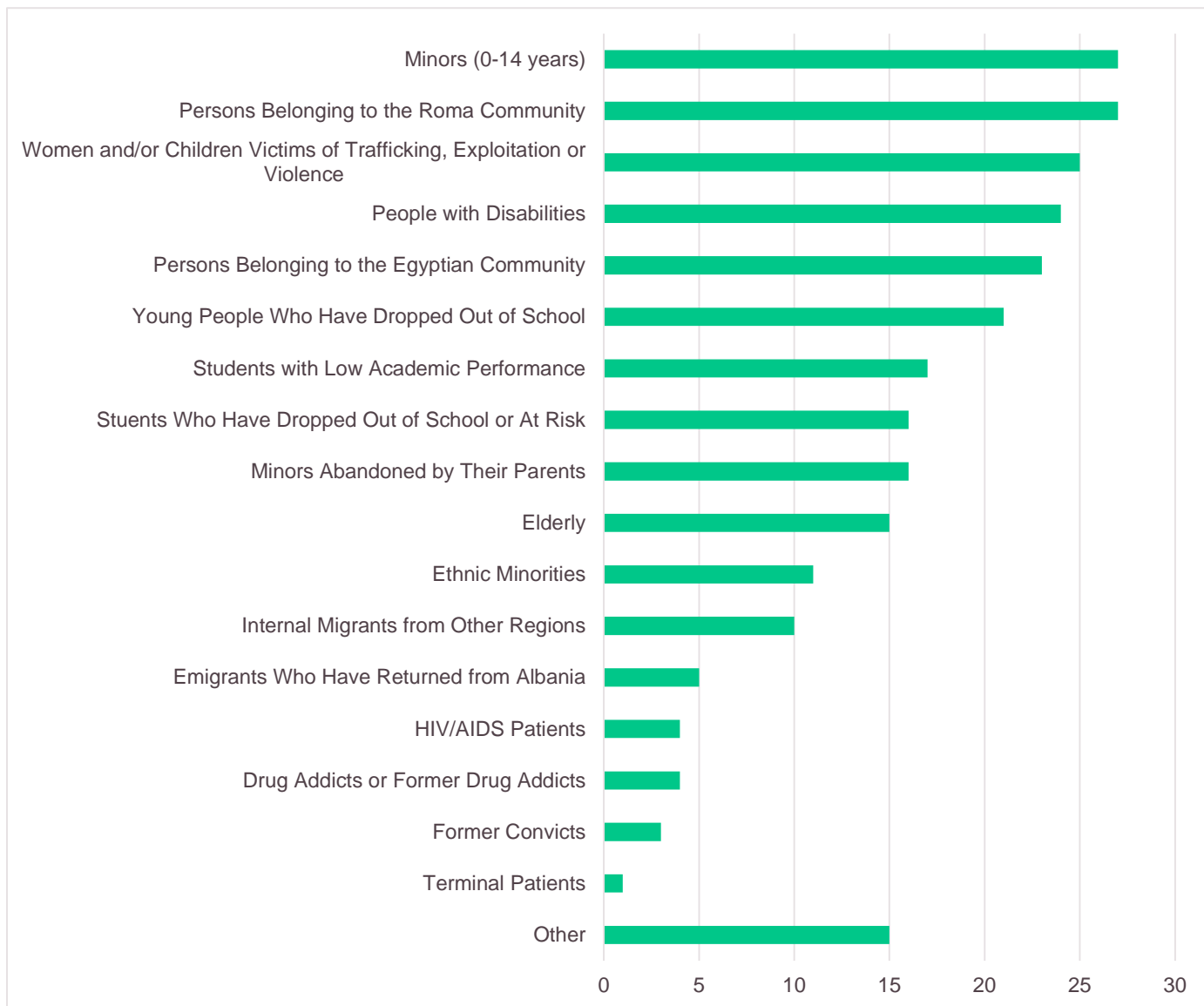
Pana is a sole proprietorship; this legal form was chosen because it is faster to register and receives more favorable terms in terms of taxation. The startup capital requirement was around USD 20,000 (EUR 18,880), which was raised from grants (the Green ideas competition) and the founder's own resources. The business broke even after 6 months of operation. The annual turnover is around USD 120,000 (EUR 113,300) with 15-20% in profits. All profits are reinvested or kept as reserves.

The social enterprise is in the growth phase with plans to expand not only in Albania but also to export products to the EU. It wants to increase the number of employees to around 35 and upgrade to a modern workshop and purchase independent building/workshop space. Currently Pana is looking for business angel funding or soft loans; it does not consider microcredits as appropriate due to the high interest rates. Besides funding, Pana has benefited from mentor support through several programmes and have expressed the need for further support in business planning and marketing.

⁵⁶ Asmundo 2013

⁵⁷ Ibid

Graph 1: Beneficiaries of Services⁵⁸



⁵⁸ Asmundo 2013

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

Youth and women are one of the best served target groups by social enterprises in Albania. When it comes to employment, the majority of the full-time and part-time employees of social enterprises are women.⁵⁹ YAPS (see box to right) employs around 100 people from vulnerable groups, most of whom are young people. Available research⁶⁰ suggests that of those social enterprises that have work integration as a priority, 17% hire young people (23) and 10% focus on youth that have dropped out of school (14); 10% employ single women, 9% work with women returning from maternity leave, while 5% wants to help women that are victims of trafficking. Other needs of these two target groups include education and vocational training or participation in the economy through entrepreneurship etc. Work integration programmes often include complementary services to the specific target groups as well, such as health or psycho-social support. This shows that social enterprises are sensitive to and can specialize in meeting the needs of smaller segments of youth and women.

Regarding the geographical spread, most of the social enterprises, except cooperatives, are registered in the cities, Tirana and Shkodër. That being the case, their activities and services often address communities in other parts of the country.

YAPS

YAPS is one of the most successful social enterprises in the region. It was established in the year 2000 as a foundation on the initiative of Don Bosko, UNICEF and several large companies that also provided the initial funding and premises. The mission of the social enterprise is to integrate vulnerable groups, in particular youth through work and thus provide them with support in a sustainable manner. The business employs 100 people from ethnic minorities such as Roma and Egyptians, orphans, people with disability, and it recently included minors in conflict with the law.

Beginning with delivery services, today YAPS provides three types of services: delivery, cleaning and maintenance/housekeeping. The main customers are YAPS board member companies, embassies, hospitals and other businesses. Despite competition, YAPS holds 13% of the cleaning market and 12% of the delivery market. They generate around EUR 600,000 annual turnover with 10% in profits that are partly reinvested, partly allocated to a guarantee fund and to charitable activities. They plan to expand in the region as well and have their own savings to invest in the expansion.

Apart from the high quality of their services, the key success factor of their model is the engagement of large companies in the setting up and governance of the social enterprise. Not only are they loyal customers of YAP's businesses, companies also provide ongoing mentoring, guidance and oversight of the business model and the management of the social enterprise.

⁵⁹ Partners Albania for Change and Development 2016

⁶⁰ Asmundo 2013

FINANCING STRATEGIES

For the majority of NPO social enterprises, start-up grants come from foreign donors and philanthropic support, including the local corporate sector. This means valuable initial funding to develop the business plan and low financial risk for the mother organization. Later on, social enterprises seek further philanthropic or grant support to expand their activities and services. Available research data shows that in 2011, 49 organisations received donor funding of up to EUR 50,000, another nine in the range of EUR 50,000 – 100,000, and eighteen was granted over EUR 100,000. However, foreign donor support is starting to disappear from the horizon, which is of concern to existing social enterprises. In addition to grants, some of the interviewed organisations said that they would benefit from angel funding or soft loans in order to expand their operations, to enter new markets, upgrade production units or expand in new production lines.

As most social enterprises are in the early stages of development, they are not considering social investment, nor are they ready for it. Overall they do not possess sufficient knowledge and experience in terms of financial management and how to access finance, which prevents them even from applying. This gap is starting to be addressed by various technical assistance and development programmes, donor funded projects as well as corporate advice and mentoring schemes, such the YSB Acceleration Programme or the Green Ideas Competition.

GENDER ANALYSIS OF SOCIAL ENTERPRISES

There is no sex-disaggregated data on the ownership and management of social enterprises. Many of the businesses interviewed for this research are managed by women, however, the sample of six is too small for drawing general conclusions. Available Partners Albania research data⁶¹ on the employment aspect showed that women dominate in the surveyed enterprises; they make up 60% of the full-time workforce and 78% of the part-time workforce.

Social enterprises working with women have reported challenges in changing the traditional, patriarchal tradition that still prevails in Albania. This is reflected in the lack of understanding of the right of women to work and to equally contribute and benefit from social and market opportunities. Organisations working with victims of violence reported discriminatory treatment of their beneficiaries. None of the social enterprises have pointed out gender-based discrimination in access to finance or markets.

⁶¹ Partners Albania for Change and Development 2016

NEW YORK - TIRANA BAGELS

[New York - Tirana Bagels](#) is a social enterprise established by the NPO Different and Equal, whose mission is to support vulnerable women and children in Albania. The social enterprise was set up to provide employment for its beneficiaries and to support the sustainability of the organization. New York - Tirana Bagels is registered as a company under the commercial law with the NPO as a founder.

The main products are bagels, sandwiches, cakes and cookies. The social enterprise also runs a shop, delivery and catering service. Target customers are individuals, companies and organisations and families. Their initial investment was around EUR 25,000-30,000, which they raised through a fundraising campaign and pro-bono services (in branding) in a course of one year. The annual turnover is EUR 30,000 - 35,000 currently. In 2013 Mozaik Foundation's Social Business Fund from Bosnia supported Different and Equal to expand New York - Tirana Bagels in order to satisfy growing demand for bagels in the shop and in delivery. The support consisted of marketing advice as well as investment to enlarge the production area in the shop.

Future plans include the creation of a chain of shops throughout Tirana and other towns, mostly tourist areas. New York - Tirana Bagels would like to finance this growth through grants or soft loans with interest rates below market and long grace periods. They also need technical support in marketing, financial planning and financial management.

New York - Tirana Bagels employs six full-time staff and several part-time staff from their beneficiaries. Both the social enterprise and the NPO have female management and their employees are women as well. Even though many of their customers are aware that New York - Tirana Bagels is a social enterprise, they do not promote its social mission and who the employees are in order to protect their personal integrity and shelter them from potential stigmatization.

MONITORING AND EVALUATION SYSTEMS

Social enterprises use the standard national accounting systems to monitor their financial results. However, they do not have comprehensive internal systems to consistently track in-kind contributions and real costs (staff time, volunteer effort, etc.). Several of them pointed out the need to improve their skills in the area of financial planning and management.

Social enterprises usually employ some form of internal monitoring and evaluation system to track their social impact. They also document case stories of impact on their beneficiaries. However, they do not employ comprehensive systems based on international standards that would provide comparable social impact data.

Social Investment Market

DEMAND

Demand for social finance is sporadic and cannot be quantified at sector level at this point. There are individual examples of bespoke investments or loan transactions, but they have each been the results of one-on-one approaches. For example, Seniors House has used a loan from Yunus Social Business to start-up its social enterprise. Seniors House provides residential care for elderly including social and educational activities and medical assistance. It has a capacity for 32 customers and also provides at-home services. The size of the loan was EUR 140,000 with a 6% interest rate for 7 years and a grace period of 18 months. YSB owns 25% of the business as a security.

SUPPLY

Supply of social finance is very limited in Albania. There is one specialized social enterprise fund present, Yunus Social Business Albania/Balkans. It offers loans in the range of EUR 50,000 – 500,000 for a period of 6-7 years on average; this can be flexible depending on sustainability prospects of the investee. Interest varies between 6-8% depending on the risk level of the social enterprise and repayment may start after a grace period of 6-18 months. No personal collateral is required, but YSB retains 25% in equity as a security until the loan is re-paid. There are possibilities for patient loans with a grace period of 5 years. The YSB website indicates that in the last three years the investor has supported seven social enterprises in Albania. YSB also runs an accelerator programme that provides capacity-building support to its investees.

Social enterprises that are registered under the company law and work in the field of agriculture, can apply for loans to the [Albanian Union for Savings and Credit Associations \(ASC Union\)](#) and its members. ASC Union has a membership of ninety-seven savings and credit associations (SCA) and operates in seventeen districts of the country. It provides financial services to its members and rural inhabitants in order to improve production, their standards of living and support the development of rural areas.

The credit associations are de facto microfinance institution with a portfolio of over EUR 40 million. By the end of 2014, ASC Union had 16,850 active loans. The main financial products are micro-credits, small loans and savings deposits. The small loans are relatively new products and have two different types: 1) EUR 8,600 – 21,000 with maturity of up to 10 years for buying machinery, real estate and various processing lines; 2) EUR 8,600 – 21,000 for up to 3 years for various reconstruction works, agro-processing and agricultural mechanics. There is no available information whether any of their clients are social enterprises; nevertheless, options should be explored in including them in their portfolio.

Most of the other financial instruments open to SMEs are not available to social enterprises that have the legal form of NPOs (such as the AIDA funds).

Gap Analysis and Recommendations

LEGAL FRAMEWORK

The *Law on Social Enterprise* has just been introduced and its effects are yet to be seen. In principle, the law gives grounds for more substantial public support for the development of social enterprises at national and local level. Unfortunately, at the moment, the law does not envisage any specific incentives or support mechanisms for social enterprises.

There are a number of other concerns about this law that might have a negative impact on the development of the sector.

It provides social enterprise status only to nonprofit organisations. This will leave other legal forms such as companies and cooperatives without official recognition and may exclude them from future public support programmes. It is important for private social enterprise support organisations to take this into account when deciding who they want to target with their programmes.

Another possible problem with the law is that it limits social enterprise to employment models for vulnerable groups. This carries the danger of overlooking the importance of this enterprise model in other social fields, where they can provide goods and services to disadvantaged groups or contribute to sustainable and equitable development. In the early stages of development of the sector, it is best if public policies take a broader view and encourage the proliferation of social enterprise in all sectors and models.

Recommendations

- Public support could take various forms – from tax incentives, subsidies provided to work integration social enterprises, preferential treatment in public procurement, and in-kind support from central and local government.
- Clarification is needed in terms of the tax treatment of social enterprises and nonprofit organisations conducting economic activities. They should be provided with favourable tax treatment as is the case with small and medium enterprises in the country, particularly given their socially-driven purpose.
- Government could consider the revision of the current Social Enterprise Law and remove restrictions on legal form or at least include certain types of companies and cooperatives to enable them to obtain social enterprise status.
- It is plausible that the *National Strategy for Employment and Skills 2014-2020* includes the promotion of social entrepreneurship as one of the strategic objectives with a set of measures. If implemented, it would offer a good basis for creating a consistent technical support programme to benefit social enterprises.
- Influential stakeholders could encourage and support the designated ministry to become active in the implementation phase of the social enterprise strategy.
- It would be ideal, if policymakers recognized social enterprises as part of the SME spectrum and integrate suitable policy measures within the SME development strategies.

ACCESS TO FINANCE

Apart from the exceptions highlighted throughout this chapter, social enterprises in Albania are mostly in the early stages of their development, either blueprint or validation. As such most of them continue to need grant finance for operating costs and market testing. They would not be able to take on repayable finance under commercial terms, because they still do not generate sufficient and steady income. As the majority are nonprofits with a limited asset base, they are also not in a position to offer collateral to secure a commercial loan. Social enterprises that participated in this research expressed concerns about taking out loans at the usual commercial interest rates and would like to explore financing from business angels or soft loans with lower interest rates.

At the same time, equity type investments are even more out of reach, because enterprises set up by NPOs are usually reluctant to share ownership with the investors. These forms of social investment are almost completely absent from the financing spectrum, demonstrating a gap both on the demand and supply side of the nascent Albanian market.

Recommendations

- Social enterprises would benefit from more forms of non-repayable finance, such as public grants, philanthropic support or seed funding. These should ideally be longer term and combined with appropriate levels of capacity-building support and aim to gradually reduce grant dependence
- Social enterprises need finance that is adequate for their needs, their stage of development and absorption capacity. Unfortunately, that is not the case even for grants. Grant funding usually has limited timeframe (on average around one year) and is project-based. Available commercial sources are not feasible for reasons discussed above. There are several award schemes, but they have a limited scope i.e. can serve only a small number of social enterprises and are time bound. Award schemes, on the other hand, can be effective promotion and awareness-raising tools, even if their impact on the overall funding pool is negligible.
- Social enterprises need funding opportunities that will be available on an on-going basis and that can serve a larger group of them. Options should be explored to extend financial instruments such as the loans offered by AIDA to include social enterprises. Such small loans could be appropriate to cover seed funding for early stage businesses.
- Social enterprises need technical assistance and capacity building to better understand available financing options and to be able to manage various forms of loans or investment. Capacity building is vital for developing the business and operational plans, including a detailed financial analysis and marketing plans, and for testing and refining the business model. Capacity building can be a form of risk mitigation for investors that want to see their capital repaid.
- Government should provide financing for different stages of enterprise development, and could act as the first loss funding that is very much needed among early stage enterprises. This could encourage other possible financiers to engage.

CREATION OF AN ECOSYSTEM

There is a lack of comprehensive ecosystem that would provide on-going, consistent support to social enterprises. There are no or very few business advice services, incubator services, accounting and financial advice, while market research and marketing support are also scarce. There is an apparent gap in business management and technical skills. Social enterprises face high staff turnover, which also reduces their chances to improve productivity and increase scale.

Existing business incubators and accelerators struggle with sustainability, therefore at this point they are not able to provide more consistent support to social enterprises, with the exception of the accelerator programme of Yunus Social Business. Support provided by the corporate sector, for example within the Partners Albania awards, is very important and should be scaled up to be available to a larger group of social enterprises. The help-desk services that Partners Albania wants to set up will be a new way to provide valuable support.

The Albanian ecosystem also suffers from a lack of networking opportunities between social enterprises and other stakeholders. The Forum on Social Entrepreneurship does not seem to meet the networking needs of the ecosystem. There is no other network that would serve as a platform for exchanging experience, engaging in advocacy and mutual assistance between social enterprises.

Recommendations

- Social enterprises would benefit from a networking platform, which would serve individual enterprises as well as the sector by promoting all social enterprises and increase their market visibility.
- There is potential for the Agency for Social Business Promotion to play a role. With proper management and government commitment, this agency could do more by active promotion, convening stakeholders and coordinating various initiatives.

CHAPTER 8

Social Enterprise Ecosystem in Bosnia & Herzegovina

Author: Andreja Rosandic



Executive Summary

Bosnia & Herzegovina is a country with a complicated governance system that was born as the result of the 1995 Dayton Peace Accords. It has a decision-making structure that functions at three administrative levels: entity, canton and municipality, which presents bureaucratic challenges and renders the system to be resource intensive. The various levels of administration do not always share a common vision about the country's future and often lack transparency in implementing strategies and legislation. Lack of cooperation is delaying structural reforms and the country's progress towards entering the European Union (EU), for which Bosnia & Herzegovina is a candidate.

The economy suffers from an overall lack of resources, and there is also a grey economy, which is estimated at over 30% of the official GDP.

In Bosnia & Herzegovina, social inclusion and poverty reduction are the main social challenges to joining the EU. The *Social Inclusion Strategy* aims to address these challenges. Within the strategy, civil society organizations are recognised as leading actors in social entrepreneurship activities; however, civil society organizations in Bosnia & Herzegovina note that they were not consulted in the development of the strategy. The strategy covers a wide range of socially-excluded groups and priority is given to people with disability. Extremely low-income households, families of soldiers killed in the war and civilian war victims are also considered marginalized

groups. There is extensive regulation at entity level regarding disadvantaged groups, but laws are often perceived to be implemented in a non-transparent manner or not in cooperation with stakeholders.

Social enterprises are set up mainly to address issues of social inclusion and equal opportunity for people with disabilities. This is the direct result of regulation, which prescribes entity forms for labour market integration of disabled beneficiaries.

The majority of social enterprises have been launched by civil society organisations (CSOs) so far and they are required by law to be set up as limited liability companies. There is no systematic data available about the number, size, impact, field of activities or financial turnover of social enterprises. It is estimated that there are only about thirty in total (not counting cooperatives). They are small, dependent on public subsidies or donor funding and are for the most part financially unsustainable.

Public sector schemes in both Bosnia & Herzegovina entities are not perceived to be supportive of social enterprises, although social enterprises may benefit from support offered to small and medium enterprises (SMEs). In Bosnia & Herzegovina, there are grants for self-employment and programmes that encourage entrepreneurial activities of vulnerable groups. At the same time, in the Republic of Serbia the focus is on private-public partnerships, which have been recognized as one of the potential social enterprise forms.

The most prominent funders of social enterprise are international donor organisations that provide grants for start-ups. The international donor community plays a significant role in the development of the SME sector as well, supporting small and medium size companies through a large variety of instruments and programmes, including the EU's Western Balkans Enterprise Development and Innovation Facility (WB EDIF). Micro-finance institutions historically played a crucial role in ensuring funding for start-ups and individuals, while the banking sector has shown little interest in supporting or financing social enterprises. The social investment market is non-existent.

Bosnia & Herzegovina, is expected to increasingly benefit from various EU programmes that would aid the implementation of the social inclusion strategy and poverty-reduction measures, which in turn could be the driving forces for social enterprise development.



Centre Fenix is a nonprofit supporting vulnerable individuals. One of Fenix's social enterprises is a nursing home facility for the elderly. See page 58 for more information.

Social and Economic Overview

Bosnia & Herzegovina became independent from Yugoslavia on March 1, 1992, triggering a war that lasted for three years and left about 100,000 people dead. In 1995 the Dayton Peace Accords finally brought peace to the country. The constitution of Bosnia & Herzegovina, contained in Annex IV of the Peace Agreement, established a complex institutional structure comprised of three levels which can be complicated to manage and understand.

Bosnia & Herzegovina is comprised of two entities: the Federation of Bosnia & Herzegovina (FB&H) with a population of 2.2 million, and the Republika Srpska (RS) with 1.2 million people. Formally a part of both entities is the District of Brcko, a multi-ethnic self-governing administrative unit with 39,000 inhabitants. Bosnia & Herzegovina is administratively divided into 10 cantons, while these cantons are divided into a total of 79 municipalities. At the same time, the Republika Srpska is administratively divided into 62 municipalities while the City of Brcko is a separate administrative unit.⁶²

Bosnia & Herzegovina is predominantly Bosniak (Muslims) and Croat (Catholics), while the Republika Srpska is Serb (Orthodox). Their respective governments are responsible for overseeing most government functions. As per a 2013 census, the total number of persons in Bosnia & Herzegovina is 3,531,159 (data from July 2014),⁶³ among which the majority were Bosniaks (50.1%), followed by Serbs (30.8%) and Croats (15.4%).⁶⁴

The country is divided into a joint Bosniak/Croat Federation (about 51% of the territory) and the Bosnian Serb-led Republika Srpska (about 49% of the territory); the region called Herzegovina is contiguous to Croatia and Montenegro, and traditionally has been settled by an ethnic Croat majority in the West and an ethnic Serb majority in the East.⁶⁵

Most analysts agree that the complicated governance and decision-making processes are aggravated by the lack of common vision and transparency in implementing various strategies and laws, minimal inter-sectorial cooperation, which delays structural reforms and jeopardizes the country's progress towards the EU. Authorities often do not carry out political reforms addressing long-standing social and economic problems of citizens.

The allocation and channelling of public support in Bosnia & Herzegovina suffers from poor coordination within the government. Public policies and incentives are directed towards the public sector rather than the private sector, consumption rather than investment and imports

⁶² Agency for Statistics of Bosnia & Herzegovina 2017

⁶³ Officially: In BiH lives 3,531,159 inhabitants, known Bosniaks, Serbs, Croats and other 2016

⁶⁴ Note on the U.S. Central Intelligence Agency World Factbook: the methodology remains disputed and Republika

Srpska authorities refuse to recognize the results; Bosniak has replaced Muslim as an ethnic term in part to avoid confusion with the religious term Muslim, an adherent of Islam (2013 est.)

⁶⁵ United States Central Intelligence Agency 2015

rather than exports. Bosnia & Herzegovina needs to unleash the potential of the private sector while at the same time reducing the footprint of the very large, expensive and inefficient public sector. The informal economy is estimated to be over 30% of the official GDP, because employers are eager to avoid paying high social security contributions for their employees.

The Bosnian economy has been adversely affected by the global crisis since 2009, and domestic factors such as weak domestic demand and political stalemate have also contributed to delayed recovery.⁶⁶

According to the Agency for Statistics, the unemployment rate is at 27.5%⁶⁷, among the highest in the Balkans. More precise data from September 2016 by the Bosnia & Herzegovina Directorate for Economic Planning⁶⁸ shows that there were 514,900 registered unemployed persons, which is 4.6% lower than in the same month in 2015. While employment has increased in some select industries, its rate remains below 40%, and two-thirds of young people are jobless⁶⁹.

In October 2016, the average monthly net earnings per person in was 837 KM (around EUR 427)⁷⁰. However, some estimates say that around 200,000 employees are working for a minimum wage of about 370 KM (around EUR 180) per month, and about the same number of employees do not receive a regular salary and their employers do not pay their social security contributions⁷¹.

⁶⁶ European Bank for Reconstruction and Development 2014

⁶⁷ Agency for Statistics of Bosnia & Herzegovina 2017

⁶⁸ Bosnia and Herzegovina Council of Ministers Directorate for Economic Planning 2016

⁶⁹ Agency for Statistics of Bosnia & Herzegovina 2017

⁷⁰ Agency for Statistics of Bosnia & Herzegovina 2016

⁷¹ European Union - Initiative for the Monitoring of the EU Integration of Bosnia and Herzegovina 2016

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

In Bosnia & Herzegovina social inclusion and poverty reduction are the main issues that would need to be addressed through EU integration. Statistics show that around 40% of the population are in serious deprivation of material goods.⁷² The situation is especially aggravated in rural areas with a higher incidence of poverty.⁷³

To tackle social inclusion, Bosnia & Herzegovina developed a *Social Inclusion Strategy*⁷⁴ based on the country's *Development Strategy*.⁷⁵ The *Social Inclusion Strategy* covers a wide range of socially-excluded groups, but priority is given to persons with disability, households with an extremely low income (about EUR 513⁷⁶), families of soldiers killed in the war and civilian war victims. Women and youth are recognized as vulnerable groups and are targeted by the inclusion and poverty reduction policies, as well as in specific strategic documents by the relevant public entities. The priority of the inclusion strategy's operational plan is to ensure inclusion of people excluded from the labour market.

The *Social Inclusion Strategy* defines social entrepreneurship as an approach that aims to recognize social problems and uses entrepreneurial solutions to bring about social change. Although social entrepreneurs often work through nonprofit organisations and CSOs, many also operate in the private or public sector, according to the government's interpretation of social enterprise.

Civil society does not have a long tradition in Bosnia & Herzegovina and has been mostly concentrated in urban centres such as Sarajevo, Banja Luka and Tuzla. Institutional mechanisms for government cooperation with civil society are still not fully operational at the entity, canton or federal level. A national strategy for civil society has not yet been drawn up and CSOs often face administrative restrictions during their registration process. Not having a clear vision of the role of CSOs in social and economic development is reflected in the funding situation as well. Ministries can award grant funds independently based on their own criteria and with no links to any strategic priority or objective.⁷⁷

Bosnia & Herzegovina is a young country with little private sector experience and few entrepreneurial initiatives. Deep poverty, social exclusion and high unemployment have forced the government to find different ways to meet the needs of its citizens by providing a legal and policy framework that would foster social inclusion. As a result, social inclusion is incorporated in many strategic documents and laws, and thus contributes to an enabling environment for social entrepreneurship development.

⁷² Ninkovic-Papic 2012

⁷³ Bosnia and Herzegovina Council of Ministers Directorate for Economic Planning 2016

⁷⁴ Bosnia and Herzegovina Council of Ministers Directorate for Economic Planning 2010

⁷⁶ Bosnia and Herzegovina Council of Ministers Directorate for Economic Planning 2010

⁷⁷ Žeravčić 2016

The key pieces of legislation that influence the development of social enterprises are the law on associations and foundations, laws regulating the professional rehabilitation of people in Bosnia & Herzegovina and the Republika Srpska. The laws define the socially-excluded categories and their rights, and prescribe measures to ensure people's access to employment.

The relevant pieces of legislation are as follow:

- Law on professional rehabilitation, training and employment of disabled persons for the Republika Srpska (OG: 59/09 RS)
- Amendments to the Law on professional rehabilitation, training and employment of disabled persons for the Republika Srpska (OG 82/15 RS)
- Law on professional rehabilitation, training and employment of disabled persons for the Federation of Bosnia and Herzegovina (OG 2/10 FB&H)
- Public Procurement Law in FB&H (OG 38714)
- Public Procurement Law in RS (OG 124/2012, 14/2015 and 68/2015)

The *Law on Associations and Foundations* allows associations to perform mission-related economic activities as long as these activities are related to the primary statutory objectives of the organisation. If they opt to practice non-mission related activities, the income may not be higher than one-third of the total annual revenue of the organisations or BAM 10,000 (approximately EUR 9,300).

However, the distinction between mission and non-mission related activities is rather a new concept; and, tax registration and other authorities are not always clear on their treatment. As a result, associations opt to include economic activities directly into their statutory objectives, or, in order to avoid problems, to open a new legal entity under the company law.

FENIX

[Centre Fenix](#) was founded in 1997 as a not-for-profit organization committed to support vulnerable individuals and groups in specific intermediate stages of life: during pregnancy, childbirth, breast-feeding and early childhood, as well as for elderly citizens. It runs three social enterprises, which were created organically over time to respond to the needs of the local community.

In 1999 Centre Fenix opened a laundry that employed women who were returning refugees. A year later, with the support from the Malteser Hilfsdienst, a donor who at that time started to reduce its support in the country, the organisation opened a public kitchen that would serve food to vulnerable citizens in Sanski Most.

In 2003 Fenix moved to a new building, which it bought with grant support from multiple international donors. Once Fenix had secured their own premises and was in a stable situation, the organisation decided to open a nursing home facility for the elderly in 2008 to address one of the most pressing needs in the community. The home "Zlatna jesen" takes care of up to 70 beneficiaries today, providing various types of care. It is a private institution founded by Centre Fenix as the sole owner that charges for its services and is self-sustainable.

Meanwhile, the organization initiated its own food production business, used partly to cater to the nursing home, and partly to sell at the local market.

Centre Fenix represents a model of good practice that used grant funding to support the start-up of three enterprising initiatives that were market-driven and became sustainable businesses.

According to the *Law on Vocational Rehabilitation, Training and Recruiting of Disabled Persons* from December 31, 2013, companies are obliged to employ one person with disability for every 16 employees. Legal entities that fail to do that shall pay a fine to a state fund. Legal entities that do not have the legal obligation to employ people with disability (such as non-for-profits) but employ them anyway, may receive certain incentives and subsidies. The law lists a number of legal entities that may be supported to employ people with disabilities. These are or can become social enterprises.

1. Companies for the employment of disabled persons: They must employ a minimum of 40% disabled people in Bosnia & Herzegovina, while in the Republika Srpska this is 51%.
2. Sheltered workshops: These are companies that can be founded by any legal entity including government units and are set up strictly with the purpose of employing vulnerable groups.
3. Work centres: These are public institutions that employ disabled people or people in need of occupational therapy.

The *Public Procurement Law of the Federation of Bosnia and Herzegovina* talks about the “reserved contracts” enabling the contracting authority to direct the procurement procedure exclusively at bidders who employ disabled employees in more than 50% of their workforce. The *Public Procurement Law for the Republika Srpska* defines the same “reserved contracts” specifying that in such procedures only institutions, associations or companies, that employ people with disabilities (minimum of 30%), can be invited to bid.

Table 4: Key Stakeholders in the Social Enterprise Ecosystem in Bosnia & Herzegovina

| Policymakers | |
|---|--|
| Organization | Role |
| The Directorate for Economic Planning | <ul style="list-style-type: none"> • Creator of the Strategy for Social Inclusion • Planning and implementation of the policies related to social inclusion of people at risk |
| Federal Ministry of Finance | <ul style="list-style-type: none"> • Draws up and implements the government's tax and fiscal policy and support mechanisms |
| The Federal Ministry of Labour and Social Politics | <ul style="list-style-type: none"> • Draws up and implements labour and employment policies. • Created and implementing "Strategy for improvement of the right and position of people with disabilities in Federation of Bosnia and Herzegovina for 2016-2021" |
| The Federal Ministry of Development, Entrepreneurship and Crafts in Bosnia & Herzegovina | <ul style="list-style-type: none"> • Stimulation of development, entrepreneurship and crafts. • Development of policies that increase entrepreneurship and crafts share in the local economy |
| Ministry of Health and Social Welfare of the Republika Srpska | <ul style="list-style-type: none"> • Develops strategies and activities for social, family and child protection |
| Ministry of Family, Youth and Sports of the Republika Srpska | <ul style="list-style-type: none"> • Responsible for the National Action Plan and Youth Policy • Creates solutions for youth employment and inclusion |
| The Ministry of Industry, Energy and Mining of the Republika Srpska | <ul style="list-style-type: none"> • Encourages investments in local companies |
| Ministry of Labour, War Veterans and Disabled Persons' Protection of the Republika Srpska | <ul style="list-style-type: none"> • Creates programs of re-socialization of the socially disadvantaged groups in society |
| Ministry of Economic Relations and Regional Cooperation of the Republika Srpska | <ul style="list-style-type: none"> • Coordination of economic activities within the country and abroad |
| Employment Service | <ul style="list-style-type: none"> • Creates and implements programmes for active employment, supporting the employment of vulnerable groups; including subsidies • Provides training for self-employment, implementation of public works, education of people with disability |
| Funders | |
| Organization | Role |
| Yunus Social Business Balkan | <ul style="list-style-type: none"> • Provides social impact financing to social enterprises • Manages accelerator program for start-up social enterprises (SEs) which includes mentoring, technical assistance and networking |
| Fund for Professional Rehabilitation and Employment of Persons with Disabilities | <ul style="list-style-type: none"> • Provides financial support for the development of SEs that would increase the employment of people with disability |

| | |
|---|--|
| Lottery Funds | <ul style="list-style-type: none"> Provides funding intended for people with disabilities through relevant ministries |
| Social Inclusion Foundation in Bosnia & Herzegovina | <ul style="list-style-type: none"> Provides direct support to most vulnerable groups with regard to with poverty and social exclusion Supports development of social entrepreneurship. Used to provide grants for SEs |
| UNDP, UNHCR, UNICEF, UNIFEM, UNOPS, DFID, OSCE, SDC, USAID, the Governments of Finland, the Netherlands, Italy, Switzerland and the UK, OSI, CARE, IRC, OXFAM, World Vision, Save the Children UK, Balkan Trust for Development | <ul style="list-style-type: none"> Various international donor organisations providing support to not-for-profit sector Bilateral and multilateral donors providing institutional support to government institutions |
| Microfinance Institutions | <ul style="list-style-type: none"> Provide microloans to individuals not eligible for traditional banking loans |
| UniCredit Foundation | <ul style="list-style-type: none"> Provides financial support to SEs trough partner organization Mozaik Foundation |
| Caritas Switzerland | <ul style="list-style-type: none"> Provides a combination of financial and non-financial support sufficient to start family business |
| EU Funding - IPA | <ul style="list-style-type: none"> Financial and technical support to build the capacities of the pre-accession countries, among others in people and sustainable economy |
| EU Funding - Competitiveness of Enterprises and SMEs (COSME) 2014-2020 | <ul style="list-style-type: none"> EU funded programme available for entrepreneurs |
| EU Funding - WB EDIF | <ul style="list-style-type: none"> Provides financing solutions for SMEs, implemented and coordinated by the EBRD and EIB Group, including venture capital, risk-sharing, direct and indirect lending Supports policy interventions to improve SME operating environment, capacity-building initiatives and targeted advisory support (through EBRD's ASB programme) |

Support Organisations and Institutions

| Organization | Role |
|---|---|
| Mozaik Foundation | <ul style="list-style-type: none"> Supports SEs with financing and capacity building as intermediary. Runs its own SEs as examples of good practice |
| Youth Employment Project (YEP) | <ul style="list-style-type: none"> Provides technical and financial support to SEs. Created first online platform to facilitate job search |
| Foundation for Women's Empowerment Bosnia & Herzegovina | <ul style="list-style-type: none"> Provides capacity support and initial capital to women with entrepreneurial idea |
| EU Technical Assistance for Civil Society Organisations (TACSO) Project | <ul style="list-style-type: none"> Supports SE development by commissioning relevant research, supports and organizes regional networking opportunities Responsible for planning and implementation of the EU People 2 People Programme |

PUBLIC SECTOR SCHEMES

There is no dedicated government institution in Bosnia & Herzegovina dealing with the social enterprise sector. Various ministries are responsible for socially-focused activities, including the Employment Service and Fund dedicated to the Employment of Persons with Disabilities. Strategies focused on labour market inclusion and active employment of vulnerable groups, are mostly coordinated at entity level.

The Directorate for Economic Planning (DEP) is a permanent body in charge of planning the development policy of the country. It is the owner of the *Strategy for Social Inclusion* that aims to enable people at risk of poverty and social exclusion to have the opportunity and the necessary support for full economic, social and cultural participation in society. Major emphasis is placed on fostering the successful participation of people with disability in the labour market and thus reducing their poverty. The Federal Ministry of Labour and Social Politics in its recently approved *“Strategy for improvement of the right and position of people with disabilities in Federation of Bosnia and Herzegovina for 2016-2021”* stressed the development of models of social entrepreneurship as forms of employment or self-employment of persons with disabilities. The strategy also encourages cooperative associations and women entrepreneurship as ways of economic inclusion.

The Fund for professional rehabilitation and employment of persons with disabilities provides financial support for the development of social enterprises that would increase the employment of people with disability.

The Lottery Funds for both Bosnia & Herzegovina and the Republika Srpska are intended for people with disabilities, thus could be used to develop social enterprises on their behalf. There is a growing interest from both governments to offer active support to social entrepreneurship with significant funding from lottery income, so this may become a promising future source.

Public sectors schemes in support of SMEs are not supportive of social entrepreneurship, but rather focus on entrepreneurship in general, and include women and youth as special vulnerable categories. The Federal Ministry of Development, Entrepreneurship and Crafts in Bosnia & Herzegovina provides financing to encourage self-employment and entrepreneurial activities of vulnerable groups (youth and women), as well as the overall development and promotion of business and trade. In the Republika Srpska, the Ministry of Economic Relations and Regional Cooperation offers support to private-public partnerships, which have been recognized as potential forms of social enterprise.

Employment Service offices at entity and cantonal level all implement a strategy to increase employment with special emphasis on people with disabilities and other vulnerable groups of society. They do this through co-financing programmes, grants, various forms of incentives for employment of vulnerable groups and through educational programmes.

Public sector funding is directed more at shorter-term projects and cannot be invested in profitable activities. As a result, all the social enterprises interviewed for this research received their initial funding from donors and not from public sources. At the same time, the social enterprise sector in Bosnia & Herzegovina does not yet have examples of good practices that could be presented as potential candidates for scaling or to capture the interest of the relevant ministries.

OTHER SUPPORT AND INFRASTRUCTURE

At local level support infrastructure for entrepreneurship and specifically social entrepreneurship has been funded and provided by a few key stakeholder groups: international donors, international support organisations, business incubators and a government fund.

Business Planning and Capacity-building Support

International donors are still present in Bosnia & Herzegovina and fund social enterprise activities and provide start-up support. During the research for this study, Association Fenix mentioned the valuable and long-lasting cooperation with their funders as the primary factor in helping them develop several sustainable businesses. There have been dozens of active donors in Bosnia & Herzegovina: interviewees mentioned United Nations agencies including UNDP, UNHCR, UNICEF, UNIFEM, UNOPS; many multilateral and bilateral government agencies, such as the Department for International Development UK (DFID), Organisation for Security and Co-operation in Europe (OSCE) and the United States Agency for International Development (USAID). Additionally, the governments of Finland, the Netherlands, Italy, Switzerland and the United Kingdom provided institutional support to government institutions, whereas international not-for-profit organisations such as the Balkan Trust for Development, CARE, International Rescue Committee (IRC), Open Society Institute (OSI), OXFAM, Save the Children UK, and World Vision have supported various nonprofit organisations.

There are some signs of development in the start-up community through individual projects supporting social entrepreneurship. For example, the Investment Readiness Programme run by Impact HUB Vienna was launched in 2017, offering social entrepreneurs incubation support, financial awards and networking opportunities with potential impact investors. The Social Impact Award run by the [Dokukino Foundation](#) provides early-stage support at the idea stage.

At the level of the Western Balkans region, there are additional options for social enterprises from Bosnia & Herzegovina. A recently initiated project “Smart Start” is co-financed by the EU, through the Civil Society Facility and Media Programme 2014-2015, Support to regional

thematic networks of Civil Society Organisations. The project is run by six partners covering Bosnia & Herzegovina, Serbia, FYR Macedonia, Montenegro, Croatia and Turkey. Although these projects are grant funded with finite timeframe for implementation, they do provide start-up capital of up to EUR 3,500 and represent important steps to raise the visibility of social entrepreneurship and foster regional cooperation.

The Social Inclusion Foundation in Bosnia & Herzegovina, founded by a think-tank called Initiative for Better and Human Inclusion, plays a significant role in the promotion of and lobbying for social entrepreneurship. The Foundation also offers financial support to social enterprises. Its role has gradually shifted to becoming an advocacy organization, but it is still a major supporter of the social enterprise ecosystem in all three spheres: public, private and nonprofit.

Analysis and the *Report on Social Entrepreneurship Development in Bosnia and Herzegovina* suggest that the public sector could play a significant role in the social enterprise ecosystem and the development of a support infrastructure; stakeholders believe that it should do so more actively.⁷⁸

Access to Support Schemes and Financing Available to SMEs

The business environment in Bosnia & Herzegovina offers specialized institutional support through incubators to help start-ups in the early phases of enterprise development. As per LEDnet data from 2015⁷⁹ there are 12 business incubators in the country, although they are not currently being supported by the public or private sectors.

The EBRD’s Advice for Small Businesses (ASB) is providing support to address the needs of SMEs. On a cost-sharing basis, the companies can engage local consultants or international experts to transform and

⁷⁸ Ninkovic-Papic 2012

⁷⁹ LEDnet 2015

improve their business. To be eligible, companies should be majority locally-owned and to have at least a two-year track record. Technical assistance is mostly provided in areas such as financial management, management information system marketing, quality management, human resource management energy efficiency, business and strategic planning, financial management, export promotion etc. The ASB programme is available to social enterprises that meet the programme's criteria.

The EBRD's Women in Business Programme is also available to the women-led small businesses in Republika Srpska. The programme provides female entrepreneurs with entrepreneurial skill courses, business advice, coaching and mentoring, as well as access to specific financial products.

The EBRD also provides its financing and advisory services through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), a platform established by the EU to provide a comprehensive set of complementary measures to improve access to finance for SMEs and foster economic development in Bosnia & Herzegovina and the wider Western Balkan region. The platform consists of five different pillars implemented by the EBRD and EIB group, which broadly include direct and indirect financing solutions to SMEs at different stages of development, policy interventions to improve the SME business environment and targeted advisory support. In 2014, the EBRD launched the SME Competitiveness Programme in Bosnia & Herzegovina, as part of a wider, regional programme under the EDIF platform. This programme offers participating SMEs the opportunity to improve their production capacities, processes and product quality by accessing a blend of instruments including credit lines for investments in competitiveness improvements, investment incentives for SMEs, know-how and advice.

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING OFFER

Currently no formal education institutions in Bosnia & Herzegovina provide training or education about social entrepreneurship. Some of the CSO are doing so, but their work is project based and depends on donor funding, therefore no continuous training is available for people who would like to learn more. Mozaik Foundation recently launched an e-learning platform, "m-zona.com," which builds entrepreneurial capacities and helps identify learners' entrepreneurial potential. In only 18 months 7,700 youth in Bosnia & Herzegovina registered on the platform. Mozaik is currently working on a Glossary of Social Entrepreneurship in Bosnian, Croatian and Serbian language and has started cooperation with universities to include social entrepreneurship in the curricula.

The Youth Employment Project (YEP) funded by the Swiss Development Agency offers training to young people; job seekers as well as to employees of the state Employment Services Offices. YEP created two interesting platforms: a) [Job Exchange web platform](#) covering job and volunteer vacancies, as well as categories for people seeking training opportunities or funding for their business idea/project; b) Accurate information on job placements throughout the country.⁸⁰

⁸⁰ Youth Employment Project 2017

Mapping of Social Enterprises

There are a few initiatives in Bosnia & Herzegovina that aim to contribute to the ecosystem of social enterprises and formally express the values and principles that are often shared only in an informal manner. YEP created the *Platform for Social Enterprise Development*, the first document of its kind that was publicly discussed with different stakeholders. Representatives from the Republika Srpska participated at public consultations and included the *Platform* values and recommendations in their employment strategies, approved by the government. The *Platform* defines main principles and values, taking into account EU trends and criteria when defining social enterprise, but also considering the local legal context. The values correspond to the seven principles Mozaik Foundation adopted from Yunus' seven principles of social business. They include the definition of the main purpose of the business, economic activities, return on investment, profit distribution, environmental protection, decent wage and transparency. Mozaik decided to promote social enterprise development by including these seven principles.

LEGAL FORMS

Based on the conversation with various stakeholders we can confirm that the number of social enterprises in Bosnia & Herzegovina is unknown. A few respondents estimated the number between 10 and 15. Association Most started to compile the registry of social entrepreneurs and by the time of writing this report the list consisted of 17 names. The initiative was called SENYE – Social Entrepreneurship Network for Youth Employment and was funded by the United States Embassy in Sarajevo. Many of the listed social entrepreneurs had been supported through the Social Business Incubator of Mozaik Foundation, Youth Employment Project (YEP) or the Rehabilitation Foundation for Social Inclusion FB&H. The first two intend their organisations to become impact investors or investment intermediaries and aim to provide tailor-made support to the sector. Both Mozaik and YEP have a long tradition and experience in the nonprofit sector, wide national and international networks, and experience in providing financial and non-financial support to social entrepreneurs. Their impact investment role is in its infancy phase, however.

As seen in Table 5 (page 66), by taking the list of social enterprises from support organisations and the list compiled by this research, there are 31 social enterprises operating in the country. (There are repetitions in those cases when a social enterprise has been supported by more than one organisation.)

Table 5: List of Social Enterprises in Bosnia & Herzegovina

| Social Enterprises Supported by Mozaik Foundation | Social Enterprises Supported by YEP | Social Enterprises Mapped by Association Most (before December 2016) | Additional Social Enterprises |
|---|-------------------------------------|--|--|
| Agriculture Cooperative (OPZ) "Tarevci", B&H | FG Grupa d.o.o., Gradiška, B&H | Agrorevolution d.o.o., Cazin, B&H | Centre Fenix, Sanski Most, B&H |
| Agriculture Cooperative Woman, Kravica, B&H | 3DownPrint d.o.o. Sarajevo, B&H | 3DownPrint d.o.o. Sarajevo, B&H | Centre for Education and Research NAHLA, Sarajevo, B&H |
| USU Tuzla, B&H | ProFresh, Sarajevo, B&H | Green ways d.o.o., Sarajevo, B&H | Association Orchid, Stolac, B&H |
| NGO Atina, Belgrade, Serbia | Cooperative Eco Future, Modrič, B&H | Hatikva d.o.o., Prijedor, B&H | TMP – Society for employment of visually impaired and blind persons, d.o.o. Sarajevo |
| NGO La Strada, Skopje, Macedonia | | OKC Banja Luka – City Radio, Banja Luka, B&H | Association Light, Sarajevo, B&H |
| NGO Tjeter Vizion, Elbasan, Albania | | Youth Association Reaktiv, Zenica, B&H | Association Most, Gradiška, B&H |
| NGO Different & Equal, Tirana, Albania | | OKC Abrašević, Mostar, B&H | Špajz Sarajevo, B&H |
| | | OO Centar, M. Grad - raspberries plants | Proi, Sarajevo, B&H |
| | | Patriot d.o.o., Bijeljina, B&H | |
| | | United, Sarajevo, B&H | |
| | | Humanitarian Women Association "Rainbow" Banja Luka, B&H | |
| | | Play, Learn, Grow Igraj Uči Rasti d.o.o., Jelah, | |
| | | Kimibly d.o.o., Sarajevo, B&H | |
| | | Agriculture Cooperative "Women", Kravica, | |
| | | Eko Mozaik d.o.o., Sarajevo, B&H | |
| | | Agency Imagination d.o.o., Sarajevo, B&H | |

In addition to associations, social enterprises can also operate in the form of limited liability companies and cooperatives. As mentioned, limited liability companies are slowly being created by associations in order to avoid confusion and potential penalties.

Until 2014, the Social Inclusion Foundation in Bosnia & Herzegovina (SIF B&H) provided funding to support social enterprises, regardless of their legal form. In two funding rounds, they supported social enterprises that worked with 23 socially-focused entrepreneurial projects, offering equipment/machinery to small entrepreneurs, mostly socially-excluded women and farmers, to improve their livelihoods. The social enterprises also provided capacity support to the entrepreneurs so that they could launch and grow their businesses. Unfortunately, only three or four of the supported entrepreneurs remain operational. A few of them lost their machinery due to the 2014 floods, and were unable to continue their businesses; while others were not successful in making their businesses sustainable. The effect of the floods as well as changes in the strategic goals of the SIF B&H, led to the decision that they would no longer engage in direct social enterprise funding. Since then, the organisation has continued to play a significant role in advocacy and policy making.

FIELDS OF ACTIVITY

Social enterprises are engaged in a wide range of activities: agriculture, information technology, graphic and web design, the preservation of traditional crafts, manufacturing, service delivery to marginalized groups, and support services to small businesses.⁸¹ There is an increase in the number of agricultural initiatives run by CSOs and cooperatives, aimed at the economic empowerment of households. The motivation for launching such models is to improve the quality of life of various marginalized groups. However, according to the

UNDP, agriculture can make a significant contribution to the overall economy of the country, but it cannot be its main driving force.

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

Youth and women in Bosnia & Herzegovina are recognized in various studies and strategies as disadvantaged groups from the employment point of view. Additionally, women are still suffering significant domestic violence as well as the consequences of war. Many CSOs are helping those women in various aspects of their life. Historically the support included psychological help during and immediately after the war, and recently it's directed at the economic empowerment of women in order to become independent. [Women Network B&H](#) gathers women who need support in all aspects of life. At the same time, more and more women are taking their life into their own hands, building their skills and capacity in order to secure a job or sustainable income. Therefore, initiatives such as CSO Orchid⁸² or the Foundation for Women's Empowerment B&H (more detail on page 60) are of extreme importance for further impact and change. Women entrepreneurs need support to develop sales strategies and to expand to foreign markets; incubation programmes such as that of EBRD, CARE International, or UN Women, can offer important contributions to business development.

In the area of youth there are initiatives helping to improve employability skills among young people. The Youth Employment Project (YEP) went farthest combining several programme elements to foster an entrepreneurial mind-set among youth. Their 26 "Job Seeking Clubs" are helping young people in some of the most remote areas to be active in their job search using tools and advisory support from peers and professionals.

⁸¹ Žeravčić 2016; Human Rights Office Tuzla 2013

⁸² The mission of the [Association Orchid](#) is the empowerment of women through education and skill building, as well as the development of the communities in which women live.

Labour exchange platform helps young people in searching of new opportunities. Developed in cooperation with the Employment Services, the platform is the first of its kind; it is specialized in youth and covers volunteering positions, scholarships, internships, available grants, trainings as well as various events.

Another important nonprofit supporter of youth is the [Institute for Youth Development KULT](#) founded in 2002. It acts as a support organization, generates income from providing training and educational modules for youth, as well as interacting with policymakers in the area of youth development.

FINANCING STRATEGIES

Donor Funding

The financing strategies of all social enterprises interviewed for this research were based on donor funding. According to data compiled in 2014, 244 international and local donors operate in Bosnia & Herzegovina. A recent *Directory of B&H Donors* from March 2015, funded by USAID, lists 343 different donors⁸³. Some of their funding was intended for the development of social entrepreneurship, but the effects are limited as in most cases they focused on capacity building for start-up support, rather than long-term capacity support and financing to help them grow into sustainable businesses

Based on the information gathered from interviews conducted for this study, it seems that the international donor community is planning to slowly withdraw from Bosnia & Herzegovina, therefore their funding might focus more on the sustainability of the CSO sector, which may or may not include social

enterprise strategies. While some social enterprises have made huge progress towards a market-oriented approach, they are still in a very early stage of development. There are still no examples of investment-ready organisations though many of them are thinking about growth strategies. These strategies, however, are not necessarily based on income projections, but rather on hopes for additional grant funding.

Foreign donors continue to play an important role in the development of the SME sector in Bosnia & Herzegovina. They support consultancy activities through a large variety of instruments and programmes⁸⁴.

Engaged Philanthropy

UniCredit Foundation has been supportive of social enterprises providing financial and non-financial support throughout the region. In cooperation with the Bosnian UniCredit Bank and Mozaik Foundation, UniCredit Foundation has provided support to social enterprises in Bosnia & Herzegovina since 2012.

There are initiatives that employ a combination of financial and non-financial support; one of them is the pioneer [Youth Employment Project \(YEP\)](#), which would like to focus on impact investing. To date, YEP has provided a combination of funding and capacity building to four social enterprises, helping them in the implementation of their business model. Grants range from EUR 20,000 to 25,000 and are provided in instalments over a period of 18 months based on business performance.

⁸³ Bubalo 2015

⁸⁴ European Bank for Reconstruction and Development 2014

Microfinance

Microfinance could become an important piece in the financing mix of social enterprises. Microloans are one of the funding instruments that played a significant role in the past in starting small family businesses, crafts or family farms. The microfinance sector has been tremendously important in the post-war period in the area of poverty reduction, providing support to SMEs and strengthening socially-excluded populations that have not had the opportunity to get financing from mainstream banks. Microloans enabled many individuals to start their family businesses in agriculture, livestock farming, organic food production and crafts. Based on the conversation with D. Kovačević, leader of the Foundation for Women' Empowerment B&H, microfinance is the most important source of investment for many women. In spite of high interest rates, ranging from 20-30%, it seems to be the only source of money, especially for marginalised women in remote areas. Microfinance plays a significant role in providing support to women who suffered violence and is part of their recovery mechanism that may lead to the sustainability of their families.

Microfinance institutions can offer up to KM 50,000 (around EUR 25,500), while microfinance foundations can provide up to KM 10,000 (around EUR 5,100) in loans. The grace period is from 6 – 16 months depending on the type of business they finance. Technical assistance is offered to help these businesses and to strengthen repayment capacity.

Commercial Finance

Mainstream finance from the banking sector does not seem to be an option for social enterprises. There are 27 licensed banks operating in the country; 17 in the Bosnia & Herzegovina and 10 in the Republika Srpska.⁸⁵ Islamic banking has been present since the year 2000 when Bosnia Bank International (BBI) started their operation as the sole bank in line with the Sharia (Islamic religious

laws) principles. Yet, the banking sector is not engaged in supporting social enterprises, as banks still lack sufficient understanding of the model. On top of that, social enterprises are not always able to provide collateral often needed to be eligible for bank finance.

UniCredit Bank B&H attempted to offer favourable loan terms to social enterprises in the past, but it did not get sufficient interest. Risk aversion and lack of strategic business planning are the main reasons for the low level of use, compared to 66.3% rate of use among regular entrepreneurs who had a loan or a credit line at the Bank.⁸⁶ Currently, UniCredit Bank B&H offers standard loan packages with periodical campaigns promoting more favourable terms, however, these are not specifically designed for social enterprises. In case a social enterprise meets the required criteria, the standard offer can be approved.

Social Investment

Most microloans provided by specialized micro-finance foundations and commercial loans offered by local banks are too expensive for social enterprises. [FG Grupa d.o.o.](#), a social enterprise dedicated to the design and production of clothing items branded Funky Guerrilla was founded by Association Most. It is now planning to get additional funding from European impact investors for its growth strategy, which envisages the expansion of their retail network in Bosnia & Herzegovina through partner organisations. They hope to be able to successfully reach out to the impact investment community through the Investment Readiness Programme of the Impact Hub.

⁸⁵ Caceres and Han 2015

⁸⁶ European Bank for Reconstruction and Development 2015

GENDER ANALYSIS OF SOCIAL ENTERPRISES

There is no data available on the percentage of female social entrepreneurs, but in general, discrimination against women is viewed as a widespread challenge in Bosnia & Herzegovina.

CARE International in the Balkans together with its local partners highlighted the problems that women are facing in achieving sustainability and security for their families. The Foundation for Women's Empowerment B&H recognized that the economic empowerment of marginalised women is key to reducing poverty and to ensuring greater prosperity, health, and sustainability of families and local communities. CARE provides grant support, including funding opportunities through an intermediary microfinance foundation for women to start their own business. One of the Foundation's projects targeted 80 women⁸⁷ who received small loans in combination with mentoring support. The outcomes were remarkable: in addition to strengthened self-confidence, increased networking opportunities and learning business processes, nearly half of the borrowers said in the evaluation that they would carry on developing, setting up and expanding their business.⁸⁸

As mentioned previously in this chapter, the EBRD also provides opportunities for cooperation with local social enterprises through its "Women in Business Programme." In Bosnia & Herzegovina, EBRD Advice for Small Businesses (ASB) facilitates a mentoring scheme for female entrepreneurs. ASB will cooperate with existing locally-run mentoring schemes and provide networking opportunities in partnership with women's business associations and social enterprises working on gender issues. The programme will be implemented in all the countries of the Western Balkans, and will apply an integrated approach to address women's need for financing and know-how to turn their start-ups into sustainable businesses.

MONITORING AND EVALUATION SYSTEMS

Social impact is generally measured on a project basis and responds to individual donor requirements. Conversations with respondent organisations in this research suggest that they measure inputs and outputs rather than impact. Most organisations provide the number of vulnerable individuals included in their projects, however there is no qualitative or quantitative data on the impact of the initiative itself, such as number of families sustained or number of new business initiated. At the moment, none of the respondents recognized the need for common criteria for measuring social impact.

⁸⁷ Kovačević 2017

⁸⁸ Bajić 2013

Social Investment Market

DEMAND

There are no active social investors in Bosnia & Herzegovina, but social enterprises in this research would like to see such investors in the ecosystem. Recently, Impact HUB Vienna launched their Investment Readiness Programme aiming to connect social enterprises with impact investors. There are other similar project-based initiatives, but all in very early stages. Bosnian social enterprises are aware of European impact investors, but there are no examples of such investment in the country so far.

SUPPLY

Only few players are active on the social finance supply side and they do not provide significant amounts of money. All initiatives are still in a nascent phase. There is no impact investor in the country, but this research showed that YEP and Mozaik Foundation are in the process of opening their own investment funds. In addition, Yunus Social Business covers Bosnia & Herzegovina and offers patient capital to social enterprises.

MOZAIK FOUNDATION

[Mozaik Foundation](#), was founded in 2002 to encourage the development of rural communities by focusing on young people. Today Mozaik Foundation is recognized as a leader in social enterprise development, having launched two social enterprises of their own and continuing to provide financial and non-financial support to 15 other organisations in Bosnia & Herzegovina, Serbia, Kosovo and Albania.

Mozaik Foundation created a 10-year strategy to build a generation of entrepreneurial and innovative youth – a values-driven force that spurs social and economic development, creates successful social businesses and serves as a role model to other youth. Activities in social entrepreneurship started as “Youth Bank,” a programme benefiting young people, municipal governments, institutions and enterprises. “Youth Bank” has already supported 16,800 young people through 1,800 community projects that offered education and training in self-employment and social entrepreneurship. To address long-term sustainability, the Mozaik team shifted its focus to viable and sustainable business models and started offering mentoring support as well as financial support.

In 2015-2016, 7,700 young people applied to the M-zone, and became the investment pipeline for the Social Business Fund supported by the UniCredit Foundation. The fund offers EUR 1,500 in grant support for business prototype testing, followed by a possible EUR 7,500 equity investment (26%-49%) in the start-up enterprise. Finance is accompanied by mentoring delivered by a network of local mentors, as well as 40 mentors from Deloitte, who has been a partner of Mozaik since 2014.

Mozaik Foundation has supported 21 business ideas from Bosnia and the Western Balkans region since 2009. In the next 10 years it is planning to provide incubation support to 50,000 young people, invest in 1,000 social business prototypes and place equity in 500 of them.

[Yunus Social Business Balkan](#) is a new stakeholder in the Bosnian social enterprise scene. It offers an accelerator programme in many Western Balkan countries; a powerful combination of financial support, training, coaching and mentoring, as well as access to local and global business networks. One of the accelerated social enterprises is Udrezene in Bosnia & Herzegovina, which produces handmade crocheted items for foreign fashion designers. The business helps women who are victims of war, violence and social marginalisation to reintegrate into society. Yunus Social Business offers loans ranging from EUR 50,000 to 500,000 with interest rates of 6-8%, targeting early stage social enterprises that are too big for microfinance or too risky for commercial finance. Loan terms can be as long as 6-10 years with grace periods of 1-5 years. Social entrepreneurs can apply to enter the due diligence process via the accelerator programme that includes business training, or directly via the online web platform.

In the first quarter of 2016, the EBRD approved a EUR 20 million facility to be delivered through local partner banks, while EU funding of EUR 4 million will finance know-how transfer to SMEs engaging in the “B&H SME Competitiveness Support Facility.” The new scheme is designed to motivate local SMEs to proactively adapt to new regulation resulting from the EU pre-accession processes and is committed to supporting their progress. The funding will help overcome barriers, upgrade production facilities and comply with EU directives in the fields of environmental protection, workers’ safety as well as product quality and safety.

Gap Analysis and Recommendations

LEGAL FRAMEWORK

The public sector receives a lot of attention in Bosnia and Herzegovina and expectations are that it will provide financing as well as an enabling legal framework for social enterprise development at all administrative levels. While there are progressive elements in legislation and corresponding strategies, contradictions slow down the development of promising social enterprise ideas. For example, government financing is offered mostly in the form of grants which is not accessible to most social enterprises since they operate as limited liability companies and are not eligible for such funding. The civil society sector is not yet organised to lobby the public sector for a stronger enabling ecosystem. In an environment without tailor-made financial and/or technical support and access to market, social entrepreneurs ready to scale will not be able to grow to their full potential. Currently there are no comprehensive financial schemes or incentives focusing specifically on social economy development.

Recommendations

- Consider reviewing the criteria of social enterprises eligible for government grants and include companies as well.
- Launch government pilot programme to offer longer-term financial and capacity-building support to early stage social enterprises.
- Consider contributing to new funds that target more advanced social enterprises that are implementing growth strategies.

ACCESS TO FINANCE

There are hundreds of international and local donors operating in Bosnia & Herzegovina, but unfortunately the funding for social entrepreneurship is very limited. It tends to focus mainly on capacity building and start-up support, technical assistance and the promotion of the concept of social entrepreneurship. There are no

resources to support the growth plans of a few advanced or scaling social enterprises. The ecosystem is in a very early stage with only a few investors and not enough enterprises ready to take investment. Social enterprises have also have a long way to go in understanding the language and motivations of social investors.

The banking system in Bosnia & Herzegovina is rather traditional and is not engaged in financing social enterprises. There are two regional players running regional programmes through their foundations: UniCredit Foundation and Erste Foundation. They both offer grants for business development of social entrepreneurs. Bosnia Bank International (BBI), the first Islamic bank in Bosnia & Herzegovina founded in the year 2000 in Sarajevo is the first Islamic bank in the region. It offers interest-free, ethical or permitted (halal) financing. Though the bank is visible in the country, none of the social entrepreneurs we interviewed had any experience with or knew of an example of finance from BBI.

While social enterprises continue to want grant funding, they are less likely to recognise their real financing needs. None of the interviewed social entrepreneurs could list any social enterprises in the “prepare to scale” or “scaling” phase that would need repayable finance such as loans, convertible loans or equity. There is an obvious need for more grants, but it would be important to start developing other financial instruments, offering larger amounts with favourable terms for advanced social enterprises that will soon be ready to take them on.

The majority of social enterprises are early stage start-ups, so they do not have the capacity for repayable finance. Their business models have hardly been tested and validated and they usually lack collateral. Targeted capacity building or technical assistance programmes

could help social enterprises start planning long term and get ready for investments. In addition, a guarantee facility could mitigate the risk of banks, which could, in turn, provide softer terms with lower interest rates, longer grace period or non-secured loans. The micro-finance sector could play a significant role as well, if it was supported by banks or international organisations to provide softer loan terms.

Recommendations

- Funders should consider grant schemes for early stage social enterprises that offer longer term funding (over one year) and aim to build partnerships, rather than donor-recipient relationships. Funding should target social enterprises beyond the start-up phase; it should be flexible in its use, allow market testing or growth strategies, where appropriate. It should be accompanied by capacity building that aids expansion plans.
- Donors should work together with each other, the few brave social investors and local support organisations to 1) educate social enterprises about the spectrum of financial instruments, and 2) to lay the foundations for the development a few simple instruments that can represent the next steps of the financing staircase for successful growing social enterprises. Pilot programmes should be encouraged and lessons learnt should be shared in all of Bosnia & Herzegovina.

CREATION OF AN ECOSYSTEM

There are no incubators set up to meet the specific needs of social enterprises in Bosnia & Herzegovina. Many social enterprises need more strategic development, investment planning, financial projections planning, market orientation and branding know-how. Being developed by CSOs, many social entrepreneurs are project focused rather than business focused. In addition to individual capacity building, a network for the exchange of good practice and knowledge would be most welcome. Bosnia & Herzegovina still lacks a strategy on SME development at the national level, as

well as a commonly agreed definition of SMEs, which jeopardizes harmonization and evaluation of policies. It is urgent to solve the issue of the double registration obligation of businesses and nonprofit companies, namely that they must register in both administrative entities to obtain an operating license.

On a positive note, in June 2016 Bosnia & Herzegovina signed up for the EU's Competitiveness of Enterprises and SMEs (COSME) 2014-2020. The total budget of COSME for this period amounts to EUR 2.298 billion and a significant part of the proceeds will benefit entrepreneurs from Bosnia & Herzegovina. The agreement provides opportunities for small and medium enterprises in the country to access EU funds and projects. In addition to the SMEs, the main beneficiaries of COSME will be entrepreneurs, and citizens who want to start their own business and be self-employed, and who face difficulties in the process, such as young and female entrepreneurs.

Recommendations

- Further support should be allocated to developing capacity-building materials for and research about social enterprises in all important languages of Bosnia and Herzegovina.
- Government and funders should consider long-term investment in existing and new incubators, so that those can offer a sustainable alternative to current short term training programmes.
- SME support programmes could be opened to social enterprises in a pilot programme (for example a quota to begin with) and successful small business models should be showcased and shared.
- Social enterprises and their support organisations should make further efforts to develop and expand networks, which serve as fora for the exchange of best practices, tools and possibly staff.
- Social enterprises should try to take advantage of private sector partners' willingness to provide mentoring and in-kind support, so that they can better access business and financial management skills.

CHAPTER 9

Social Enterprise Ecosystem in Croatia

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Executive Summary

In 2014 the European Commission (EC) published a series of in-depth mapping studies about the features of social enterprise in the 28 European Union (EU) member states and Switzerland. The studies describe the social enterprise ecosystems across countries and the challenges that constrain their development. Croatia was included in the research and a comprehensive study was produced with a set of recommendations for further development⁸⁹.

This country study provides an update on the state of the Croatian social enterprise ecosystem and sheds light on progress and new developments since 2014. It also offers a more detailed analysis of the financing and social investment landscape identifying gaps and recommending possible solutions that can benefit early stage and consolidated social enterprises.

In 2016 Croatia emerged from a six-year recession with signs of economic growth. However, despite the fact that the economy has begun to rebound, poverty remains a significant challenge as a large proportion of the population (15.4%) lives in conditions of severe material deprivation with incomes that cannot meet their basic needs. Disparities are more evident at the regional level and among vulnerable groups such as youth, women and the long-term unemployed.

2016 was also a year of political crisis which brought many of the country's policy and programme initiatives to a standstill. The uncertain political situation had implications on civil society and social enterprises; it increased pressure on and debates about their role and support. A new government was set up late in the year and has so far showed openness to and acceptance of civil society organisations (CSOs), including social enterprises, as partners in the social dialogue.

In addition to domestic challenges, in 2015 Croatia was hit with a refugee crisis, and saw some 800,000 people pass through the country. The situation became severe, as the country lacked the means as well as the immigration and integration policies to handle the influx of migrants and refugees.

Since the 2014 EU mapping study, Croatia developed a *Strategy for Social Entrepreneurship Development 2015-2020* that defines social enterprise as a business based on the principles of social, environmental and economic sustainability, in which profit generated is entirely or largely reinvested for the benefit of the community. The definition contains nine criteria that all have to be met for an organisation to be considered a social enterprise. Social enterprises do not enjoy any benefits compared to traditional entrepreneurs, nor is there a mechanism for social entrepreneurs to apply for tax exemptions or reductions, except in some cases. The Croatian social enterprise ecosystem considers employment as a priority issue with the Ministry of Labour and Pension System leading the implementation of relevant policies.

Social enterprises can take a variety of legal forms; social cooperative is the most frequent form, followed by that of association. The work and values of social cooperatives are clearly in line with the Croatian

⁸⁹ Wilkinson, Kadunc, et al. 2014

strategic definition of social enterprise, which makes them the most attractive legal form.

There are a number of estimates about the universe of social enterprises ranging from ninety to several thousand. Most of them have an employment or social service provision focus. They engage in a wide range of activities, including, agriculture, the fashion industry, food production, hospitality and tourism, the production of goods for decor, gifts and household use as well as service provision.

The 2014 social enterprise mapping highlighted an absence of public support schemes, while the current research shows improvements in this area thanks to the European Social Fund. It is the single most important EU scheme for the support of social entrepreneurship in Croatia. The 2014-2020 programming focuses on job creation and a stronger and more competitive economy. It offers EUR 32 million in funding to increase the number and sustainability of social enterprises and to benefit their employees. Additionally, the newly merged Ministry of Economy, Entrepreneurship and Crafts, the National Foundation for Civil Society Development and the Croatian Employment Service continue to provide support to social economy actors. However, the increased availability of funding schemes, has not necessarily manifested in greater public support specifically designed to meet the needs of social enterprises.

The social investment market is still in its infancy and has not advanced significantly since the 2014 mapping. Access to suitable finance and lack of financial management skills continue to be major barriers on the demand side, slowing down the uptake of social investment. The finance gap is especially severe for early stage social enterprises. Most of these enterprises continue to be risk averse, lacking entrepreneurial capacity, practical skills and market orientation. Many favour grant schemes to fund their entrepreneurial activities

Challenges on the social finance supply side include the low number of players and the reluctance of the existing few investors to offer finance in the appropriate range and with softer terms. Financial institutions still do not make a distinction between social enterprises and conventional businesses. Banks in Croatia are fairly traditional, perceiving social entrepreneurs as high risk. There are two recent exceptions of large banks that have designed special financial instruments and run targeted programmes for social entrepreneurs. At the same time, the long-awaited Ethical Bank represents a completely new concept of banking and is developing financial and non-financial instruments for socially driven businesses in all phases of development.

The implementation of government strategies is often delayed and is not attuned to the needs of small businesses. On the plus side, there are a number of grant opportunities available at the national level provided by the European Social Fund, the National Foundation for Civil Society Development or relevant ministries. Also, a newly opened microfinance facility for socially-driven small and medium enterprises (SMEs) has now entered the implementation phase via government structures.

Social and Economic Overview

The Croatian economy underwent substantial structural changes and adjustments marked by processes of globalization, integration into the EU, transition and liberalization of the market over the past 25 years. Additionally, Croatia is still looking for the economic model that would allow it to overcome the crisis that hit the country and resulted in a consistently high unemployment rate, a decrease in population due to a brain drain, and the deterioration of various branches of industry.

In 2016, Croatia found itself in a political crisis, which paralysed decision making, halted ongoing projects and strategies. By the time of the last parliamentary elections in November 2016, the country had a technocratic government already for six months. The uncertain political situation increased pressure on and debates about the role of CSOs. It led to significantly reduced levels of funding from the National Foundation for Civil Society Development⁹⁰, the leading public institution for the cooperation, linking and financing of CSOs, as well as a freeze in EU funding schemes. The parliamentary elections resulted in a new government with a pro-Europe Prime Minister. It is too early to see the results of the new government's efforts, but civil society has been recognized as a social partner again.

According to the 2011 Census, Croatia has a population of 4.2 million. The main Croatian industry is tourism, prominently featuring in all of the government's strategic documents. According to the Croatian National Bank (HNB), during the first 9 months of 2015, revenues in tourism from foreign visitors amounted to EUR 7,298 million, compared to the same period in 2014 representing a 7.6% growth⁹¹. However, tourism is seasonal and based on the coastal regions, while the population inside the country continue to lag behind. Research carried out by the United Nations Development Programme (UNDP) in 2006 showed that there were significant regional disparities in the quality of life between the coastal and central areas of the country. These disparities were even bigger in the areas of employment, education and feeling of happiness and personal satisfaction. During the last five years, some of the regions (city of Zagreb, Rijeka, Istria county and Zadar county) experienced growth despite the financial crisis, thus deepening the gap between developed and underdeveloped regions even more.

Statistics available on poverty levels of the Croatian population show that the percentage of people at risk of poverty and social exclusion is at 32.3%. A large part of the population (15.4%) lives in conditions of severe material deprivation and cannot meet basic needs. The map of poverty developed by the Ministry of Regional Development and EU Funds in 2016 confirmed regional differences. A *National Strategy for Combating Poverty and Social Exclusion in 2014–2020* has been developed⁹² securing EUR 100 million under the Operational Programme of Competitiveness and Cohesion, and another EUR 20 million from the Operational Programme Effective Human Resources.

⁹⁰ National Foundation for Civil Society Development 2017

⁹¹ Ministry of Tourism for the Republic of Croatia 2016

⁹² Strategy for Fighting Poverty and Social Inclusion in the Republic of Croatia (2014-2020) 2014

After six years of continued recession, in 2015 Croatia experienced economic growth of 1.2% in the second quarter. The economy benefited from a rebound in domestic demand driven by low commodity prices as well as a recovery in the Eurozone. More recent economic data paints a mixed picture of the economy: the current unemployment rate dropped to an almost-six-year low in July, reaching 15.9%, but gross foreign debt accounted for 108.4% of GDP at the end of 2014. The alarming weight of the country's external debt has been increasing the pressure for desperately-needed structural reforms. Youth unemployment is at 43.10% placing Croatia in the group of EU countries with the highest youth unemployment rate.⁹³

In 2015 Croatia was severely affected by the regional refugee crisis arising from conflict in the Middle East, becoming a transit country for people mostly from war-affected areas in Asia to Western Europe after the complete closure of the border between Hungary and Serbia. During that height of the crisis almost 800,000 people passed

through Croatia. The majority of the support offered to refugees came from various humanitarian organisations and to a limited extent from the police. Regulation has so far been harmonized with the EU, but no real integration policy exists.

The social economy, which includes social enterprises, as well as cooperatives, mutuals and CSOs, is seen as a potential model to solve many of the most urgent needs in the country.⁹⁴ Overall, fostering the social economy, and particularly "social entrepreneurship" as it is referred to in Croatia, is seen as an innovative employment strategy that would bring the most vulnerable groups to the labour market, while at the same time help decrease the unemployment rate in general. Historically, due to insufficient funding, CSOs started to look for alternative ways of financing and discovered self-financing and entrepreneurial activities as a way to become more sustainable, but also to address systemic poverty and unemployment in the country. As a result, social entrepreneurship is seen by many as a viable way to address poverty, exclusion and unemployment in the country.

⁹³ United Nations Development Programme in Croatia 2016

⁹⁴ Social Economy Europe 2015

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

Croatia has a 150-year history and tradition in the co-operative movement, cooperatives being strong economic and political institutions. They contributed to employment, rural development, fair distribution of wealth, poverty reduction and diminishing disparities between various societal groups. Although co-operatives and the social economy in Croatia have a long history, the period of socialism and the transition to a market economy left a negative mark on their development.⁹⁵ The long and rich tradition of student cooperatives in primary and secondary schools as well as in educational institutions still plays an important role for young people to gain first experience and learn values of solidarity.

The social economy concept is hardly present in the education system in Croatia. Only a few universities included it in their curricula, while it is totally absent from the high school and primary school course syllabus. Some schools try to innovate and run lectures and workshops in cooperation with various non-governmental organisations (NGOs), if funding is available.

The Croatian legal system allows the development of social entrepreneurship through various legal forms, which are easy to register. However, once a business is launched using these forms, there are no benefits that would differentiate traditional entrepreneurs from social entrepreneurs, nor is there a mechanism for social entrepreneurs to benefit from tax exemptions or reduced rates of VAT and income tax, as is the practice in many other EU countries.

On April 30, 2015, the *Strategy for Social Entrepreneurship Development 2015- 2020* was adopted by the Croatian government, two years after establishing the working group that consisted of 42 members including ministries, government agencies and stakeholders from the non-governmental sector. The responsible ministry and main driving force for the strategy development process is the Ministry of Labour and Pension System. The strategy sets four objectives:

1. To establish and improve the legislative and institutional framework for the development of social entrepreneurship;
2. To establish a financial framework for social entrepreneurship;
3. To promote the importance of and the role of social entrepreneurship through formal and informal forms of education;
4. To ensure the visibility of the role and possibilities of social entrepreneurship in Croatia and provide information to the general public.

Each of the objectives is followed by a set of specific action items with clearly defined stakeholders, deadlines, indicators of success and financial implications. It is expected that the synergy of these measures will create an enabling environment for social entrepreneurs. The measures and activities of the strategy are included in the Operational Programme for Effective Human Potential 2014 - 2020 of the European Social Fund (ESF). The amount of money available for the implementation of the strategy is about EUR 37.6 million including ESF money and government co-financing.

⁹⁵ Babić and Račić 2011

The Ministry of Labour and Pension System is the lead agency for the implementation of the strategy, while the Government Office for Civil Society Development together with the Council for Civil Society Development are the implementing bodies at the first level, responsible for programming of the grant schemes. The National Foundation for Civil Society Development plays the role of implementing body at the second level, being responsible for tenders, evaluation processes, as well as the monitoring of the approved projects.

The Government Office for Civil Society Development is responsible for creating an enabling legal, institutional and financial framework for the not-for-profit sector, and it has included a framework for social enterprise development in its strategic documents. The “*National Strategy for the Creation of an Enabling Environment for Civil Society Development 2006–2011*” included a section about financing the development of civil society. Since then, the Office has been supportive of the social enterprise ecosystem, initiating changes in the legal environment, monitoring the distribution of government funding, as well as advocating through their advisory body, the Council for Civil Society Development. The main objective of the latter is to develop a cooperation scheme for the Croatian Government and CSOs.

The strategy defines social enterprise as a business based on the principles of social, environmental and economic sustainability, in which profit generated is entirely or largely reinvested for the benefit of the community. The concept itself had already been present in previous strategic documents related to civil society development and proves that there is a continued effort of CSOs to achieve bigger social impact in a financially sustainable way (*National Strategy for Creating an Enabling Environment for Civil Society Development for 2012 – 2016 and the previous one covering 2006 – 2011*).

The definition contains nine criteria that all must be met for an organisation to be considered a social enterprise. As stated in the “*Report on the state of social*

entrepreneurship in Croatia 2015 – Mapping new horizons,” the definition and the nine criteria should be seen as two complementary expressions of the same content, so they should be used together to determine what is a social enterprise. The nine criteria are as follows:

1. Social enterprises achieve a balanced set of social, environmental and economic goals;
2. Social enterprises are engaged in the production of goods and/or the delivery of services or are generating revenues on the market; they have a favourable impact on the environment and contribute to the development of the local community and society at large;
3. Social enterprises create new value and ensure their own financial sustainability in such a way that, three years after the establishment of the business, at least 25% of the income is planned to be or is realized by entrepreneurial activities;
4. Social enterprises invest at least 75% of their profit/surplus in the development of their activities and the achievement of their primary social objective;
5. Social enterprises are characterized by voluntary and open membership and a high degree of business autonomy;
6. The Republic of Croatia, a local and territorial (regional) self-government or a public authority may not be the sole founder of a social enterprise;
7. Social enterprises are characterized by a participatory decision-making process (involvement of stakeholders in transparent and accountable management), or the decision making is not exclusively related to the ownership or membership structure but includes other stakeholders: employees, members, consumers, and other relevant organisations;
8. Social enterprises monitor and evaluate their social, economic and environmental impact, and they use the results of this evaluation for future planning;

9. If a social enterprise terminates its activities, the assets must be transferred to the ownership of another social enterprise with the same or similar goals.

The strategy defines employment as a priority, taking into account the high level of unemployment in Croatia. The fact that the Ministry of Labour and Pension System is responsible for implementation reinforces this focus.

Social enterprises can take a variety of legal forms: limited liability company, stock company, cooperative, social cooperative, association, foundation, mutual insurance company⁹⁶, credit union and institution; each regulated by its own laws and founding procedures. No law regulates and defines the work of social enterprises.

Social cooperatives are the most frequent legal forms of social enterprise as they may carry out activities to meet the needs of their members without the intention of making a profit. Other forms of cooperatives may gain profit, but must meet specific requirements regarding the sharing of profit among members. The work and values of social cooperatives are in line with the Croatian strategic definition of social enterprise, which makes them the most popular legal form.

Associations are the second most frequent form for social enterprises, however they must face a number of different requirements, given the variety of applicable laws. Thus, many NGOs prefer to set up and operate as a traditional limited liability company (d.o.o.).

The relevant pieces of legislation for social enterprises are as follows:

- Constitution of the Republic of Croatia (OG 85/2010),

- The Associations Law (OG 74/12),
- General Tax Law (OG 147/2008)
- The Law on Financial and Accounting Operations of Nonprofit Organisations (OG 121/14)
- The Law on Foundations (OG 36/95, 64/01)
- Insurance Law (OG 151/05, 87/08, 82/09, 54/13, 30/15).
- The Law on Cooperatives (OG 34/11, 125/13, 76/14)
- Companies Law (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13, 110/15).
- Labour Law (OG 93/14)
- Law on the Rights of Croatian Defenders from the Homeland War and the Members of Their Families (OG 174/04, 92/05, 2/07, 107/07, 65/09, 137/09, 146/10, 55/11, 140/12, 33/13, 148/13, 92/14)
- The Law on Vocational Rehabilitation and Employment of Persons with Disabilities (PWDs) (OG 157/13, 152/14)

The tax regulation is not favourable for social enterprises, since in most cases they cannot take advantage of any tax incentives, exemptions or reductions. Since the adoption of the new Law on Associations in 2014, associations have been obliged to register in the Tax Registry if they carry out any type of economic activity. Although traditionally they have been allowed to reinvest surplus back into their programs, they now have to pay Value Added Tax if their annual income from economic activities is higher than HRK 230,000 (around EUR 30,000). Social enterprises that are registered as companies can apply for tax deductions, but cooperatives are not eligible.

⁹⁶ Though there is no registered mutual insurance company in Croatia, the legal option exists under the Insurance Law (OG 30/15), effective of January 1, 2016. A mutual is an insurance company owned by policyholders. The sole purpose of a

mutual insurance company is to provide insurance cover for its members and policyholders, and its members are given the right to elect the management.

Table 6: Key Stakeholders in the Social Enterprise Ecosystem in Croatia

| Policymakers | |
|--|---|
| Organization | Role |
| <i>Ministry of Labour and Pension System</i> | <ul style="list-style-type: none"> Responsible for strategy implementation and monitoring Manages ESF fund |
| <i>Ministry of Economy, Entrepreneurship and Craft</i> | <ul style="list-style-type: none"> Provides funding for SMEs in various forms Defines strategy for entrepreneurship development in Croatia Provides legal framework for entrepreneurship operations |
| <i>Ministry of Regional Development and EU Funds</i> | <ul style="list-style-type: none"> Ensures equal development of all Croatian regions Ensures the quality of public policies to improve the working and living conditions in all parts of Croatia, particularly in less developed areas Coordinates all participants at various levels of strategic and operational priorities related to EU funds and other international sources of funding for regional development |
| <i>Ministry of Demography, Family, Youth and Social Policy</i> | <ul style="list-style-type: none"> Monitors and analyses changes in demography Develops active family measures, youth policies and social policies Monitors implementation of policies Manages funding in the area of social inclusion, youth, elderly people and disability |
| <i>Ministry of Finance</i> | <ul style="list-style-type: none"> Draws up and implements the government's fiscal policy Its objectives are to contribute to the stable growth of the economy, increasing prosperity and quality of life and employment for all Croatian citizens |
| Networks and Platforms | |
| Organization | Role |
| <i>SEFOR</i> | <ul style="list-style-type: none"> Informal network of 30 organisations and individuals from all sectors Promotes social entrepreneurship through networking, advocacy and capacity building One of the initiators of the first ever Croatian award for social entrepreneurship |
| <i>CEDRA HR</i> | <ul style="list-style-type: none"> A network of Centres of Support for current and future entrepreneurs Offers consulting, mentoring, educational activities, networking Provides help in preparation of feasibility studies and business plans, market analysis Provides start-up and incubation project support Provides space and infrastructure to work, socialize and exchange information and knowledge |
| <i>SLAP</i> | <ul style="list-style-type: none"> Promotes social economy and social entrepreneurship Provides technical assistance and mentoring to NGOs and cooperatives that are interested in developing business activities with social purpose Help social enterprises with project proposals, business planning, fundraising and market access Runs their own social enterprises: a marketing agency and one based on organic products Maintains Pomakonline – an online magazine for social enterprise development Main partner of SEFOR |

| Funders | |
|--|--|
| Organization | Role |
| <i>European Commission, ESF – European Social Fund</i> | <ul style="list-style-type: none"> • Europe's main instrument for supporting employment creation and ensuring fairer job opportunities for Croatian citizens • Main activities within the ESF: a) Promoting employment and supporting labour mobility, b) Investment in education, skills and lifelong learning, c) Promoting social inclusion and combating poverty, and d) Strengthening institutional capacity and efficiency of public administration • Offers funding for social enterprise development projects |
| <i>Ethical Bank (to be launched in mid-2017)</i> | <ul style="list-style-type: none"> • Development bank providing capacity support and finance for social enterprises |
| <i>Erste Bank</i> | <ul style="list-style-type: none"> • Provides finance for unemployed who want to start their own business • Develops tailor-made financial products for CSOs including social enterprises • Provides capacity building support through partner organisations, Entrepreneurial Centres |
| <i>HAMAG-BICRO</i> | <ul style="list-style-type: none"> • Provides support to entrepreneurs through all stages of development of their business - from research and development of the business idea to the commercialization and marketing. • Provides guarantees, investments, grants, loans • Implementing body for EU funds |
| <i>HBOR</i> | <ul style="list-style-type: none"> • Development bank providing loans, export insurance, guarantees, business consulting • Aims to foster the development of the Croatian economy |
| <i>National Foundation for Civil Society Development</i> | <ul style="list-style-type: none"> • Main CSO donor in Croatia, funded by the state lottery • Supports wide range of CSO activities including social entrepreneurship • Has network of support centres and community foundations throughout Croatia • Implementing body for ESF funding for social entrepreneurs |
| <i>Small Enterprise Assistance Fund (SEAF)</i> | <ul style="list-style-type: none"> • Provides growth capital and business assistance (through a strategic collaboration with <i>Angello Capital</i>) |
| <i>UniCredit Foundation and Zagrebačka bank</i> | <ul style="list-style-type: none"> • Provides funding for CSOs in various fields • In cooperation with Zagrebačka bank provides financial and incubation support to socially driven businesses |
| <i>Yunus Social Business</i> | <ul style="list-style-type: none"> • Provides social impact investment to social enterprises • Manages accelerator programme for start-up SEs which includes mentoring, technical assistance and networking |

| Business Support Organisations | |
|--------------------------------|---|
| Organization | Role |
| <i>Impact HUB</i> | <ul style="list-style-type: none"> • Provides support to entrepreneurs with social purpose • Provides space for daily operations, events, meetings and other business purposes • Offers networking space to a community of entrepreneurs, activists, creative people and professionals • Provides incubation support to young start-ups consisting of mentoring and financial support |
| <i>ACT group</i> | <ul style="list-style-type: none"> • Consortium of ten social enterprises • Offers financial and incubation support to social entrepreneurs • Leader in promoting social impact measurement |
| <i>NESsT</i> | <ul style="list-style-type: none"> • Provides long-term financial and capacity-building support to grow and sustain high-impact social enterprises • Supports early-stage social enterprises in Croatia • Contributes to building the social enterprise sector in the region through development and dissemination of research and best practices as well as convenings |

PUBLIC SECTOR SCHEMES

The European Social Fund is the single most important EU scheme for the support of social entrepreneurship in Croatia. Its 2014-2020 programming focuses on job creation and a stronger and more competitive economy. Croatia has prepared two operational programmes for the implementation of the EU Cohesion Policy:⁹⁷

- Operational Programme 'Competitiveness and Cohesion' using the European Regional Development Fund and the Cohesion Fund with total indicative allocation of EUR 6.881 billion
- Operational Programme "Effective Human Resources" using the European Social Fund and the Initiative for Youth Employment with overall indicative allocation of EUR 1.582 billion.

The second operational programme covers the social enterprise ecosystem allocating EUR 32 million of ESF support for increasing the number and sustainability of social enterprises and their employees. Up to now, one grant scheme has been released only and it is widely criticized by the actors in the social enterprise ecosystem for not meeting the real needs of the entrepreneurs, but rather limiting resources to awareness raising and training. A new call for tender process is pending. It was expected to be announced by the end of 2016 and be more tailor-made to the needs of social entrepreneurs.

The Ministry of Economy, Entrepreneurship and Crafts continues to support social economy actors in its public support schemes by including cooperatives as one of the eligible legal entities to apply. Both programmes, the "Innovation of Newly Established MMSEs" (micro and medium-sized enterprises) and "E-Impuls" offer support to cooperatives.

Women play important roles in the development of the small and medium enterprise sector in Croatia.⁹⁸ Unfortunately, there is no research available about women entrepreneurs running social enterprises. A variety of support schemes exist, and further steps are expected to be taken to bolster the role of women in social entrepreneurship.

Local governments sporadically provide financial support to CSOs and many are not transparent or consistent with the national strategy in their grant giving. Big cities like Rijeka, Split and Zagreb developed procedures for CSO support, putting social entrepreneurship on their radar, but they do not support a wide range of social enterprises. An example is the latest grant scheme of the City of Zagreb, which was limited to co-operatives and limited liability companies founded by NGOs. This is not in line with the national strategy, which wants to support social enterprises regardless of their legal form.

The Croatian Employment Services (CES) provided significant support to the social entrepreneurship ecosystem through different measures and incentives targeting various vulnerable groups, offering small grants for starting a business venture, training and education about self-employment. Based on the "*Guidelines for the development and implementation of active employment policy in the Republic of Croatia for 2015 – 2017*" CES carries out a series of measures of active employment policy aimed at unemployed people who are disadvantaged in the labour market, as well as employers who want to preserve existing jobs. The measures are heavily used by the CSO sector as well as social entrepreneurs, especially when it comes to

⁹⁷ The Cohesion Policy promotes a more balanced and more sustainable 'territorial development' within the European Union.

The Cohesion Fund applies to EU Member States that have a GDP lower than 90% of the EU average.

⁹⁸ Alpeza, et al. 2016

incentives for employment of people with disabilities. In total 28,300 beneficiaries of various disadvantaged categories have been included in active employment measures as of November 10, 2016⁹⁹.

According to information obtained from the interview with the director of the National Foundation for Civil Society Development, support to social entrepreneurship development is provided in the form of institutional support to the organisations who run these enterprises and their employees; grants cover the salary of staff person who works on the particular self-financing or entrepreneurial activities. The 2015 report of the Foundation showed that none of the funding categories covered social enterprise directly. Only HRK 37,500 (about EUR 5,000) has been awarded to three innovative entrepreneurial projects¹⁰⁰ on a project basis, not as funding for social entrepreneurship. On the other hand, various training sessions and workshops have been organized to raise awareness of the social economy and its positive impacts targeting the wider public, not-for-profit and government stakeholders. Unfortunately, in many of the events the private sector is under-represented or absent.

As of 2015, after the adoption of the *Strategy for Social Enterprise Development*, the National Foundation became the implementing body of the grant scheme targeting those entrepreneurs. The first “Call for Proposals of the ESF” was published during the summer season of 2016 and at the date of writing this report it is still undergoing technical evaluation.

RODA

“Grids Are Not Barriers” is a social innovation initiative run by [Association Roda](#), widely known for its other innovative projects and programmes. This project was one of the three entrepreneurial projects funded by the National Foundation for Civil Society Development in 2015. In cooperation with the School of Design, Roda designed products that will be produced by female prisoners so that they can earn money that will allow their children to cover travel costs when they visit their mothers. During the first phase of the project implemented within the female penitentiary in the city of Požega, eight child-mother friendly products were designed. Additionally, products were awarded the third prize at the International Design Festival in Zagreb in 2015 for being cleverly designed and dealing with a socially- relevant topic. Though the project raised significant visibility and delivered positive results, its future funding is uncertain.

RODA is an association with the mission of creating a society responsible for children, parents, prospective parents and families – through informing, educating, advocating and participating in the processes of change, and by encouraging parents and other social groups to monitor the current situation and participate in the changes.

⁹⁹ Croatian Employment Service 2017

¹⁰⁰ National Foundation for the Development of Civil Society 2015

OTHER SUPPORT AND INFRASTRUCTURE

As stated in *Ex-ante Assessment Report*¹⁰¹ there has been limited investment support to social enterprises from domestic sources. Some sector-focused interventions, managed for example by the Ministry of Tourism addressing rural tourism, were provided to rural initiatives with a social goal. In 2014 the Ministry of Tourism supported 83 projects in the value of HRK 3.68 million (about EUR 487,000).

Business Planning and Capacity-building Support

Zagrebačka Banka and UniCredit Foundation provided support to eleven start-up social entrepreneurs in the period of 2013-2016 totalling EUR 96,300 in tailor-made financing. Zagrebačka Banka has supported and worked with intermediary support organisations (NESsT and Impact HUB) to strengthen the business planning capacity of awarded winners. Plans for continuing such support are still being developed for the upcoming period.

ACT Group is a consortium of social enterprises, a unique model in Croatia and a leader in the social enterprise ecosystem. It is comprised of ten different social enterprises, which all measure economic, social and environmental return. In October 2016 ACT Group published a call for proposals with support from Philip Morris, titled “Start something of your own.” It is a programme of support to entrepreneurial projects in Croatia intended for start-ups and micro enterprises. This new development programme encourages projects with positive social impact and provides applicants with advisory and financial support to start and develop a business¹⁰². To date, 432 applications have been received out of which 31 entered the second round of evaluation.

NESsT has been present in Croatia since 2005 as a social investor providing financial and capacity building support to social enterprises in various phases of entrepreneurial development. NESsT has held three social enterprise competitions in Croatia since it launched its programme. Thirty-two organisations have entered the first capacity building phase called “planning portfolio” and received training on how to identify and develop social enterprises that are feasible and likely to reach the desired financial and social goals.

The NESsT package consisted of early stage support, guiding not-for-profit organisations through a feasibility and business planning process, and helping them to launch the social enterprise. Support was provided in workshops and one-on-one mentoring, combining the professional experience of NESsT staff with the expertise of a network of pro-bono advisors at national and international level. Organisations with feasible business models and social impact indicators were invited to the “incubation stage,” in which NESsT provided individualized technical assistance and financial support for the consolidation of newly established social enterprises. This engaged portfolio approach included the use of a Performance Management Tool, which helps the enterprises set, manage and measure goals and indicators, enabling them to track their performance in achieving the targeted social impact. NESsT is the only support organisation in Croatia to have used the combination of long-term financial and non-financial support in order to help create a social enterprise portfolio and demonstrate the value of entrepreneurial approaches that deliver impact to disadvantaged groups. This venture philanthropy approach has since been studied, but not yet replicated by other actors. Today, NESsT continues to work in the Balkan Region, investing in early-stage enterprises at validate and prepare to scale stages that are focused on developing sustainable

¹⁰¹ ESEP Consortium 2015

¹⁰² Program Potpore Poduzetničkim Projektima u Hrvatskoj 2016

and dignified employment for the most at-risk communities.

Access to Support Schemes and Financing Available to SMEs

The Croatian Agency for SMEs, Innovations and Investments – [HAMAG-BICRO](#) was created in 2014 by merging the Croatian Agency for SMEs and Investments (HAMAG INVEST) and the Business Innovation Centre of Croatia (BICRO) with the aim to create a unique system that will provide support to entrepreneurs through all the stages of business development. The agency is involved in activities related to encouraging the establishment and development of small and medium enterprises. Its activities fall under the jurisdiction of the Ministry of Entrepreneurship and Crafts. HAMAG-BICRO provides support in the following areas: guarantees, innovation, non-refundable funds, micro and small loans, as well as playing a role as an intermediary body of the second level for European Structural and Investment Funds. It also operates the Seed Co-investment Fund, which provides co-financing to innovative enterprises through conditional grants, which are approved if the recipient is able to leverage investment by eligible private investors. It does not, however, offer targeted support to social enterprises, nor are they eligible for the regular services, if they are not registered companies.

Finance and Investment

Within the Croatian banking system, the [Croatian Bank for Reconstruction and Development](#) (HBOR) plays the role of a development and export bank established with the objective of financing the reconstruction and development of the Croatian economy. HBOR runs a lending programme for innovators, start-ups, women entrepreneurs and young entrepreneurs that received a positive assessment from *HAMAG-BICRO* first. Amounts range from HRK 80,000 (around EUR 10,500) to HRK 700,000 (around EUR 92,000) with grace periods from 2-5 years and interest rates of 2-4%. The majority of

financing is available to registered limited liability companies, crafts, cooperatives and institutions. Social enterprises are not specifically mentioned as potential clients, but if registered as a company or cooperative, they may also apply.

Private equity and venture capital has been available to businesses since the 2010 launch of the Funds for Economic Cooperation project of the Croatian government. These funds were intended to regain investors' trust in the Croatian venture capital and private equity market directing money toward innovative start-ups with high growth potential. The initiative resulted in the opening of five Funds for Economic Cooperation (Fondovi za Gospodarsku Suradnju) totalling HRK 2 billion¹⁰³. However, none of this support was designed for start-ups in the area of social entrepreneurship. Small and medium size enterprises and especially those with focus on social entrepreneurship are not the primary target group for the Funds, thus no investments have been made to date. At the same time, social investors have not appeared in the horizon either.

Business angels could be a financing option for start-up social enterprises that have developed viable business models. The Croatian Business Angel Network provides venture capital and equity type investment to start-ups and small companies with investments ranging from EUR 50,000 to 200,000, but none of the investees have been social entrepreneurs since the foundation of the network in 2008.

The European Fund for Southeast Europe (EFSE) provides sustainable funding to micro and small enterprises helping them to grow, generate additional income and create employment, as well as to low-income families assisting them in the improvement of their housing conditions¹⁰⁴. The EFSE operates through partner lending institutions in Southeast Europe and in the European Eastern Neighbourhood Region. These

¹⁰³ ESEP Consortium 2015

¹⁰⁴ European Fund for Southeast Europe 2014

financial intermediaries include commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. In Croatia EFSE has partnered with Zagrebačka Banka. EFSE coordinates local activities via regional offices of its Fund Advisor, Finance in Motion GmbH. Partner lending institutions can receive capacity support to effectively serve micro and small enterprises and low-income households.

Networks

Social enterprise support networks in Croatia provide networking and capacity-building support to social enterprises. Two well-known examples are the [Cluster for Eco-Social Innovation and Development, CEDRA HR](#) and the [Forum of Social Entrepreneurs, SEFOR](#). They both have national coverage and their main purpose is the promotion of the social economy concept. CEDRA does this through its own formal network of centres of support for existing and potential social entrepreneurs, and plays an important role in increasing visibility and the knowledge base about social enterprise. SEFOR is an informal network promoting social entrepreneurship. It played a significant role in the past, raising the visibility of the social enterprise model. It influenced, initiated and monitored the creation of the *Strategy for social enterprise development* in Croatia, developing a platform for social enterprises. SEFOR also initiated the first ever “Award for social entrepreneur of the year” and funded it through their social enterpriser [Modra Nit d.o.o.](#) Unfortunately, due to lack of funding over the last three years SEFOR discontinued some of its activities, focusing on direct support to social enterprises in the form of consultations on a volunteer basis. The expected opening of ESF funding may help SEFOR overcome the difficult period they are experiencing currently.

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

The formal education and vocational training system does not offer social enterprise training and career options. Entrepreneurship is not embedded in the courses; only some higher education institutions include it in their curriculum. The Strategy of Education, Science and Technology envisaged a curriculum reform, but was abandoned and postponed due to political reasons in 2016. A new working group has been set up, but it has not developed any recommendations so far.

There are a few important stakeholders in the education field who focus on social entrepreneurship and transfer knowledge to students and organisations. The [Zagreb School of Economics and Management \(ZŠEM\)](#), is a private university that has incorporated social entrepreneurship into the course syllabus. Social entrepreneurship is handled in the Centre for Innovation & Entrepreneurship housed on the university campus and acting in the local community. ZŠEM runs occasional start-up competitions that include the social dimension in business planning and among the award criteria. It also encourages and enables students to participate in other national and international start-up award events.

[The University of Applied Sciences, VERN](#), is a private university, which covers social entrepreneurship in the course syllabus of the Entrepreneurship and Management Departments. They invite external lectures and social enterprise practitioners to explain to students the values and concept of social entrepreneurship. VERN supports the student start-up scene enabling young people to participate at various national and international start-up competition events.

The [Faculty of Economics and Business of the University of Zagreb](#), offers a “Management in Nonprofit organisations” course as part of postgraduate specialist studies, which covers social entrepreneurship. The Faculty of Economics in Osijek introduced social entrepreneurship as part of entrepreneurship courses at all levels. The School of Social Work recognized the potential for their students to be agents of change in the

area of social entrepreneurship, and introduced individual lectures on examples of good practice into the social policy courses. Other universities are also slowly recognizing the concept of social enterprise and started to include it in their courses, for example the Faculty of Education and Faculty of Agriculture, recognizing the importance of combining the profession with an entrepreneurial mind-set with special emphasis on social good.

Sporadically and subject to availability of funding, NGOs run training programmes in high schools, inviting a guest lecturer or delivering a workshop by a social entrepreneur who can introduce the social economy and social entrepreneurship to students. This type of exchange plays an important role, but has not been institutionalized, as it is dependent on external project funding.

Mapping of Social Enterprises

LEGAL FORMS

There is a lot of uncertainty about the number of social enterprises in Croatia. Historically, associations have been the agents of social change and the most active players in developing the social enterprise ecosystem. According to the Registry of Associations there are 52,304 registered associations as of December 6, 2016. Among them 2,810 fall in the category called “economy” and 399 in the sub-category social entrepreneurship. It is important to note that associations themselves fill in the Electronic Registry of Associations selecting the category under which they want to be registered¹⁰⁵. This leaves many doubts about the real number of social entrepreneurs among associations, as it is a trendy category these days, so many of the registering organisations consider themselves to social enterprises, although they may only have earned-income activities as part of their funding mix. During this research, some of the organisations claimed that they run a social enterprise, when in reality they only have a smaller economic activity that is a part of their overall financing strategy.

One of the most wide-spread models of social enterprise is the social cooperative. A social cooperative is established with the main purpose of providing support to various socially-excluded or marginalized individuals

and groups, as well as including them in the labour market and providing them with decent living conditions¹⁰⁶. Based on a 2015 report of the *Croatian Centre for Cooperative Entrepreneurship*, there were 1,302 active cooperatives as of December 31, 2015¹⁰⁷. As of December 12, 2016, there were 27 social cooperatives in the registry. However, the number might not reflect the real situation, as the registry does not have a filter to search for social cooperatives unless they have the word “social” in their title. The Croatian Centre for Cooperative Entrepreneurship does not report the number, field of activity, number of people employed or regional distribution of social cooperatives separately. There may be up to 100 co-operatives that could be considered genuine social enterprises¹⁰⁸ among the total number many of which use models aimed at employing people with disabilities.

One of the first mapping exercises of social enterprises in Croatia was carried out by Association Slap and its partner organization Cluster for Eco-Social Innovation and Development CEDRA HR. Their research in 2012 mapped 147 social entrepreneurs. A broader research repeated in 2014 did not confirm the existence of all 147 entities as social enterprises, as only 56 of them responded to the survey.

¹⁰⁵ Ordinance of the content and method of keeping the Register of Associations of the Republic of Croatia and the Register of foreign associations in the Republic of Croatia (OG 4/15).

¹⁰⁶ Law on Cooperatives, OG 34/11, 125/13, Article 66 covers social cooperatives.

¹⁰⁷ Croatian Center for Cooperative Entrepreneurship 2016

¹⁰⁸ ESEP Consortium 2015

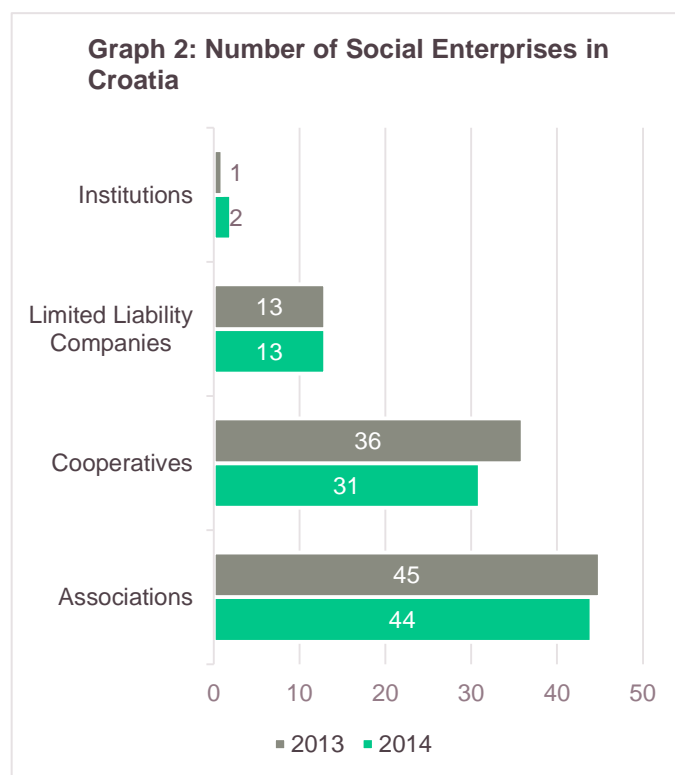
Data collected by the [Institute of Social Sciences Ivo Pilar](#) (research institution in the field of social sciences and humanities) shows yet another picture: ninety-five social entrepreneurs in 2013, and ninety in the year 2014. The overview taken from their project “iPRESENT”¹⁰⁹ research is given in the table to the right.

In order to be included in this database social enterprises needed to meet three main criteria:

1. Visibility in media, research papers and in public, where the given organisation is clearly identified as a social entrepreneur
2. Implementing projects or founding legal subjects that are active in the area of social entrepreneurship
3. Being on one of the lists or databases of Association Slap or CEDRA HR.

As per the cited research data of the Institute, the territorial affiliation of social enterprise actors show that two counties gather almost a third of all enterprises in the database. They are Split-Dalmatia and Osijek-Baranja¹¹⁰. These two counties and the capital Zagreb, have had more and stronger support organisations that were able to encourage a larger number of start-up social enterprises.

[Pomakonline](#), the first online magazine for social progress lists 40 legal entities of the social enterprise ecosystem; 28 associations, four cooperatives and three limited liability companies¹¹¹.



¹⁰⁹ Research funded by the **Croatian Science Foundation**

¹¹⁰ Table used from the Project iPRESENT 2015, Institute of Social Sciences, Ivo Pilar.

¹¹¹ Data as of December 6, 2016.

The National Foundation for Civil Society Development runs periodic assessments of the development of civil society covering all aspects of their operations. The latest assessment was published in 2011 and is very much out of date. The next evaluation will, however, include an assessment of the business side of the operations of associations. This might provide more accurate information about the number and size of social enterprise entities, as the National Foundation is an important donor who should be able to persuade organisations to respond.

The interview with the Managing Director of the Social Cooperative for Ethical Banking added an interesting detail to the estimate of the Croatian social enterprise sector. In his opinion, if we consider the criteria for defining social enterprise, many of the existing crafts, small family farms¹¹² and artisans might easily be considered as social entrepreneurs. Many of them already meet social and ecological criteria, the decision making and treatment of their workers are in accordance with the criteria, and they contribute to the development of their local community. In a short period of time, many of these entities could meet all nine criteria and thus enter the registry. A very rough estimate is that there might be 15,000 of such legal entities¹¹³ and that they may play a significant role in the social enterprise ecosystem, although not defined as social entrepreneur by the EU definition used in this research. It could be interesting to explore this issue further. This broad definition would need to be coordinated with the existing criteria listed in the *Strategy for Social Enterprise Development*, and checked with the above-mentioned entities, whether they are interested to be considered part of the new economic paradigm.

As we can see, data presented from different sources so far shows inconsistency with regard to the number of social enterprises in Croatia. The *Strategy for Social Enterprise Development* envisaged the creation of the *Registry of Social Entrepreneurs* under that would include all actors that meet all nine criteria prescribed by the *Strategy*.

SIZE

In 2013 social enterprises employed 784 people, while in 2014 the number increased to 795 employed in 90 entities. Among these, one fifth of the enterprises had ten or more employees, which places them into the category of “small enterprise.” At the same time, researchers found that the majority of cooperatives have only one or no employees, which raises the question of their sustainability.

The annual income of social enterprises amounted to HRK 188,282,030 (EUR 24,853,200¹¹⁴), while in 2014 the amount reached HRK 178,659,135 (EUR 23,583,000¹¹⁵). The analysis of their income shows that sales revenue accounted for about half of the total in both years. This is positive, as it shows that the majority of the social enterprises is not dependent on grant funding, subsidies or calls for proposals.

The above data should be considered as indicative, not exhaustive, as there is no comprehensive dataset that would show all the social enterprises.

¹¹² In Croatian legislation recognized as OPG – Obiteljsko poljoprivredno gospodarstvo.

¹¹³ Jeras 2017

¹¹⁴ Based on Oanda currency converter on January 4, 2017.

¹¹⁵ Based on Oanda currency converter on the January 4, 2017.

TARGET GROUPS

The social enterprise sector targets various disadvantaged groups but further mapping is necessary to determine, which ones and to what extent are being served. In the dataset of the Ivo Pilar research, the 90 social enterprises are mostly cooperatives and companies, which distorts the picture of target beneficiaries since it does not include associations. PRONI, for example, is an association that runs a centre for young people, providing them with space for trainings and workshops on a commercial basis. Another example is DEŠA, another association who supports women by selling their products in a shop in the city of Dubrovnik.

Although it is true that associations mostly depend on grants, they should be included in the universe of social enterprises when they compete with others in the market to be contracted as service providers to serve vulnerable groups. An example is Association Most in the city of Split that has direct contracts with the city authorities to provide shelter for homeless people.

In sum, all three types of entities need to be assessed to fully understand the target groups of social enterprises.

TYPES OF SOCIAL ENTERPRISES

Some of the latest research summarised in the report *Social Enterprise in Croatia: Charting New Territories* a suggested tentative typology proposes to distinguish three social enterprise impact models: 1) social enterprise driven by employment (or “people-driven”), 2) social enterprise driven by financial sustainability (or “income-driven”) and 3) social enterprise driven by innovative solutions (or “innovation-driven”)¹¹⁶.

The main characteristics of the proposed model are as follows:

1. In social enterprises driven by employment the main purpose is to create jobs and to ensure employment for vulnerable people, who have only limited access to the labour market. The economic activity, i.e. the production of goods or delivery of services, is organized around this goal. In other words, the economic activity is often chosen to suit the human and technical capacities of the vulnerable group(s).
2. Social enterprises driven by financial sustainability launch economic activities to generate income that will help sustain the social mission of the parent nonprofit association. Therefore, social enterprises of this type usually emerge in established CSOs having lost the majority of their (donor-based) financial sources.
3. Social enterprises driven by innovative solutions are motivated by applying an innovative solution to a need that is not met by the social care system. The innovation can take many different forms and these types of social enterprise tend to develop innovative products, services or models, usually applicable at a larger scale.

All three models exist in Croatia, albeit the first two are more prevalent than the last.

FIELDS OF ACTIVITY

There is no available data about the most frequent industry or field of activity social entrepreneurs are engaged in. However, in the discussion with various stakeholders a few expressed that their preferred industries were: agriculture, decorative and gift products, the fashion industry, food production, the production of goods for household use and service provision.

This does not represent a full list of industries; it is rather a short overview of the most typical activities.

¹¹⁶ Vidović and Baturina 2016

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND EXPANSION OF SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

Young people face a challenging labour market in Croatia, and they are especially affected by unemployment. Analysis carried out by the Croatian Youth Network¹¹⁷ shows depressing data that points to significant brain drain. The Central Bureau of Statistics estimates that in mid-2015 there were 745,942 young people aged 15-29 a decrease of 15,3% compared to 2007. At the same time, the number of employees in Croatia decreased by 33.7% leaving 121,832 fewer jobs for young people in only eight years. Two key factors affecting youth unemployment are lack of professional experience and incompatibility of educational and professional attainment with the needs of the labour market¹¹⁸.

The government designed specific measures to target young people through the “Entrepreneurial Impulse” programme, Croatian Employment Services (CES) active employment measures, as well as through various incubator programmes. Entrepreneurial Impulse, a funding programme run by the Ministry of Economy and Crafts provides financial support to various entrepreneurial groups. Funding is available for women entrepreneurs, youth, persons with disabilities and start-ups. Cooperatives and companies are eligible legal entities. Unfortunately, information about supported projects has not yet been published for 2015.

One of the stakeholders providing support to social entrepreneurs with special focus on youth is [Impact Hub Zagreb](#), a space and a community of entrepreneurs and social innovators that offers a unique combination of resources, inspiration and collaboration opportunities. It plays an important role in the entrepreneurial ecosystem offering capacity building, mentoring and consulting;

some of their programmes include a combination of capacity building with financial awards. The Impact HUB Zagreb manages four different programmes targeting young people, teenagers, students and women entrepreneurs: Pyxie Dust, Social Impact Award, City Youth#Challenge and Investment Ready Programme.

- Social Impact Award (SIA) is a year-round educational programme on social entrepreneurship dedicated to students. In the period 2014-2015, 146 young people participated as applicants to the programme, and six SIA award winners received a total of EUR 11,000. All winners were additionally given six months of incubation support in the Impact HUB. 137 young women participated in four events of the programme, with the objective to raise their skills and knowledge.
- CityYouth # Challenge, part of the European Co-working Network, was created to inspire young people to be responsible citizens and entrepreneurs, to trigger them to choose entrepreneurship as a career path and use business as a source of creating positive impact. 19 young persons participated by creating their business idea, which would solve some of the pressing problems the City of Zagreb is facing.
- The Investment Ready Programme a unique programme to create scalable solutions for global problems. In Croatia the Impact HUB has been running the programme since 2014 providing support in two rounds, incubating five social entrepreneur teams with funding totalling EUR 36,300, plus supporting thirty teams in the idea stage.

In 2015, Reach for Change, an international organization entered Croatia with their social enterprise model

¹¹⁷ Croatian Youth Network (MMH) is an alliance of 66 non-governmental youth organisations acting as the National Youth Council in the Republic of Croatia.

¹¹⁸ Ministry of Social Policy and Youth 2014

PRONI – CENTRE FOR SOCIAL EDUCATION

One of the supporting organisations for youth, being active dominantly in the Slavonia region for two decades is [PRONI – Center for Social Education](#). Croatia continues to wrestle with issues of unemployment, social exclusion, and at-risk behaviour among youth. The unemployment rate is about 8% higher than the EU average and the majority of the unemployed population is under the age of 30.

PRONI runs a Residential Center at Pirovac, located on the Adriatic Coast, offering commercial rental of its center to youth civil society organisations enabling them to run seminars, conferences, retreats and team-building. The Center can be used for the private recreational use as well. Additionally, PRONI offers services such as training for youth covering various topics and event facilitation.

providing support to social entrepreneurs from idea to impact. They support leaders with an incubator programme that focuses on helping children and youth. Support is offered to develop business models in the form of grants. The amount of money varies and is tailor-made to the individual business model.

In 2015, the National Foundation for Civil Society Development awarded institutional support to 12 youth organisations totalling HRK 1,164,567 (EUR 155,000). This was a pilot programme dedicated to youth organisations. Additionally, through the EEA and Norway Grants, the National Foundation provided HRK 705,573 (EUR 94,000) for innovative initiatives for children and youth in local communities.

By joining the European Investment Bank's initiative for youth employment (Jobs for Youth Initiative) the Croatian Bank for Reconstruction and Development (HBOR) offers a more favourable interest rate to companies that employ young people. The same lending model is used for innovative entrepreneurs as part of the InnovFin SME Guarantee Facility.

There is no available data on the number of social enterprises run by women although there are many recognized social enterprises that are run by women or employ women. Though no gender analysis is available, women are recognized in many strategic documents as a vulnerable group in the labour market, either because of total exclusion or discrimination in terms of equal pay and contracting conditions offered. Research conducted by the EBRD highlights a traditional approach to gender roles in Croatian society and the economy; 41% of survey respondents agreed with a family arrangement where the man works and the woman takes care of the house and the children¹¹⁹.

A number of programmes recognise women as a disadvantaged group in the labour market as well as in

¹¹⁹ European Bank for Reconstruction and Development 2016

entrepreneurship schemes. There are no specific programmes for social enterprises targeting women and there is no statistical information available about women's participation in such businesses. The Women in Business Programme of the European Bank for Reconstruction and Development (EBRD) recognised the power of supporting women entrepreneurs in transition economies, linking dedicated EBRD credit lines that are channelled through participating partner financial institutions to tailored business advice, mentoring support and networking and training opportunities to over 300 women-led enterprises throughout the country for a number of years.

FINANCING STRATEGIES

Little progress can be reported on the financing and social investment side since the 2014 completion of the *Social Enterprise Mapping* report for Croatia¹²⁰. The social investment market is still very nascent, although certain actors including the government, Erste Bank or the future Ethical bank want to develop tailor made financial products for social enterprises.

CSOs still depend on donors, the EU and national government funding schemes, even if these have seen a major reduction due to changes in the political climate in 2016. A positive, though delayed new development is that the *National Strategy for the Development of Social Entrepreneurship* envisages the creation of a guarantee fund for social entrepreneurs to be managed by the Croatian Bank for Reconstruction and Development (HBOR). The existing guarantee facility of the Bank covers more advanced SMEs; therefore, it might be interesting for consolidated social enterprises as well.

LIKA WOMEN'S SOCIAL COOPERATIVE

Local support in one of the most remote areas of Croatia is provided by [Lika Women Social Cooperative](#). Economic independence is one of the biggest challenges in Lika-Senj County, not only for women but also for their families due to high unemployment, poor transport connections and isolation from the external world. Women are further affected by unemployment due to their rather low educational level, as well as a traditional way of living in the region. Many not-for-profit organisations are trying to help women covering a variety of social issues. They each run their separate programmes, while also recognizing the need for cooperation, so that they can provide more stable and long term support with one major goal in mind: to offer job opportunities to unemployed women in Lika.

The Lika Women Social Cooperative is a social enterprise that manufactures natural and unique handmade products using natural and recycled materials available from the surrounding area, with the brand name Curly Sheep. The products consist of fashionable clothing accessories, souvenirs and products which are used for practical purposes. Emphasis is given to branding the traditional handmade nature of the products. The social cooperative provides opportunities for women and their families to earn income. By using some of the forgotten trades, women are passing knowledge to the next generation thus preserving local traditions.

¹²⁰ European Commission 2015

Croatia is still waiting for the launching of its first ethical bank. At the same time, the Social Cooperative for Ethical Banking, the founding organisation of the future Ethical Bank submitted a formal request to the Croatian National Bank for establishing a bank and received positive feedback on the documentation submitted. This has been a major step forward in the process of opening the first ethical bank of the country, already widely recognized by the general public.

Based on the interviews with social entrepreneurs, lack of funding is the biggest challenge for their work. The majority of social enterprises started their businesses using grant funding either from domestic or EU sources, ranging from EUR 1,000 to 10,000. Lack of grant funding is the most pressing issue for associations that have traditionally been dependant on donor funding, while companies and cooperatives are facing challenges in finding financial resources for their growth and/or scaling strategies. Many of them have a recognized potential for scaling, but have no knowledge where to find additional financing. Impact investors remain out of reach for many social enterprises, because their supply does not match demand in investment size. Funds are looking to make investments ranging from EUR 50,000 to 500,000 and have high expectations of social return. Those funds are willing to invest, while Croatian social enterprises are still not sufficiently developed or ready for the level of investment offered.

Social entrepreneurs are eligible to apply for commercial loans from traditional banks, but this requires collateral, has strict repayment conditions and high interest rates, which scare many social entrepreneurs away from considering such finance. HAMAG-BICRO and HBOR funding have more flexible financing conditions,

recognizing youth, women, start-ups and innovators as potential microloan recipients with specific needs and repayment options. The future Ethical Bank is proposing to introduce a lending scheme, offering loans with lower interest rate (ranging from 0.5 – 2% compared to HAMAG-BICRO's 2-4%) and favourable lending terms. They would like to become operational in 2017 once accredited by the Croatian National Bank.

MONITORING AND EVALUATION SYSTEMS

Croatian social enterprises do not follow a standard methodology to monitor social impact. Donor have their special requests and provide their own tools in the majority of cases, thus social enterprises are asked to adjust their performance monitoring system to individual donor requirements. This presents a significant problem for assessing the overall impact of entrepreneurial activities.

Together with the National Foundation for Civil Society Development, ACT Group is developing a system and methodology for social impact measurement. The organisation is an important advocate of the idea that organisations should create a kind of “balance sheet” that reflects their business and mission activities, and thus demonstrate whether the organization actually does what it says it wants to do.

The Ministry of Labour and Pension System is planning to introduce a Social Audit directly linked to the development of the social enterprise registry. It will probably take some time to define a standard system of reporting. If Croatia decides to go down that road, it would be good to learn from the experience of other EU countries where such reporting systems already exist (Belgium and Italy)¹²¹.

¹²¹ Šimleša, et al. 2015

Social enterprises reported that they use their own metrics to capture impact, depending on the type of goods or services they provide. In most cases they track their beneficiaries, quality of their lives as a result of the service provided and contribution to community development, using internal or external evaluation, statistic data and regular conversation with their beneficiaries. Should there be a common measurement system across Croatia, some social enterprises expressed concern whether it could record specificities and the impact of individual social enterprises.

Employment creation remains the biggest social impact of Croatian social enterprises. The majority of their initiatives target marginalized individuals or groups excluded from the labour market. Social impact is also delivered through the provision of services to vulnerable groups, the conservation of natural resources, the promotion of regional development, community development and the reviving of resources of communities.¹²²

HUMANA NOVA

[Humana Nova](#) is a nonprofit organization that promotes a society of tolerance and cooperation, and helps socially-excluded individuals and their families to improve their self-esteem and quality of life. They actively contribute to the sustainable development of local communities, poverty reduction and environmental protection.

The organisation fosters the employment of disabled and other socially excluded people through the production and sale of quality and innovative textile products made from ecological and recycled fabrics for the needs of domestic and foreign markets.

Social Impact

- Humana Nova has had a major impact on the life of its 17 employees, who have been long-term excluded from the labour market.
- Humana Nova has a measurable environmental impact. It collected and recycled textile raw material in the amount of about 200 tons over last years.
- The organization has opened two branches, one in the city of Koprivnica and one in Zagreb, replicating the model of social inclusion and environmental protection.
- 60% of Humana Nova's financial resources come from the economic activity conducted by the cooperative.

¹²² Government of the Republic of Croatia 2015

Social Investment Market

SUPPLY

Challenges on the supply side include the lack of players in general and the reluctance of the existing few investors to offer finance in the appropriate range. Government strategies are behind in implementation or simply do not meet demand, as policy is often designed with little understanding of the real needs of small businesses.

DEMAND

Access to suitable finance is a major barrier to developing and implementing social entrepreneurial initiatives in Croatia. This is particularly relevant for very early stage social entrepreneurs and those in the scaling stage that need additional investment. Social enterprises suffer from skill deficiencies as well, which slows down the uptake of social investment. They do not have experience in drawing up business plans and investment propositions, and are generally not aware of the finance and investment markets.

While not in great numbers, there are a few growing social enterprises that are investment-ready for a different type of financing; the Association for Sustainable Development ([UZOR HRVATSKE](#)) from Koprivnica is an example of good practice.

SPECIALISED SOCIAL INVESTORS AND SOCIAL FINANCE INSTRUMENTS

In Croatia there are few specialized social investors for social enterprises to approach. Some regional stakeholders, such as Yunus Social Business, TISE, Erste and the Small Enterprise Assistance Fund (SEAF) cover Croatia, but none, except for Erste, has an actual presence in the country.

ASSOCIATION FOR SUSTAINABLE DEVELOPMENT OF CROATIA (UZOR HRVATSKE)

The [Association for Sustainable Development of Croatia](#) (Udruga za održivi razvoj Hrvatske – UZOR HRVATSKE) is a nonprofit organization founded in 2009 by enthusiasts in sustainable development, initiating a network of responsible community members whose actions contribute to sustainable economic, environmental and social development of the community. From the very beginning, UZOR HRVATSKE started to create innovative and sustainable systems for the separate collection of useful waste in the local community, the city of Koprivnica. The system is based on cargo bicycles that have a capacity of up to 100 kg of paper waste, which are used for free delivery and discharge in eco boxes "on the doorstep". The cargo bicycles do not waste energy and do not emit greenhouse gases, thus the scheme can be implemented anywhere in the world and delivers measurable environmental, social and economic performance.

The main partner of UZOR HRVATSKE is the local utility company Komunalac whose storage facilities are used by UZOR HRVATSKE bicycle drivers. Partners together prepare paper waste to be delivered to the customers – companies for collecting, sorting and recycling waste paper; companies that use waste paper as raw materials for their further production as well as paper traders.

Recently UZOR HRVATSKE started to explore scaling strategies. The first step was a negotiation process with local partner Komunalac to transfer the whole model to become part of the company's regular operations. The transfer would include processes, equipment, people, know-how, as well as a network of individuals who provide paper waste. Should negotiations end positively, they would create an innovative model of private-public partnership leading to further sustainable development in the local community.

[Yunus Social Business](#) provides financing and long term business support to help social enterprises grow and scale their social impact. Yunus Social Business covers the Western Balkans and offers loans ranging from EUR 50,000 – 500,000 with interest rate ranging from 6-8% to social enterprises that are too big for microfinance or too risky for commercial funding. Social entrepreneurs can either apply via their accelerator programme or directly via the online platform and start the due diligence process for funding. Investment conditions include personal collateral, a grace period of 1-5 years, loan terms of 6-10 years or convertible loans (into grant or equity).

Since 2008 TISE (Social and Economic Investment Company) from Poland has been actively granting loans to NGOs, microenterprises and SMEs, mainly in Poland. In 2006 TISE became the administrator of the European capital fund Coopest, which finances social economy entities, providing medium and long-term loans, subordinated loans qualifying as quasi-equity, as well as tailor-made financing solutions in cooperation with local institutions and banking partners. A typical investment size would range between EUR 300,000 and EUR 3,000,000. TISE has done a needs assessment in Croatia and the products are available for Croatian social enterprises, but the bank has not completed a deal yet, as the prospective clients find the euro-based interest rates too high.

Erste Bank became active in the microfinance segment, providing support to 84 entrepreneurial projects in a period of four years. Most of the financing sought ranged

from EUR 10,000 to 15,000, although the highest amount offered reached EUR 25,000. Financing went hand-in-hand with capacity support prior to funding. It is important to note that projects funded would not all go under the strict definition of social enterprise, as *Erste Bank* aims to respond to the needs of different segments of societies, which traditionally did not have access to banking services, so they cover a wide range of projects and entities.

The Small Enterprise Assistance Fund (SEAF) was established in May 1997 in recognition of the need for Croatian SMEs to develop as rapidly as possible in the wake of the war between Croatia and Serbia. Through the strategic collaboration between [Angello Capital](#) (a group of highly motivated investment and business professionals who also have valuable experience with civil society projects) and [SEAF](#), an investment management team was formed that provides growth capital and business assistance to small and medium enterprises in emerging and transition markets, underserved by traditional sources of capital. They have financed several Croatian companies as well, but no social enterprises as of yet.

A recent report by Plus Value confirms that there are no equity type instruments available to social enterprises, and no impact funds or specialised banks have been set up either.¹²³ The most innovative way of securing funding is crowdfunding. Many social entrepreneurs use it to try to raise start-up investment or investment for growth.

¹²³ Phillips, De Amicis and Lipparini 2016

Gap Analysis and Recommendations

LEGAL FRAMEWORK

The *Strategy for Social Enterprise Development in the Republic of Croatia for the period from 2015-2020* provides a legal framework for the work of social enterprises in Croatia. The strategy has been in its implementation phase for 20 months already, however not much has been achieved to move towards a more enabling environment. One call for proposals titled “Fostering Social Entrepreneurship” was announced in the summer of 2016, and it was criticized by social entrepreneurs for not meeting the real needs of the sector. The majority of the eligible activities included raising visibility and training, but there was no opportunity to apply for start-up capital, for capital to buy equipment and/or working capital for raw materials.

A lack of understanding of the social enterprise concept continues to represent a major obstacle for further development. The *Strategy* envisaged development of a registry that could help estimate the size and composition of the social enterprise sector and provide some examples of existing businesses. The political situation, however, caused unfortunate delays in implementation. One of the activities foreseen by the *Strategy* is the harmonization of various pieces of legislation that affect the operation of social enterprises. The analysis and subsequent harmonisation has not been launched to date leading to an inconsistent registration process for new social enterprises as well as a gap between regulation and its implementation. For example, the Procurement Law allows for preferential treatment of bids that can demonstrate social value in their bids; however, this is often not considered at the time of evaluation.

One of the criticisms of the social enterprise sector is that the government is seemingly not sure if social entrepreneurship is an important topic or not. Once they decided to draw up a strategy and corresponding action

plan, appropriate resources should have been allocated for implementation. A telling example of the lack of government commitment is the “Award for Social Entrepreneur of the Year.” The promotion of the Award was co-branded by the government and SEFOR, however SEFOR had to provide the funding for the award. Although the award event raised significant visibility and goes in line with the Strategy’s operational plan, it has since been discontinued due to a lack of funding.

To overcome this lack of progress, ACT Group, the Social Cooperative of Ethical Banking, Slap, CEDRA HR and a number of CSOs decided to push the relevant ministry to continue implementing the operational plan of the Strategy, however with no positive feedback yet. There has also been a redistribution of power in decision-making since the time of the last mapping exercise. Diminishing resources led some of the previously influential actors and ecosystem builders such as Slap, CEDRA HR and SEFOR to reduce their activities and slowdown their involvement. Parallel to this, new initiatives are postponed, as everyone is waiting for new ESF funding to be released.

Recommendations

- Legislation affecting the operations of social enterprises should be reviewed and harmonised with each other and with the strategy for social enterprise development.
- Public procurement practices should consider social value in the bidding procedures.
- The government should launch the Registry for Social Enterprises and start gathering data about the sector for the purposes of future policy development.
- Public sector funding and support schemes should build on the real needs and demands of social enterprises.

ACCESS TO FINANCE

At national level, there are a number of funding opportunities available for social enterprise development. They take mostly the form of grants provided by ESF, the National Foundation for Civil Society Development and relevant ministries. That being the case, interviewed social entrepreneurs still indicated that financial support is largely missing for all stages of social enterprise development. Although the first ESF funding round envisaged significant amounts of money to support start-up social enterprises, this did not lead to tailor-made financial instruments to cover their business needs, mostly in the EUR 10,000 – 70,000 range. In the end, as already noted, the grants provided were large, from EUR 50,000 to 200,000, but mostly for training and awareness raising activities.

Microfinance for socially-driven SMEs can be provided via government structures and grant funding. Two of the main players in that field are HAMAG-BICRO and HBOR, both founded by the government in order to foster the reconstruction and development of the Croatian economy.

In addition to the efforts of Zagrebačka bank already mentioned, Erste Bank and Ethical Bank, are also considering developing special programmes and financial instruments for social entrepreneurs.

In the case of Erste, the bank recently launched Step-by-Step, a social banking initiative where they will provide low-income people, starting entrepreneurs and social organisations with tailored financial products, financial literacy, money advice, business education and mentoring. The program is not operating in Croatia as of yet.

Ethical Bank expects to be open and fully operational by mid-2017. The Cooperative for Ethical Banking, the founder of Ethical Bank is developing financial and non-financial instruments tailor made for socially-driven businesses in all phases of development.

Although these efforts look very promising, a great deal still needs to happen to ensure social enterprises are willing and ready to access these financial instruments. Outside of a few slightly more advanced social enterprises, there seems to be an over-emphasis on grants, and a dearth of enterprises ready to take investment capital from social investors. All of the interviewed social entrepreneurs expressed the need for grants in order to continue their growth, either from the EU or local funding, government initiatives or crowdfunding campaigns. The strongest lobbying organisations, such as ACT Group, Slap and CEDRA HR promote non-refundable funds to grow social enterprise. Given this situation, in addition to helping enterprises become investment-ready, a great deal needs to happen to educate on social enterprises on the use of the investment capital.

Recommendations

- Funding schemes should assess the needs of and provide appropriate amounts to early stage social enterprises in the range of EUR 10,000-70,000.
- Pilot a facility that would offer a strategically developed combination of blended finance supported by various stakeholders: grant funding from ESF and loans using government structures of support or money from private investors. Consider including a guarantee mechanism that would help to de risk repayable portions of finance and incentivise social investors to take part.
- Consider adding non-financial support in order to increase the effectiveness of finance
- Back social enterprises support organisations in their efforts to pilot new support packages and in educating social enterprises about the potential future use of investment

CREATION OF AN ECOSYSTEM

It is important for the Croatian social enterprise ecosystem that all stakeholders share the same vision. Government stakeholders should recognize the social, economic and environmental benefits of social enterprise and build a stronger commitment to its development. As stated in the *Strategic Study on Social Economy Development in the Context of the South-East Europe 2020 Strategy*, bureaucracy may be identified as one of the main obstacles in this respect.¹²⁴ Public servants that are supposed to implement the government's strategy lack an understanding of the concept of social enterprise. A recent ESF call for proposals actually included public servants as beneficiaries of the grant scheme. Social enterprises are facing additional obstacles not having appropriate statistical data about their number and size, industries they are engaged in or information about their social impact.

The lack of an entrepreneurial attitude, insufficient management skills, lack of access to markets and export strategies, as well as lack of real growth strategies still appear to be the key areas affecting the sustainability of social enterprises. Interventions to improve skills and access to market and finance could possibly be financed through grants or external technical assistance programmes such as those run by EBRD. The talent gap may also be addressed by offering operational financial support for strategic hiring.

Based on the interviews with various not-for-profit stakeholders, it seems that associations and cooperatives are the main driving force for the development of the social enterprise ecosystem, as well as the main agents to deliver social impact in the future.

However, it is also important to support intermediaries who are providing or would like to provide patient capital, capacity support, and mentoring that these enterprises need. These intermediaries also need to become sustainable.

Market niches for the development of social enterprises may be in the area of agriculture, rural development and organic agriculture, energy efficiency as well as tourism combined with gastronomy. In all of these areas there are positive examples sharing the values and principles of good economy.

Recommendations

- Facilitate more dialogue between stakeholders by organising regular events to address some of the key challenges and opportunities of the sector; ensure that some of these convenings are smaller and more strategic in nature that lead to problem-solving.
- Encourage more research and data collection about the social enterprise universe in order to design more appropriate policies and incentives in the future.
- Offer capacity-building support to public sector officials about social enterprise models and their potential social and economic impact.
- Design and fund interventions to improve business planning and management skills, access to market and finance.
- Build a case to foster more support for intermediaries who are well-positioned to meet the needs of entrepreneurs.

¹²⁴ Babović, et al. 2015

Table 7: Update on Comparative Overview of Legal Forms Most Commonly Used by Social Enterprises

The table below shows updates from “*A map of social enterprises and their eco-systems in Europe, Country Report: Croatia 2014*,” showing changes that have taken place indicated in red.

| Definitions | | |
|--|--|--|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>Association is free and voluntary established organization that can be founded by natural or legal persons defining its purpose in the founding act (also called a constitution or statute) without intention of gaining the profit.</p> <p>Association is governed by its own members, directly or through elected representatives. Association is founded due to protect and promote issues of public interest or its members' interests, as well as human rights, economic, environmental, humanitarian, informative, cultural, ethnic, national, educational, social, professional, sports, technical, health care, scientific and other interests excluding unlawful purposes.</p> <p>One of the most frequently used legal entities to start self-financing activities, which often lead to the opening of social enterprises as a separate legal entity in the form of an LLC.</p> | <p>The cooperative is a voluntary, open, independent and autonomous legal economic entity governed by its members. The purpose of the cooperative is the creation and promotion of the economic interests of its members, rather than gain the profit.</p> <p>One of the most frequently used types of cooperative for social enterprise still remains the social cooperative.</p> | <p>A private limited company is commonly used by for-profit organisations and is typically established with commercial aims to distribute profits to its shareholders. The shareholders are the owners of the company. Company assets are strictly separated from the property of owners. The company is liable for its debts with all its assets. Owners are not liable for company debts.</p> <p>Private limited companies are still the most frequent type of companies for doing business in Croatia.</p> <p>Still, majority of social enterprises that use this legal entity are founded by non-for-profit organisations (associations), thus articles of incorporation in the majority of cases include social purpose and principles, as well as economic activity that they plan to run. However, there is no legal obligation that would require limited liability companies to include the social purpose.</p> |

| Legislation | | |
|--|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <ul style="list-style-type: none"> • Constitution of the Republic of Croatia (OG 85/2010) • Associations Act (OG 74/2014) • Regulation on the content and method of keeping the register of Associations in the Republic of Croatia as well as the Register of Foreign Associations in the Republic of Croatia (OG 4/2015) • Regulation on the criteria, standards and procedures for financing and contracting programs and projects of public interest run by the Association (OG 26/2015) • Law on financial operations and accounting of nonprofit organisations (OG 121/2014) <p>In March 2015, Regulation on the criteria, standards and procedures for financing and contracting programs and projects of public interest run by the Associations has been adopted. The Regulation should apply in approving funding from public sources and by applying these criteria, standards and procedures most efficient, more rational and more transparent use of funding is expected.</p> | <ul style="list-style-type: none"> • Constitution of the Republic of Croatia (OG 85/2010) • Cooperatives Act (OG 34/11, 19/13, 125/13, 76/14) • Regulation of Cooperative Member Directory (OG 56/2012) • Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13) | <ul style="list-style-type: none"> • Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11 152/11, 111/12, 144/12, 68/13, 110/15) • The Public Procurement Act (OG 83/13, 143/13, 90/11) |

| Exclusivity of Social Purpose | | |
|---|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>Not exclusively for social enterprise.</p> <p>The activities of an association are based on the nonprofit principle, which means that an association is not founded for the purpose of making profit, but it may perform an economic activity, in accordance with law and their statute.</p> <p>In case of economic activities the profits need to be devoted exclusively to advancing purposes set forth in the founding charter. No distribution of the profit among members is allowed.</p> | <p>Not exclusively for social enterprise.</p> <p>Cooperative may perform any economic activity for which it meets the requirements.</p> <p>Where an activity requires consent, a permit or other document issued by a governmental authority or an institution, entry into the court register can only be made after obtaining such consent or permit from the relevant body or institution.</p> <p>A social cooperative may be established with the two main purposes:</p> <ul style="list-style-type: none"> to assist in meeting the basic needs of socially excluded, helpless and other individuals, which cannot meet them due to their unfavourable personal, economic, social or other circumstances inclusion of people with various forms of reduced working capacity into the labour or economic processes <p>Members of social cooperative can be beneficiaries, service providers as well as workers.</p> | <p>Not exclusively for social enterprise.</p> <p>Private limited companies may engage in any legally permitted business activity. The main business activity as well as side business activities are specified in the founding documents/articles.</p> <p>Where an activity requires consent, a permit or other document issued by a governmental authority or an institution, entry into the court register can only be made after obtaining such consent or permit from the relevant body or institution.</p> |

| Founding Procedures and Requirements | | |
|--|---|--|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>An association may be established by at least three founders. Founders can be any legally capable natural person.</p> <p>Procedure:</p> <ul style="list-style-type: none"> • A Constituent Assembly needs to be held • The founding documents for registration needs to be submitted to Register of Associations by Ministry of Public Administration (documents need to be submitted within three months from the date of Constituent Assembly) • The statute is the basic general act of an association passed by the assembly • Association acquires legal personality on the day of registration in the Register of Associations (governed by the local authority). The association must be registered to be incorporated • If the administration office does not respond within 30 days, the association is deemed to be registered. • Production of seals • Follows registration of the business in the Central Bureau of Statistics to determine the identification number and classification according to the National Classification of Activities • Opening a bank account of the Association. • Finally, the association has the obligation to register in the Register of Nonprofit Organisations run by the Ministry of Finance. | <p>Cooperative can be founded by the minimum of 7 members (individuals or legal entities) during the Founding Assembly. Each member needs to pay membership fee which cannot be less than HRK 1,000.</p> <p>Procedure:</p> <ul style="list-style-type: none"> • Constituent Assembly of the cooperative • Adoption of the founding act - Cooperative Rules • Verification of documents by a public notary • Payment of membership fees (or entry shares) • Enrolment in Register of the Commercial Court • Production of seals • Enrolment in Register of Business Entities of the Central Bureau of Statistics • Enrolment in Register of Co-operatives of the Croatian Co-operatives Association • Opening a business bank account of the co-operative | <p>A private limited company is established on by either notarized Articles of Association or if only one shareholder on the basis of a notarized Deed of Incorporation.</p> <p>Procedure:</p> <ul style="list-style-type: none"> • Prior to registration the company need to check the availability of the name at the Court Registry • Public notary verifies the founding act • Enrolment in the Register of the Commercial Court • Prior to registration, each founder must pay in (i) 100% of its contribution in kind; and/or (ii) at least 25% of his/her cash contribution, provided that the total amount of all cash contributions paid in before registration is no less than HRK 10,000 • Enrolment in Register of Business Entities of the Central Bureau of Statistics • Productions of seals • Opening a business bank account • There is a possibility of establishing a “simple limited liability company” with a minimum share capital of HRK 10 |

| Capital | | |
|---|---|--|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| The Association is not required to provide any capital or property for registering. | Each founder must pay an entry share (membership fee) that cannot be less than HRK 1,000. Each new member must pay an entry share (membership fee) when decide to join. So, the minimum capital is dependent of the founding members. | The minimum share capital of a private limited company is HRK 20,000. The minimum share capital of a "simple limited liability company" is HRK 10. |
| Management & Governance | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| The highest body of the Association is the Assembly, consisting of all members. Assembly makes all strategic decisions, approves financial and operational plans and reports. | <p>The highest body of the cooperative is the Assembly (Shareholders meeting). Other mandatory governing bodies of a cooperative are Supervisory Board (consist of minimum three members) and the Cooperative Manager. In cooperatives, which has less than 20 members, the Supervisory Board activities/affairs may be conducted by cooperative Assembly.</p> <p>Management and Operations are monitored by the Assembly or Supervisory Board. Some co-operatives may have a Board of directors that provides commercial leadership for the cooperative.</p> | <p>The private limited company need to have at least one director. There are no limitations on the number of Board members as well as directors.</p> <p>Management Board members are representing the company and can be appointed by the shareholders' meeting, unless otherwise prescribed in the Articles of Association. Management Board represents the company in the public as well as do all the operational work related to the industry.</p> <p>Supervisory Board is not a mandatory only in specific circumstances. Supervisory board can be established within the Articles of Association. However, if the founder of the limited liability company is a public institution, then workers need to be included in the Supervisory Board.</p> |

| Member's Rights | | |
|--|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>The legal form has members.</p> <p>The ultimate control of the association rests with the members because of their right to attend, speak and vote at the Assembly which: adopts the statute of association and its amendments, adopts annual operational and financial plans, adopts annual financial reports, decides whether to change the objectives and activities, economic activities, the dissolution and distribution of the remaining assets, and makes a decision on status changes.</p> | <p>The legal form has members.</p> <p>It is the members who are the focus of the cooperative. Some of them are elected to the Board of directors which constitutes the policy setting body of the cooperative. The day-to-day operations are generally handled by a hired management structure</p> <p>The membership is unique to the cooperative organization. A member is also the owner and the patron. The individual members should be encouraged to express their needs and motives in a common objective, which is the foundation of the cooperative.</p> | <p>The legal form has members (shareholders).</p> <p>The responsibility for the administration and management of the company is delegated to the directors by the shareholders gathered in the shareholders meeting.</p> <p>The ultimate control of the company rests with the Members because of their right to attend, speak and vote at meetings. They have right to receive all accounts, reports and other relevant documents needed for decision making process, in particular on: the ratification of the acts of the management board and supervisory board, if such exist; any measures to check and supervise business affairs; and make amendments to the Articles of Association.</p> |
| Voting & Representation | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>Members represent themselves through their participation in the Assembly. It is Associations obligation to prepare at least one Assembly within the period of one year. If necessary, additional Assembly can be organized, as prescribed in the Statute. One member has one vote.</p> | <p>Members are represented through attendance at the shareholders' meetings.</p> <p>Each member has one vote and can represent other member only if written approval has been submitted.</p> <p>By participating in the management of the cooperative, the cooperative maintains one of its central features - that of being a democratically controlled organization. However, it also means that the members need to understand the nature of their cooperative, its regulations and how it functions.</p> | <p>Members are represented through shareholders' meetings held at least once a year, to determine the annual financial statements and consolidated financial statements when they are required, and accept the annual report.</p> <p>Shareholders adopt resolutions at the shareholders' meeting. This is unless all shareholders agree to vote in writing or resolve in writing on a resolution.</p> |

| Types of Shares | | |
|--|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| The legal form does not have shares. | <p>The legal form has shares.</p> <p>All the members are the shareholders by paying "membership fee", which is commonly used term for share.</p> <p>The shares do not carry votes, the principle of "one person – one vote" constitutes the basis for the cooperatives' democratic organisation and its decision-making process.</p> | <p>The legal form has shares.</p> <p>The shares carry the voting rights although it is possible to define it otherwise in the Articles of Association, under condition that each member has at least one vote.</p> |
| Distribution of Dividends on Share Capital | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Not applicable to this legal form. | <p>After covering the losses from the previous period, at least 20% of the income is directed to the development of cooperative, and at least 5% is directed to the reserve requirement (until the reserve reaches the total amount of the member's fee or share). The rest of the earnings by business cooperatives may be retained by the cooperative or distributed to the members as dividends; partly or all of the earnings. Usually, cooperatives distribute their dividends in proportion to their members' activity, instead of the value of members' shareholding. Consumers' cooperatives allocate dividends according to their members' trade with the cooperative.</p> <p>The Cooperative Act (OG 76/14) suggests that such distribution should depend on the economic contribution of each of its members in the creation of the total profit.</p> | <p>Dividends are distributed on paid-up share capital.</p> <p>Law prescribes limitations to the distribution of dividends which are consequences of the principle of maintaining the capital of the company to create its financial stability.</p> <p>These constraints are expressed by regulating the reserves regime and ways of determining the sequence of profit distribution.</p> <p>It is possible that the Articles of Association of a social enterprise could include restriction or prohibition on paying dividends.</p> <p>Social enterprises in Croatia usually reinvest 100% of their profit to founder organization (association) for their programs/projects or in company programs/projects which aim to achieve social purpose of the company.</p> |

| Distribution of Reserves | | |
|--|---|--|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Not applicable to this legal form. | “Reserve fund” as a security fund to cover any capital reduction of the cooperative on the departure of some of membership remains obligation of the cooperatives. | Only the Simple private limited company (j.d.o.o.) has restrictions on how reserves are used. The legal reserve may only be used to increase the share capital or to cover losses (liquid or transferred). Simple private limited companies need to increase their share capital investing 25% of profit into the legal reserves up to a minimum of HRK 20.000,00. At this point it is no longer required to add to the legal reserve. However, at that point j.d.o.o. can increase their share capital but then has obligation to transform the company to a private limited company. |
| Allocation of the Surplus Particularly to Compulsory Legal Reserve Funds | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Not applicable to this legal form. | <p>After covering the losses from the previous period, cooperatives are required to distribute:</p> <ul style="list-style-type: none"> • at least 20% of the surplus for the development of cooperative development fund; and • at least 5% to the reserve fund until the total reserve reaches the total membership fees | Private limited companies are not required to make legal reserves, members manage surplus arbitrary. However, Simple private limited company (j.d.o.o.) must have a legal reserve. The law specifies that 25% of profit as reported in the financial statements must be paid in the legal reserves, till they reach amount of 20.000,00 kn. |
| Distinction Dividends/Refunds and Distribution of Refunds | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Not applicable for this legal form. | There is no legal distinction between refunds and dividends. | Not applicable for this legal form. |
| Restrictions on Ability to Trade | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| One of the main principles for founding the Association is the principle of nonprofit operations. Therefore, Associations are expressly forbidden to make profits to its members of third parties, however they can engage in certain economic activities if incorporated into the Articles of Association (Statute) | <p>No restrictions for cooperatives to undertake any economic activity.</p> <p>However, certain economic activities may need special approval or certificate of approval or consent, license or other approval document given by the relevant governmental body or institution to be able to carry such activity.</p> | <p>No restriction for companies to undertake any economic activity.</p> <p>However, certain economic activities may need special approval or certificate of approval or consent, license or other approval document given by the relevant governmental body or institution to be able to carry such activity.</p> |

| Internal Financing (e.g. investment title, member investors, increase in members' contributions) | | |
|---|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Membership fees, donations, sponsorship, loans. A member who wishes to support economic activities can only be a lender. | Besides loans, cooperative members can pay additional membership fee / share. Process and any restrictions are usually described in Articles of Association. | Besides loans, company can allot or issue shares to its members to raise capital. Process and any restrictions are usually described in Articles of Association |
| External Financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non-member investors | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| External investments can be made only by donations and loans. A third party who wishes to support economic activities can only be a lender. | External investments can be made using various models: concessions, loans or other forms of debt, or direct investments in cash, equipment, etc. An investor would only become a member if they paid a membership fee. | External investments can be made using various models: concessions, loans or other forms of debt, company also can allot or issue shares to investors to raise capital. An investor making an equity investment into Public limited company by purchasing shares will become a member of the company. |
| Transparency and Publicity Requirements (and Related Auditing Issues) | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| Financial statements need to be submitted to the Financial Agency and annually to the Ministry of Finance, National Audit Office and Financial Agency. Audit review is required when the association's yearly income is HRK 3-10 million and external audit is required when the association's income exceeds HRK 10 million. Otherwise, external audit is related to PRAG when association implements EU funded project where co-financing exceeds EUR 100,000. Under new legislation from 2014 associations have the obligation to publish annual financial statements in the Register of Nonprofit organisations run by the Ministry of Finance. | Cooperatives, as well as Companies, generally have to apply Croatian Financial Reporting Standards. Financial statements are kept in the publicly accessible Registry of Financial Statements. | Companies generally have to apply Croatian Financial Reporting Standards. Financial statements are kept in the publicly accessible Registry of Financial Statements. Consolidated financial reports and financial reports of all companies, and based on the new Accounting Act (will be released in implementation by January 1, 2017) public interest entities are subject to mandatory yearly audit. New Accounting Act includes all companies to be subject to audit in case they meet two out of three prescribed criteria: <ul style="list-style-type: none"> • total assets – HRK 15 million • total income – HRK 30 million • average number of employees – 25 |

| Employee Involvement Systems | | |
|---|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>There is no legal requirement to involve staff in the decision-making process. However, the practice shows significant involvement of employees in the processes of decision making.</p> | <p>A worker cooperative is a cooperative self-managed by its workers (Cooperative Act prescribes at least 66% of workers must be members).</p> <p>Other cooperatives can involve staff through membership. Once they are members, they fully control co-operative operations and development, one representative of the workers can be a member of a Supervisory board.</p> <p>Employees can share in the cooperative's profit if they are also cooperative members or if it is provided for in the Cooperative Rules.</p> | <p>Private limited company can involve staff in the decision-making procedures either directly (as shareholders) or through representatives in consultative or advisory boards.</p> <p>Employees who are shareholders can receive a proportion of the legal form's profits.</p> |

| Distribution of the Proceeds of Dissolution, Liquidation, Disinvestment (in Particular Provision of Asset Lock) | | |
|---|--|---|
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>The reasons for the discontinuation of an association's activities are as follows:</p> <ul style="list-style-type: none"> • decision of the assembly on the dissolution • joining or merging with another association, or division of the association through separation • twice the time necessary for a regular meeting of the assembly to be held has elapsed, without the meeting having been held • final and binding court decision on the dissolution of the association • initiation of bankruptcy proceedings • at the request of a member, the number of the association's members has fallen below the number of founders required for the establishment of an association. <p>In any of the cases liquidation proceedings shall be conducted within 60 days of the decision by the association's liquidator.</p> <p>In the event of dissolution of an association, its property shall, after the settlement of the creditors and costs related to liquidation, judicial and other proceedings, be transferred to an association, institution or foundation that has the same or similar statutory goals, based on the decision of the assembly and in accordance with the statute.</p> | <p>The reasons for the termination of the cooperative are:</p> <ul style="list-style-type: none"> • assembly decision on the termination of the cooperative, other cooperative merger, merger with another cooperative and sharing on a number of new cooperatives • court decision • failure to submit the annual financial reports to the competent authority in accordance with special regulations • cooperatives doing business continuously six months with the number of members below the number prescribed by this Act • use of practices contrary to this Act and other regulations as well as the cooperative principles and values • other cases stipulated by law or special regulations <p>The cooperative manager is usually responsible for the cooperative during its liquidation unless provided for otherwise in the rules.</p> <p>The remaining assets are transferred to local governments on whose territory the cooperative operates.</p> | <p>A company can be wound up either: by it coming to the end of its lifetime as specified in Articles of Association (if established on a temporary basis), by member's decision, by final decision of the bankruptcy panel for opening and closing the bankruptcy proceedings, or by a final decision of the court registry on removal of the company from register, ex officio.</p> <p>In Croatia, financial restructuring measures include but are not limited to: postponement of payment dates, increase of share capital, instalment payments, interest decrease or write-off, loan rescheduling, providing additional security instruments, refinancing from strategic partners.</p> <p>Any surplus assets and capital can be distributed between members, if not provided for differently in the Articles of Association.</p> |
| Conversion to Another Form of Company | | |
| Associations | Cooperatives | Private Limited Companies/ Limited Liability Company |
| <p>The association cannot be converted into another type of legal entity.</p> | <p>It is not possible for a cooperative to convert into a different type of legal form.</p> | <p>A Private limited company can convert to Public limited company (Joint stock company), but also General partnership and Limited partnership (the regulations for conversion of Joint stock company to General partnership and Limited partnership are applied). The last two forms are not often used in practice.</p> |

CHAPTER 10

Social Enterprise Ecosystem in Kosovo

Author: Nikica Kusinikova



Executive Summary

Kosovo is the newest state with the youngest population in Europe and faces numerous challenges to achieving sustainable development. The country has made significant progress towards integration into the European Union (EU) by signing the *Stabilisation and Association Agreement* in 2016. Economic growth has been steady since 2008, but Kosovo remains one of the poorest countries in Europe. It is heavily reliant on donor funding, remittances and public spending. At the same time, it has a weak production base and a small economy, unable to create a significant number of new jobs, reduce emigration and poverty.

The unemployment rate is one of the highest in Europe at 32.9% with significant long-term unemployment and higher than average jobless rates among women and youth. Other social groups, such as ethnic minorities and people with disabilities, face social and economic exclusion and are at risk for poverty. Overall there is no comprehensive and sustainable social welfare system that would support change in the social status and social development of these disadvantaged groups in society.

The draft law on social enterprises pending adoption by the Parliament now has the chance to create space for a growing social enterprise community. Although the government does not have a social enterprise strategy, several policy documents envision contracting public services to social enterprises and civil society organisations (CSOs).

Social enterprises in Kosovo are small entities at the early stage of development; most of them are nonprofit

CSOs. It is estimated that there are approximately 30-100 of them in the country. They mostly engage in agriculture, arts and crafts, small-scale manufacturing, as well as various social, educational and health services. Services target disadvantaged communities, who can rarely afford to pay for them, therefore service provision remains heavily subsidized by foreign donors and philanthropic contribution. The key beneficiary groups are ethnic and other minority groups, people with difficulties to access the labour market, people with disabilities and women.

The interest of the public sector to support social enterprises has increased in the last couple of years, but has not materialised yet. Facilities are more readily available to support small and medium enterprises (SMEs), but they do not recognize social enterprises as potential beneficiaries.

Like other countries in the region, the support infrastructure for social enterprises and the social investment market are in their infancy stage. International donors and to a limited extent local philanthropic sources play a crucial role, as social enterprises are still at a stage where they need and prefer grant funding. Managing loans or equity investments would require new skills and knowledge, which they do not currently have; therefore, social enterprises need significant capacity building and technical assistance to be able to tap into such financing opportunities. Social incubators, business incubators and accelerators emerged in the last couple of years, but their long-term future is uncertain as they are struggling to achieve sustainability. There is no social enterprise network or cross-sector body that would advocate for or support the development of the sector. There are practically no social investment funds targeting social enterprises, except for a regional stakeholder, Yunus Social Business Balkans.

Social and Economic Overview

Kosovo is the newest state in Europe having gained its independence in 2008. It has a population of 1.8 million with over half of that below age 29, which makes this the youngest population in Europe. Kosovo is one of the poorest countries in the continent with EUR 3,327 GDP per capita and almost 30% of the population living below the national poverty line.¹²⁵ The country is advancing its integration process into the EU thanks to the EU-Kosovo *Stabilisation and Association Agreement* that entered into force in April 2016. NATO and the European Union Rule of Law Mission (EULEX)¹²⁶ continue to exert significant influence over politics and governance.

Kosovo has experienced steady growth since 2008 with a 3.6% annual growth rate in 2015 and 2016 and a projected 4% in 2017.¹²⁷ It was not negatively affected by the global economic crisis mostly due to a low level of integration into the global economy.¹²⁸ The EU Progress Report assessment is that the country is “at an early stage in developing a functioning market economy.”¹²⁹ The economy is heavily reliant on donor funding, public expenditure and remittances, which fuel domestic consumption. It is characterised by a weak production base, low international competitiveness, significant informal economy (estimated at 39-50% of GDP) and sluggish business expansion in the real economy. Thus, economic growth is still not able to substantially create new jobs, reduce emigration and reduce poverty.

The main industry is minerals and metals production and construction. It is estimated that 50% of the agricultural land is not cultivated.¹³⁰ The SME sector is a predominant part of the economy; 99% of all registered businesses are SMEs with 98.37% being micro companies.¹³¹ They employ 62.24% of all employees in Kosovo and around half of them are in the retail industry. The rest are in transport, storage and distribution (14%); food products, beverages and tobacco (9%); and, hotels and restaurants (9%).¹³²

¹²⁵ The World Bank 2015

¹²⁶ Hoxha and Elezaj 2016

¹²⁷ The World Bank 2017

¹²⁸ Republic of Kosovo 2011

¹²⁹ European Commission 2016

¹³⁰ Republic of Kosovo 2011

¹³¹ Ibid

¹³² Ibid

The main challenges of the businesses in Kosovo are the unreliable electricity and water supply, access to finance and weak rule of law.¹³³ SMEs face formidable difficulties getting credit due to a weak economic system, lack of credit history, high levels of informality, insufficient collateral and a low level of development of the capital markets.¹³⁴

The labour market in Kosovo is characterized by low activity and high unemployment rates among women and youth. Furthermore, there is a gap between supply and demand, and significant mismatch in the educational programmes and the demand for skills on the labour market.

Overall labour participation is very low at 41.6% with an overall employment rate of 25.2% in 2015.¹³⁵ The unemployment rate in 2015 was 32.9% and long-term unemployment is prevalent with more than three quarters of working age Kosovars never having been regularly employed.¹³⁶ A significant portion of the workforce works on short-term contracts (71.6%).

There are significant gender differences in the labour market. As the latest Labour Force Survey indicates, only 18.1% of the working age women are active compared to 56.7% of men. The employment rate among women is also low at 11.5% and is more than three times lower than the employment rate of men.¹³⁷ Women have reported that the responsibilities related to family and household were the main reasons why they are not active on the labour market.¹³⁸ Women mainly work in the education and health sectors and are more likely to work in the informal economy. Labour laws, for example maternity leave rules, discriminate against women in recruitment and lead to the prevalence of short-term working arrangements for them. Gender gaps are identified in education levels as well. Young women, especially from the rural areas are more likely to drop-out of basic education.¹³⁹

While one-third of the labour force are young people 15-24 years of age, youth unemployment was a staggering 57.7% in 2015,¹⁴⁰ thus representing one of the major problems for the development in the country. Furthermore, almost one-third of Kosovo youth were not enrolled in education, employment or training. World Bank assessment indicates that school-to-work transition is rare among young women and that it takes on average 10 years for young men.¹⁴¹

¹³³ Republic of Kosovo 2011

¹³⁴ European Bank for Development and Reconstruction 2016

¹³⁵ Kosovo Agency of Statistics 2016

¹³⁶ Elezaj, Maliqi and Çeku 2016

¹³⁷ Kosovo Agency of Statistics 2016

¹³⁸ Ibid

¹³⁹ Elezaj, Maliqi and Çeku 2016

¹⁴⁰ Kosovo Agency of Statistics 2016

¹⁴¹ Elezaj, Maliqi and Çeku 2016



Down Syndrome Kosovo is a local non-governmental organisation with a mission to support persons with Down Syndrome. In 2014, it started a new activity, packaging and selling of natural honey under the brand Amë. See page 134 for more information.

UNDP's *Kosovo Human Development Report* from 2010 indicates that there are other social groups facing social and economy exclusion as well, such as the long-term unemployed, disadvantaged children and youth, rural women, ethnic minorities (Kosovo Roma, Ashkali¹⁴² and Egyptian-RAE), and persons with disabilities. The World Bank states that these groups are likely to live in extreme poverty. The illiteracy rate among RAE minorities in 2014 was significantly higher than among Kosovo Albanians, at 13.3% compared to 1.6%. They

also face discrimination in accessing public services and the labour market, and are experiencing numerous challenges related to housing, healthcare and education. People with disabilities live with similar challenges. It is estimated that in 2010 only 10% of children with disabilities were enrolled in education.¹⁴³ Overall there is no comprehensive and sustainable social welfare system that would encourage change in the social status and social development of these groups.

¹⁴² The Ashkali and Balkan Egyptians are Albanian-speaking ethnic cultural minorities (recognized communities) which mainly inhabit Kosovo. Prior to the Kosovo War of 1999, Ashkali registered themselves as Albanians. Now they are divided by identifying with two different groups, although the people share culture, traditions and language (Albanian).

During the Kosovo War, they were displaced as refugees in Albania, Serbia and the Republic of Macedonia and the whole of Western Europe. The "Ashkali" identity was created in 1999, as they tried to show their pro-Albanian stance and distinguish themselves from the Roma.

¹⁴³ Elezaj, Maliqi and Çeku 2016

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

In December 2016, the Government of Kosovo approved the *draft law on Social Enterprises*. Parliament is expected to adopt the law at the beginning of 2017, upon which the Ministry of Labour and Social Welfare will develop the bylaws and implementation mechanism. Under the new law, social enterprise is defined as “a legal person irrespective of the manner of its establishment, which contains social objectives in its charter, conducts economic activities, carries out production of goods and services in the general interest of society and integrates people from vulnerable groups.” Based on the definition, the law allows social enterprises to have different legal forms such as association, foundation, private company or cooperative. They are distinguished as social enterprise by receiving a status from the Ministry. Furthermore, the law makes a distinction between two categories:

1. Category A - A social enterprise engaged in delivery of services (social and family services), which guarantees the inclusion of marginalized persons and produces a positive impact on the quality of lives of those at potential risk of social exclusion; and
2. Category B - A social enterprise which employs at least 30% of people from vulnerable groups.

To receive the status of social enterprise, an organisation must comply with several criteria; it must not distribute profits, it should offer goods and services defined by law, ensure equal participation, employ people from disadvantaged groups as defined in the law and respect the general rules of supervision, financial

reporting and other. In this way, the law is flexible to accommodate different types of social enterprises.

Even though there is no official strategy for social enterprise development, the government is planning to introduce measures that will include contracting under the procurement laws especially by the municipalities. The law allows the public institutions to “sign contracts with social enterprises through simplified procedures according to the Law on Public Procurement.”

In addition to the Law on Social Enterprises, there is other legislation that is important and relevant for the launching and operation of social enterprises:

- Law on Freedom of Association in Non-Governmental Organisations (NGOs)
- Law on Social and Family Services
- Law on Business Associations
- Law on Farmers' Cooperatives

Most of the social enterprises operate as nonprofit entities based on the *Law on Freedom of Association in Non-Governmental Organisations*.¹⁴⁴ NGOs can perform economic activities if they are related to the mission of the organisation and up to a reasonable level. However this is not clearly defined in the law. In terms of benefits, social enterprises are exempt from profit tax, although as is the case with most NGOs, they tend to reinvest surplus into their programme activities showing no profit. The purchase of equipment and raw materials may be VAT-exempt.

NGOs that operate in particular fields¹⁴⁵ can apply for Public Benefit Status and receive additional benefits and

¹⁴⁴ Law No. 03/L-134 on Freedom of Association in Non-Governmental Organisations, Government of Kosovo

¹⁴⁵ It includes a wide list of areas, such as humanitarian assistance and relief, charity, education, health, culture, support to persons with disabilities, economic reconstruction

support from the state. The law introduces limits to the provision of the services (i.e. they should be provided to or for the benefit of disadvantaged groups and be free of charge or under market value).¹⁴⁶ While this is in line with advancing the social mission of social enterprises, it creates challenges to the financial sustainability of the businesses as the real costs will have to be subsidised from other income sources. In addition, NGOs cannot deduct their VAT thus are in less favourable position compared to private companies. The *Kosovo Civil Society Index 2015* has concluded that “existing tax benefits are either ambiguous or do not produce any effect in practice, including those for Public Benefit Organisations.”¹⁴⁷

Based on the *Law on Social and Family services*,¹⁴⁸ the Ministry of Labour and Social Welfare introduced a system for the licencing of legal entities that provide social and family services, which clearly recognizes CSOs as service providers. The social services are: family assistance, direct in-house personal care, day centres for people in need, counselling services for people with addiction or other psychological or social difficulties, residential care for old people and people with disabilities, and any other appropriate service related to social and family services.

Social enterprises can also operate as private companies registered under the *Law on Business Associations*,¹⁴⁹ but for the time being, this legal form has not been widely used by them.

Social enterprises can also operate as farmers’ cooperatives.¹⁵⁰ The legislation only recognizes this specific type of cooperative organizing. A cooperative can be established by 10 physical or legal entities – farmers. The cooperatives are set to provide services to their members and are limited in terms of profitability. At least 75% of their turnover must be generated from the activities of the cooperative’s members. The law lists several purposes (listed by priority) for which annual net income should be allocated. The Ministry of Economy has strong control over the work of the cooperatives and is entitled to commission regular external audits.

Even though there is no targeted strategy or action plan for the development of social entrepreneurship in the country, the topic has been addressed in several sectoral strategic documents. The Ministry of Labour and Social Welfare has included the development of a legal framework for social enterprise in the Sectorial Strategy “*Employment and Social Policies 2014 – 2020.*” Furthermore, the Ministry is licencing NGOs that provide social services to people with disabilities – in particular, vocational training for people with disabilities – and intends to provide grant funding and contracting to those organisations as well (in cooperation with other international donors). It is expected that as the law on social enterprises is implemented, the designated ministry will develop other support measures. Another

and development, environmental conservation and protection, promotion of human rights, promotion of democratic practices and civil society.

¹⁴⁶ Milovanović and Maksimović 2016

¹⁴⁷ Hoxha and Elezaj 2016

¹⁴⁸ Law No. 04/L-081 On Social and Family Services, Government of Kosovo

¹⁴⁹ Law No. 02/L-123 on Business Associations, Government of Kosovo

¹⁵⁰ UNMIK Provisional Institutions of Self-Government, Assembly of Kosovo, [Law No. 2003/9, Law on Farmer's Cooperatives](#) and [Law No. 03/L-004 on Amendment and Supplementation of the Law on Farmer's Cooperatives No. 2003/9](#)



Majka devet Jugovica is an organization that serves underprivileged groups in society by providing land, machinery and education on how to work the land. The individual producers sell their produce at the market. See page 136 for more information.

relevant strategic document is the *SME Development Strategy for Kosovo 2012-2016*. This includes “Improving the position of female entrepreneurs, youngsters, minorities, specific groups and support of entrepreneurs in disadvantaged zones” and thus opens a space for integrating social enterprises within this strategy.¹⁵¹

The *Strategy for Decentralization of Social Services 2013-2017*¹⁵² envisages the establishment of co-financing mechanisms for social services provided by civil society and extended families. One of the measures includes piloting social service delivery through social enterprises and CSOs. The *Strategy for Cooperation with Civil Society*¹⁵³ from 2013 also envisions the establishment of a system for contracting public services to CSOs.

¹⁵¹ Varga and Villanyi 2011

¹⁵² European Commission 2015

¹⁵³ Government of the Republic of Kosovo 2013

Table 8: Key Stakeholders in the Social Enterprise Ecosystem in Kosovo

| Policymakers | |
|---|--|
| Organization | Role |
| Ministry of Labour and Social Welfare | <ul style="list-style-type: none"> Responsible for drafting and implementation of the Law on Social enterprises Responsible for granting the SE status Responsible for implementing the policies related to social licensing and funding of social services through social contracting. |
| Ministry of Finance | <ul style="list-style-type: none"> Responsible for drafting the taxation and fiscal regulation for SEs |
| Ministry of Trade and Industry | <ul style="list-style-type: none"> Responsible for drafting and implementation of legislation and strategies related to SMEs Oversight of the work of Kosovo Investment and Enterprise Support Agency (KIESA) |
| Ministry of Agriculture, Forestry and Rural Development | <ul style="list-style-type: none"> Responsible for legislation related to cooperatives |
| Funders | |
| Organization | Role |
| Yunus Social Business | <ul style="list-style-type: none"> Provides social impact investment to social enterprises Manages accelerator programme for start-up SEs which includes mentoring, technical assistance and networking |
| Kosovo Investment and Enterprise Support Agency (KIESA) | <ul style="list-style-type: none"> Aims to support development of entrepreneurship and SMEs Provides funding and other type of support for SMEs, including young and women entrepreneurs |
| USAID Projects | <ul style="list-style-type: none"> Provides financing and technical assistance to SMEs Have supported the establishment of the Kosovo Credit Guarantee Fund (KCGF) |
| UNDP | <ul style="list-style-type: none"> Provided financial support in form of grants for the establishment of social enterprises. |
| State Employment Agency | <ul style="list-style-type: none"> Provides subsidized employment and training Implements self-employment measures |
| EU Funding (mostly IPA) | <ul style="list-style-type: none"> Provides grant funding for the establishment of social enterprises and support infrastructure Provides grant funding to CSOs for projects in various areas including social inclusion, employment of vulnerable groups, entrepreneurship development etc. Provides project funding for capacity building of social enterprises |
| International Organization of Migration | <ul style="list-style-type: none"> Provides small grants for social enterprises. The project is funded by the British Embassy in Kosovo |

| Support Organisations and Institutions | |
|--|---|
| Organization | Role |
| Kosovo CSR Network | <ul style="list-style-type: none">• Provides business counselling and advice to social enterprises including advice from corporate members• Connects SEs with member companies for further support, purchasing of products etc.• Promotes the products and services of social enterprises• Facilitates access to market• Provides networking opportunities• Promotes social entrepreneurship |
| Social Incubators | <ul style="list-style-type: none">• Provides incubator and business advice services to local businesses of minorities and vulnerable groups• Provides promotion, support in marketing and sales and other business support services• Promotes social entrepreneurship |

PUBLIC SECTOR SCHEMES

The interest of public institutions for supporting the development of social enterprises increased over the last two years. The Ministry of Labour and Social Welfare has taken the lead in this process as it believes that social enterprises can contribute to addressing the high levels of unemployment in the country. Furthermore, the interviewed representatives from the ministry see the concept of social entrepreneurship as complementary to the process of decentralization of social services (i.e. by contracting social enterprises it would enable the municipalities to provide quality services at a lower price, which should have a larger social impact on vulnerable groups). Even though the specific government support mechanisms are still in development phase, the Government has included them in projects co-funded by the EU. It is expected that additional public support mechanisms will be introduced in the next few years.

There are other institutions and forms of public support that might be relevant for social enterprises but are not used to the full extent currently.

The Ministry of Labour and Social Welfare (MLSA) – Instrument for Pre-Accession Assistance (IPA) II 2014-2020: Project “Support for better social services for the most vulnerable groups” is aimed at improving the delivery of social services at the local level through licensing social service providers, social NGOs and social enterprises, benefiting children with disabilities, children in need of family care, elderly persons, persons with disabilities, and victims of domestic violence. The total budget of the project is EUR 2.6 million, 30% of which is co-financed by the Ministry. The project will set up a Social Service Grant Scheme which will provide direct grant funding to at least 7 NGOs or social enterprises that deliver social services. The project will also support the Ministry to fund the Social Compact Innovation Fund (SCIF) which would provide financial support beyond the mandate of the project. Finally, the project aims to set up a comprehensive monitoring and evaluation mechanism for social service delivery. Implementation is expected to start in April 2017.

The [Kosovo Investment and Enterprise Support Agency \(KIESA\)](#) is a government agency operating under the Ministry of Trade and Industry. In addition to the promotion of investments and policies related to the designated economic zones, the agency also supports the implementation of SME development policies and programmes. Many of its instruments are co-financed by foreign donors. Some can be easily utilized by social enterprises; for example, voucher counselling, internship programs or credit guarantee scheme. KIESA support to SMEs includes some of the following instruments:

- Grants to micro-businesses and grants to SMEs is an instrument co-financed and co-managed with the EU Office in Kosovo. It aims to support export-oriented SMEs by providing grants to subsidize the import of products.
- SME promotion in Kosovo is an instrument co-funded by the Austrian Development Agency and the Swiss Development Cooperation. It includes two key measures: the establishment of a Credit Guarantee Scheme and a Voucher Counselling Scheme to subsidize training and consulting services for new entrepreneurs, start-up companies and SMEs.
- Support to young entrepreneurs includes support measures such as: a) one-month internship programme for students in a company; b) business plan competitions and c) workshops for youth.
- Support to women entrepreneurs, which includes measures such as competition for women entrepreneurs with a first prize of EUR 1,000, annual regional conferences and organization of “Women in business” trade fair.

The following active labour market measures for the employment of people from vulnerable groups are available to the employers:

- Benefits for employment of people with disabilities. The Law on Vocational Training, Re-training and

Employment of People with Disabilities¹⁵⁴ provides support to the employers of people with disabilities. The support is in the form of reduced taxes and customs fees, plus subsidies.

- Wage subsidies are available for private sector companies when they newly employ people from pre-defined vulnerable groups. The subsidy is in the form of 50% of the wage for a period from 6 to 12 months depending on the type of employee. This programme as well as most of the other active employment measures are implemented by UNDP and are financed by the government and international donors.

OTHER SUPPORT AND INFRASTRUCTURE

The support infrastructure for social entrepreneurship is still in the early stages of development and is heavily reliant on donor funding. International organisations were most interested in contributing support and recognized the potential of the social enterprise model. Like in other countries in the region, most of the existing social enterprises received grant support from donor-funded programmes to set up the business. This is usually complemented with philanthropic sources offered mostly by large companies. Some of the most important supporters of social enterprises have been the EU programmes, UNDP, the International Office of Migration, and the Danish Refugee Council.

Donor funding is heavily involved in SME development as well. However, the projects rarely identify social enterprises as target beneficiaries, even though the support mechanisms would be suitable for their needs. Available analysis and interviewee input point out that one of the main challenges of such support is the limited time-frame and that many social enterprises struggle to achieve financial sustainability after project funding ends.

¹⁵⁴ Law on Vocational Training, Re-training and Employment of People with Disabilities (No. 03/L-019), Government of Kosovo

Business Planning and Capacity-building Support

The European Union Office in Kosovo has been one of the key supporters of social entrepreneurship in the last few years. It provided co-financing to programmes through the Instrument for Pre-Accession Assistance (IPA) I in 2007-2013 and IPA II for the 2014-2020 period. The support programmes under this instrument mostly focused on the provision of social services and the employment of vulnerable groups. For example, the IPA 2012 project “Provision of social services for children, persons with disabilities and elderly persons in Kosovo”¹⁵⁵ provided grants to two organisations ([HandiKOS](#) and [One-to-One Children’s Fund](#)) to develop social services to the abovementioned vulnerable groups. As a result, two models for community-based service provision (day-care centres for children with disabilities and at-home services for elderly and for people with disabilities) were launched.

Furthermore, the IPA 2012 Project “[Enhancing the employment of vulnerable groups](#)” was implemented between January 2014 and January 2016 with the Ministry of Labour and Social Affairs as the main beneficiary. The project objective was “to support employment and social inclusion of the most disadvantaged and vulnerable groups, in particular beneficiaries of social assistance and people with disabilities, in the labour market through the development and implementation of active employment policies at central and regional levels that would improve employability of the above-mentioned groups and provide opportunities for entrepreneurship.” The Project established a Project Grants Scheme on Active Employment Measures with a total fund of EUR 1 million. Individual grants ranged from EUR 100,000 to 300,000. In total nine projects were supported, some of them existing or emerging social enterprises. The new project

¹⁵⁵ European Commission 2011 and European Commission 2015

under IPA II has already been described in section b) of this country study.

In addition to these projects, the EU has provided funding for other programmes supporting social enterprises and SMEs implemented by other organisations under different instruments, such as “Support to Micro, Small and Medium Enterprises in Kosovo (MSME Grants)” implemented by IOM (described below).

[UNDP Kosovo](#) is one of the first organisations to provide support for the establishment of social enterprises in the country. UNDP has also assisted the Ministry of Labour in the development of the Law on Social Enterprises. Overall, in Kosovo UNDP’s priorities have been around social inclusion and access to services of most vulnerable communities through policy reform and various direct programme interventions. In 2013 they supported the establishment of five social enterprises that focused on the employment of vulnerable groups (Category B according to the new Law on social enterprise). The supported businesses were operating either in general service provision (cleaning, maintenance etc.) or in agriculture (green jobs). The social entrepreneurs were identified from the local communities; they were people who had potential and interest to develop entrepreneurial activity. Support consisted of direct technical support in developing the business plan, as well as grant support of EUR 15,000 – 25,000. UNDP does not offer this type of support on an annual basis. However, they are committed to supporting the development of social enterprises as this is one of their strategic approaches to address social inclusion and the economic empowerment of vulnerable communities.

Other stakeholders have also provided support for social enterprises through UNDP programmes. For example, the municipality of Fushe Kosova (Kosovo Polje) provided EUR 300,000 for a UNDP supported social enterprise Association of Raspberry Producers – Sušice/Sushicë.¹⁵⁶

Social Business Incubators. [Prishtina REA](#) is an Agency with a mission to provide business advisory and capacity building to SMEs and entrepreneurs. Supported by the EU Office in Kosovo, under the Project “Developing and Managing the Art and Handicraft Sector in Gracanica” Prishtina REA established a [Social Enterprise Management/Incubator Facility](#) in partnership with the municipality. The objective is to support business activities of vulnerable groups and local entrepreneurs in the arts and handicrafts industry. The incubator was built in 2014 and in addition to offering office space, it provides business advice and technical assistance, networking opportunities, **market linkages**, **fundraising**, **product/service development**, promotion and IT services, organization of festivals and other events. Another [Social Business Incubator](#) was established by the Danish Refugee Council (DRC) in the Roma neighbourhood of Mitrovica. The incubator provides support to local businesses that offer employment opportunities and serve the local RAE community.

[Yunus Social Business Albania/Balkans \(YSB\)](#) is managed through their office in Tirana, Albania. It offers an acceleration programme and funding to social enterprises in the Balkan region (more details on the programme is available in the Market study on Albania and in section 5 of this report). YSB services are available to Kosovo social enterprises, but to date only a few have taken advantage of this opportunity.

¹⁵⁶ United Nations Development Programme in Kosovo 2015

[Kosovo Corporate Social Responsibility Network \(CSR Kosovo\)](#) is a network of companies committed to socially responsible business practices in line with the principles of the UN Global Compact.¹⁵⁷ It was established in 2011 under the umbrella of the American Chamber of Commerce and became an independent legal entity in 2013. The programmatic focus is around youth employment and human rights in business. CSR Kosovo provides in-kind and technical assistance services to social enterprises. More specifically, they offer counselling and advice, networking the social enterprises with the business community, promoting their goods and services or facilitating their access to markets. The network has already supported six social enterprises in this way. In addition, member companies (most prominently Sharrcem and Raiffeisen Bank) provide grant funding as well. CSR Kosovo applies several criteria in selecting the social enterprises it wishes to cooperate with: it must serve a social cause; have the potential to become self-sustainable; provide benefits to as large a group of beneficiaries as possible; is transparent and publishes reports on its activities and finances; and is open to cooperate with the business sector.

CSR Kosovo intends to continue supporting social enterprises in the future in line with their capacities and financial means. Their future plans include: a) establishment of a school for entrepreneurship, coupled with ongoing mentoring and counselling of start-ups; b) lobbying for the establishment of a government loan guarantee fund to cover 100% of the collateral requirements for social enterprises and youth start-ups and c) continuing with free counselling and business services to social enterprises.

Access to Support Schemes and Financing Available to SMEs

USAID provides support mostly for economic development and SMEs:

- [Empower Private Sector](#) started in 2014, is co-financed with Sida and offers direct support to companies to improve their access to market and finance, improve productivity and improve skills. The project focuses on bringing benefits to specific vulnerable groups such as women, youth, ethnic minorities, people living in the Northern part of the country, especially offering employment. SMEs can use a variety of services: 1) grants up to EUR 75,000 based on a 20-30% cost-share for product expansion; 2) connecting to market (B2B, participation at fairs etc.); 3) technical assistance for quality improvement; 4) promoting the enabling business environment and 5) facilitating access to finance. Up to the end of October 2016, the project has supported around 200 SMEs, which generated around 1,300 jobs; 50% of the new jobs employed women, 50% employed youth.
- [Advancing Kosovo Together](#) is a local solution that provides grant funding to start-up and existing businesses to promote self-employment and income generation in particular among the women and youth. Funding is accompanied by capacity building.
- The Agricultural Growth and Rural Opportunities (AGRO) Programme provides support in sustainable growth in the agricultural sector.
- The [EMPOWER Credit Support Project](#) aims to support underserved SMEs in their access to finance. The project established the Kosovo Credit Guarantee Fund (KCGF), a guarantee facility to reduce the risk of commercial banks, microfinancing institutions and non-banking financial institutions when lending to SMEs. KCGF covers 50% of the risk for loans to SMEs including micro enterprises. In

¹⁵⁷ This is the largest corporate responsibility global movement established by the United Nations.

In addition, the project organizes workshops on financial literacy and is targeting women, young entrepreneurs and ethnic minorities.

The [International Office for Migration \(IOM\)](#) has provided support to SMEs mainly through the [Support to Micro, Small and Medium Enterprises in Kosovo \(MSME Grants\) Project](#) co-financed by the EU Office in Kosovo and the Ministry of Trade and Industry. The MSME grants were awarded from February 2014 to August 2016 from a fund of EUR 4 million. The main purpose of the grant scheme was to alleviate some of the difficulties SMEs face by financing their needs in developing the business. The intervention focused on increasing productivity, upscaling production, improving competitiveness through the introduction of new technologies, new products and increasing scale in terms of production and employment. The grants were provided through two main schemes:

1. Grants for micro enterprises ranging from EUR 10,000 to 25,000, which co-financed up to 85% of the business costs for maximum 12 months and
2. Grants for SMEs ranging from EUR 60,000 to 200,000, which co-financed up to 75% of the costs for maximum 20 months.

The grant scheme was available for various sectors except for retail trade. The MSME project supported 21 micro enterprises and 15 SMEs. There is no information whether any of the supported MSMEs were social enterprises. However, several of the companies are owned by women or ethnic minorities, and they also opened new employment opportunities for them. Several built their business around environmental and sustainable development issues.

In addition to the MSME Project, IOM also has an on-going project called “Socio-Economic inclusion of minority communities to support long-term reconciliation” funded by the British Embassy and implemented in partnership with Caritas Kosova, AKTIV, and Centre for Communities Development. The project incorporates grant schemes launched in 2016 (the call is open until end of January 2017) for social inclusion for two types of entities: a) local initiatives/social enterprises and b) businesses. The individual grant is up to EUR 30,000 for a period of 6 months and can aid the direct purchase of equipment and machinery for launching or scaling a social enterprise. Similar assistance is offered to start-up businesses (maximum amount of EUR 5,000) and established businesses (up to EUR 20,000).

EBRD in Kosovo provides support to SMEs mostly through financial and microfinance institutions. The average finance offered through commercial banks is EUR 250,000, while microfinance operates with smaller amounts. Interest rates for micro-loans tend to be high, 10-12%, which tend to discourage social enterprises.

Technical assistance is mostly offered through the Business Advisory Services, which helps SMEs access the services of local consultants through a cost-sharing scheme. EBRD offers to cover 50% of the consultants' fee, while the enterprise must pay the other 50%. Another regional initiative that is also implemented by EBRD in Kosovo is the Women in Business programme, which offers a combination of financing and technical assistance in consulting and advisory services to women-led start-up and young enterprises. Besides the lack of financial management and reporting skills, EBRD has identified other challenges for its SME clientele: the lack of collateral and low financial power to grow. The Bank wants to tackle these challenges by working with the loan officers of local partner banks.

Kosovo is the only country in the Western Balkans where EBRD has piloted a social enterprise development programme. In the context of its Small Business Support Programme in 2012 the Bank partnered with NESsT to support entrepreneurship and inclusion of men and women with disabilities in Kosovo. A key outcome of the programme was a research report,¹⁵⁸ which laid the foundations of a capacity-building and award programme. EBRD offered financial awards to three social enterprises with the best business plans, among them to Down Syndrome Kosovo (page 134).

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

Social entrepreneurship has not been integrated in the formal education system. Recognizing the importance of entrepreneurship education for the development of an entrepreneurial culture, in 2007 Kosovo adopted the *National Strategy for Entrepreneurial Education and Training*. Its ambition is that entrepreneurship modules are introduced in all university faculties and post-secondary education programmes.

Social entrepreneurship is not addressed in the strategy. Most of the education about social enterprise is organized on a project basis funded by foreign donors, thus it lacks long-term availability and consistency. Most of the social entrepreneurs are self-educated or have received support from development programmes. There is no available information about public or private educational institutions including social entrepreneurship in their curricula.

¹⁵⁸ Varga and Villanyi 2011

Mapping of Social Enterprises

Social enterprises in Kosovo are in their early stages of development and it is not until the last few years that a sector began to take shape with its potential role recognized by public authorities and support organisations.

LEGAL FORMS

Most identified social entrepreneurship activities happen within the civil society sector. Given that there is scarce official information on the social enterprise sector, research about CSOs will be used to estimate the number of social enterprises in the country. According to the *Kosovar Civil Society Index 2016* there are around 1,500 active CSOs in the country. A survey conducted within the *CS Index* on a sample of 101 CSOs indicates that 17% engaged in economic activities.¹⁵⁹ For 11%, the economic activity is related to offering services “mostly related to research services, evaluation services, training for business plans/project proposals, renting offices, renting out equipment.”¹⁶⁰ Overall, only a small number of CSOs in Kosovo engage in any form of entrepreneurial activity. There is no indication about the number of SMEs that focus on creating social impact. Stakeholders interviewed for this study estimate that the number of actors engaging in some form of social enterprise ranges from 30 to 100 entities. The majority are in the blueprint and validation stages of development.

TARGET GROUPS

The identified social enterprises serve a variety of beneficiaries, including ethnic and other minority groups, people with difficulties to access the labour market, people with disabilities and women. Stakeholders consulted by this research see the role of social enterprises mostly in job creation and work engagement for vulnerable groups, social integration and influencing the public’s perception of vulnerable groups. At this stage of development, Kosovo social enterprises are still not able to provide job opportunities on a significant scale compared to mainstream SMEs. Like in other countries in the region, they are small entities that usually employ less than 10 people. Even on the level of the whole CSO sector, the annual budget of most organisations (71%) is less than EUR 25,000.¹⁶¹

FIELDS OF ACTIVITY

Most of the identified social enterprises in Kosovo operate within an existing organization, and as a programme of a CSO. Their primary focus is community development, empowerment and equality of particular social groups often from the human rights approach, and income generation and productivity growth.¹⁶² They mostly engage in agriculture, arts and crafts, small scale processing (food and beverage, for example jams and juices; honey; stationary), as well as various social, educational and health services. While the products are sold on the open market, most of the social, health and educational services are provided to specific vulnerable groups free of charge or with minimum contribution. 88.4% of the services are provided free of charge, while

¹⁵⁹ Hoxha and Elezaj 2016

¹⁶⁰ Ibid

¹⁶¹ Ibid

¹⁶² Milovanović and Maksimović 2016

only 9.3% require financial contribution from clients other than vulnerable groups.¹⁶³ This corresponds to the data above which has not identified these types of services as revenue-generating ones in the true sense for CSOs. Thus, such services remain heavily subsidized by foreign donors and philanthropic contribution. The newly initiated process of licensing and contracting of social services by the government and municipalities might bring change and would make social enterprises more sustainable. However, this model applies only to social services and not the services in the field of education and health. In addition, research¹⁶⁴ indicates that even when social enterprises have contracts with the government for the provision of social services, the price they charge is often not sufficient to cover the cost of the service. Public entities tend to cover very little administrative and office costs of these services, and their payments are delayed.¹⁶⁵

AMË

[Down Syndrome Kosovo](#) is a local NGO that supports people with Down Syndrome through direct services, advocacy and lobbying for improved policy and public services. In 2010, the organization initiated a social enterprise activity that produced greeting cards. In 2014, it began packaging and selling of natural honey under the brand Amë. The purpose of the social enterprise is (a) to prepare young people with Down syndrome for independent life and job integration and (b) to provide sustainability for the organization.

Down Syndrome Kosovo initially started producing cards as a therapeutic creative activity for its beneficiaries. The cards were of good quality, and the organisation soon started selling them.

The initial support for the honey packaging came from the American Chamber of Commerce (AmCham), which provided a donation to help purchase the packaging machine. The organization also received an EU grant in the value of EUR 125,000. The honey is mostly sold to restaurants, coffee shops and companies as gifts for their business partners.

The social mission of the business helps increase sales and allows Amë to be sold for a higher price than the usual, industrial honey with similar packaging. In the period of the grant support (2015 until June 2016) the net income from honey was around EUR 5,000.

At the beginning, the social enterprise paid per diems to the beneficiaries that worked in honey packaging and honoraria to the workers. During the project Amë provided work engagement for 16 beneficiaries, which decreased to seven after the project had ended.

Amë faces challenges in running the business. Natural honey is difficult to find in Kosovo. Thus, they have decided to branch out into packing marmalade, which they can sell throughout the year. To achieve this, they are looking for grant funding of about EUR 10,000 to purchase the raw material and the piece of machinery they need for the packaging of marmalade. In addition, Amë is considering expanding to Prizren, where they already operate a centre, to set up a professional kitchen to offer skills training to people with disabilities who will make their products.

¹⁶³ Hoxha and Elezaj 2016

¹⁶⁴ Ibid

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

It is challenging to assess the actual contribution of social enterprises related to youth and gender inclusion. There is no analysis available on these aspects thus the contribution can be discussed only citing examples of social enterprises dedicated to these target groups. It seems that several social enterprises were initiated by organisations working on gender issues (including six out of 13 surveyed within the *International Comparative Social Enterprise Models research*¹⁶⁶). These organisations address gender inclusion through various interventions, mostly education and economic empowerment of women. For example, the organization The Ideas Partnership (TIP) helped set up a social entrepreneurship activity called [Sa-Punë](#). Sa-Punë engages women and other marginalized groups in Kosovo in producing hand-made soaps, jewellery and bags, which are sold at reasonable prices and thus provide income for the women who take part. The business involves 24-26 women on part-time basis who have received training and are engaged in the production process.

Another example is [Flora Stationery](#), which sells stationery online with design based on paintings of young Kosovar female art students. All proceeds are used to assist young women in Kosovo through two programs: 1) scholarships that provide tuition and book fees for a semester at a University; since 2014 they have supported 100 young women; and 2) Develop Her Coding Academy for young women in the IT industry helping them gain skills and access global economic opportunities (implemented in partnership with Coding Dojo, Girls Coding Kosova and Innovation Centre Kosovo).

The least developed regions of Kosovo have been increasingly targeted by development programmes and social enterprises. In fact, several international donors and organisations such as UNDP, The Ideas Partnership and EU programmes for increasing employment and entrepreneurship among vulnerable groups have been designed for those communities. Many of the social enterprises that engage in agricultural production, production of packaged homemade food, arts and crafts are based in rural areas.

FINANCING STRATEGIES

Social enterprises in Kosovo have been established and funded mostly by the international donor community. Public institutions in Kosovo are still heavily dependent on international donor funding (particularly from the EU) when implementing reforms in areas of employment and social inclusion.

Considering that most of the social enterprises are CSOs, one piece of data can help understand their financial diversification: a staggering 99% of the total income of the surveyed CSOs (38.6% of all CSOs) came from foreign funding.¹⁶⁷ Public funding has been reported to range from “couple of hundred to a couple of thousand euros.”¹⁶⁸ Foreign funding is expected to remain an important source for social enterprises as well.

¹⁶⁶ Milovanović and Maksimović 2016

¹⁶⁷ Hoxha and Elezaj 2016

¹⁶⁸ Ibid

MAJKA DEVET JUGOVICA

[Majka devet Jugovica](#) is an organization from Grachanica set up with support from the Serbian Orthodox Church to serve underprivileged groups in society regardless of their ethnicity. Initially the organization started with social programmes of charity support and soup kitchens providing basic food, hygiene products, medicine and help to people in rural areas.

Since work was difficult for people to find in remote, underserved areas, the organisation launched a sustainable agricultural production enterprise to offer small producers an opportunity to earn income. Majka devet Jugovica provides them with donated land, machinery and education on how to work the land. The individual producers sell their fruits and vegetables at the market.

Another stream of support was offered for livestock farming. Initially families received goats as a donation. When the goats had offspring, the organization received one young goat back and the family could sell the rest either to the organization or keep them and grow a small farm.

Over time the operation has expanded. Today it includes 35 hectares of land, five greenhouses, a pasteurization plant, eight rose greenhouses in the north of the country, a dairy farm with over 180 goats, 300 cows, bulls and a mini-farm. All production is free-range without additives and hormones. They employ 56 people throughout the year, and the workforce increases during the high season.

The organisation earns EUR 30,000 in profits, which are re-invested in the business, donated to the church or used for charitable activities. This seems to be a great return on the initial EUR 2,000-3,000 investment. The organisation learned a lot through work and gained valuable expertise from people in the communities who were already engaged in farming. The enterprise involved the whole community in developing new opportunities for vulnerable groups and areas. The team's plans include further expansion into poultry and pig farming, as well as opening a flower decorations store to provide work for young women from disadvantaged families.

Moreover, the donor community is increasingly interested in the social enterprise model, so more targeted programmes can be expected in this area in the following years.

Some social enterprises also received support from corporate funding but this is still an exception rather than standard practice, because beyond foreign companies the rest of the business sector has not been engaged with corporate social responsibility yet.

Like other countries in the region, donor support was valuable to launch the social enterprises and test business models. Most of the businesses are still in a stage of development where they either prefer grant funding to expand their entrepreneurial activities, or are relying on the surplus income to achieve sustainability.

None of the SME support programmes are targeting social enterprises (described in section 3) as they are not available to CSOs. Those programmes could help build social enterprise capacities, improve their business strategies and gain access to more diverse funding. There is no long-term support available specifically to social enterprises, which could assist them to move from blueprint to the scaling stage.

Social enterprises mostly rely on various capacity-building programmes funded by donors or corporate advice provided through the Kosovo CSR Network. As many of them come from the civil society sector, Kosovo social enterprises lack knowledge and skills in financial planning and business management. In the experience of the Kosovo CSR Network, social enterprises are not competitive employers in the labour market and therefore they are not able to recruit managers who know how to grow the business. Consequently, social enterprises are forced to develop their business management capacities internally, which prolongs the time it takes for them to grow.

GENDER ANALYSIS OF SOCIAL ENTERPRISES

There is no sex-disaggregated data on the ownership and management of social enterprises. As indicated above, many social enterprises are established by organisations working on gender issues and are managed by women. The overall employment in CSOs shows a slight prevalence of male employees (55% male and 45% female). None of the social enterprises have pointed out gender-based discrimination in access to financial markets.

MONITORING AND EVALUATION SYSTEMS

Social enterprises use the standard national accounting system to monitor their financial results. However, this accounting is suited for NGO work and often fails to differentiate between the business activity and the rest of the organization.

In terms of social impact, similarly to other countries in the region, social enterprises usually employ some form of internal monitoring and evaluation system. They mostly measure the quantitative outputs related to number of employment opportunities created, number of beneficiaries served, as well as qualitative impact related to the changes they identify among the target groups they serve (see the Amë case study on page 134). They do not employ a comprehensive system based on international or even regional standards that would provide comparable data of the social impact.

Social Investment Market

DEMAND

Social enterprises in Kosovo are in their early stages of development and seek non-repayable grant finance and donations for their development. There is no visible demand for repayable finance and social enterprises are not ready to take on debt or equity of any sorts for many reasons:

- They have not validated their business models yet and do not generate enough surplus revenue to repay finance
- They do not have collateral to offer as loan security
- They lack the financial and business management skills to apply for and manage debt finance

SUPPLY

Regarding social finance supply, currently there are no specialized mechanisms or funds operating in Kosovo, except Yunus Social Business Balkans (YSB). YSB operates out of Tirana Albania, but its offer is open to social enterprises in all the countries in the Western Balkans. It provides flexible loans in the range of EUR 80,000 – 500,000. The interest rate is 6-8% depending

on the risk and capacity of the social enterprise and might offer a grace period of 6-18 months. The loan term is 6-7 years on average; this can be flexible depending on the sustainability of the social enterprise. YSB obtains an equity stake of up to 25% in the company and keeps that share until the loan is repaid. There are possibilities for patient loans with a grace period of five years. However, as most of the social enterprises in Kosovo are constituted as NGOs, they are not able to take advantage of the YSB funding, but can participate in the acceleration programme. Currently, YSB has invested in one Kosovo social enterprise, an agricultural enterprise called [Rizona](#) that is currently in its portfolio

The EU-Funded project “Support for better social services for the most vulnerable groups” envisages support to the Ministry of Labour and Social Welfare to set up a Social Compact Innovation Fund in the future. The detailed concept for this Fund has not been developed yet, so it is not clear what its mandate will be and what type of finance it will provide to social enterprises.

Gap Analysis and Recommendations

LEGAL FRAMEWORK

The *Law on Social Enterprises* is expected to be approved by the Kosovo Parliament in early 2017. It will be flexible to accommodate different legal forms and types of social enterprises and it will differentiate between work integration social enterprises (WISE) and social enterprises that offer goods and services to vulnerable groups. If implemented along these lines, the law would provide space for innovation and the emergence of a variety of social enterprises that will focus on serving the needs of underserved communities. The law also intends to provide tax incentives related to profit tax and VAT. It is expected that this new law will provide clarification of social enterprise as a model and will help these enterprises receive recognition.

Public support measures are also necessary to aid the emergence and development of social enterprises. Several strategic documents outline a variety of such measures, ensuring grants and co-financing to social services providers or contracting public services to CSOs. The payments received by social service providers today are not sufficient to cover the costs of services and do not include institutional support. A more appropriate contracting and payment scheme is needed that would commit to a basic price combined with payment per beneficiary served. Preferential treatment in public procurement (especially smaller scale procurement) should be explored by introducing social impact into the procurement criteria. The new law on social enterprises already incorporates provisions related to this aspect but they need to be reflected in practice. This will give a chance for social enterprises to enter public sector markets. Public policies have so far not outlined any instruments for start-ups, seed funding or support in technical assistance and business services.

Public policies related to the development of SMEs and entrepreneurship do not specifically recognize social enterprises as economic actors. They are still predominantly addressed within the employment and social welfare sphere. Better integration of these policies would lead to measures that could improve the business success and sustainability of social enterprises, which would in turn enable them to increase their social impact.

Recommendations

- The public procurement processes need to be revised and more appropriate pricing mechanisms should be introduced, so that contract payments cover the cost of social service provision
- The government needs to harmonise its future social enterprise policies with the existing employment and social welfare policy framework

ACCESS TO FINANCE

Social enterprises in Kosovo are still in their early stage of development. Some have tested their business model and are making efforts to grow the business. However, they face challenges in achieving financial sustainability and independence from foreign donor funding. In most cases, social enterprises were established with project grants obtained from foreign funders or philanthropic support. They still rely on such funding to cover operating costs and most of them do not generate steady income on the medium run to be able to consider repayable finance. Most social enterprises are launched by CSOs, so they are used to fundraising and managing grants, not running businesses. Managing loans and investments would require new skills and knowledge, which they do not currently have, therefore social enterprises need significant capacity building and technical assistance to be able to tap into such financing opportunities.

At this stage of development, the most appropriate funding for social enterprises in Kosovo is non-repayable finance; start-up grants and grants for social innovation projects that will enable new social entrepreneurs to develop their business plans and launch a business. Existing social enterprises also need grant funding, preferably in combination with technical assistance to build their business management skills, revise their business plans and grow. Successful social enterprises will need further capacity building and networking support to help them access social impact investment, particularly in the form of patient and soft loans (longer grace periods, longer repayment periods and lower interest rates).

Recommendations

- Grant schemes should be made available for start-ups and early stage social enterprises, ideally combined with long-term capacity-building support focusing on business planning and management skills
- Social enterprises need information about other types of finance that they may resort to after grants. They need training programmes about financial instruments and debt management and be exposed to examples of organisations that used repayable finance successfully.
- Government could provide financing for different stages of enterprise development, and could act as the first loss funding that is very much needed among early stage enterprises. This could encourage other possible financiers to engage.

CREATION OF AN ECOSYSTEM

The social enterprise ecosystem in Kosovo is underdeveloped. It is based mostly on project support of foreign donor institutions and organisations, and has only a small number of stakeholders. Public policies have just started considering measures to support social enterprises. Longer-term technical assistance and business services are not available, at the same time, they are the most critical type of support that Kosovo social enterprise need now if they are to succeed and grow. Social incubators, business incubators and accelerators have emerged in the last couple of years and are showing promising results, yet they are still far from achieving sustainability, which puts their consistency in service offer in question. Currently business advice is provided by the corporate sector through the Kosovo CSR Network and it can be an excellent complementary mechanism to future public policies. The business services available to SMEs (through KIESA or the USAID Project) would meet the demands of social enterprises as well, if they could be accessed by them. Furthermore, social enterprises would benefit from networking with other business entrepreneurs to acquire an entrepreneurial mind-set.

There are no social enterprise networks or cross-sector bodies aimed at the promotion and development of social entrepreneurship in Kosovo. Public policies need to include the establishment of such multi-sectorial support infrastructure (such as National Council on Social Enterprises or similar) that would offer space for social enterprises to express their needs. Such a body could also allow other stakeholders to become more aware of social enterprise success stories and business models and their potential social impact. In addition, interested stakeholders (donors, support organisations) can facilitate more consistent networking among the existing social enterprises and create a cohort that will cooperate, exchange experience, support each other and eventually establish a social enterprise network. These efforts need to be built bottom-up, supported with facilitation rather than by a top-down approach.

Recommendations

- The creation of a social enterprise network would benefit start-up and more advanced social enterprises. It would offer a platform for mutual support, exchange of information and experience and easier links to similar networks in the region. Public sector or private funding could underpin the networking efforts and include other stakeholders, for example socially responsible companies as well.
- The government could consider establishing a multi-sectorial social enterprise forum that would invite all stakeholders to the table to discuss social enterprise strategies and contribute their resources. This is particularly relevant considering the new Social Enterprise Law which is more inclusive in terms of legal form in comparison to others in the region.
- Social enterprises would benefit from a wider range of long-term capacity building and technical assistance, which would ideally accompany the funding they receive. Financing available to SMEs should also be considered for social enterprises.
- Incubators could be encouraged to invite and work with social enterprises to develop their businesses and expose them to interaction with others. Incubators and support organisation need to be funded to offer such support until they create their own sustainable models.

CHAPTER 11

Social Enterprise Ecosystem in FYR Macedonia

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Executive Summary

Since 1991 FYR Macedonia has been on a journey to implement the principles of democracy, liberal market economy and social solidarity. The efforts resulted in FYR Macedonia becoming an EU candidate country in 2005. Public policy reforms led to improvements in the business environment with steady economic growth since 2013. Small and medium size enterprises (SMEs) are the backbone of the economy representing 99% of the registered companies and employing 80% of the workforce¹⁶⁹. The key challenges to economic development include corruption and a weak rule of law.

FYR Macedonia has an ethnically diverse population comprised of Macedonians, Albanians, Turks and others. The country is struggling with socio-economic challenges such as high unemployment, a significant level of poverty and the exclusion of particular social groups such as youth, women, ethnic minorities, people with disabilities and long-term unemployed. They face discrimination on the labour market and in their access to services.

The government says it would like to introduce a law on social entrepreneurship, but the project has never passed the draft phase. There is currently no targeted legislation on social enterprises and the model remains unknown for the majority of stakeholders. Existing laws enable the setting up of various forms of social enterprises. The Law on Associations and Foundations allows civil society organisations (CSOs) to conduct economic activities in line with their mission, as long as

the surplus income is used for nonprofit purposes. Social enterprises can also use various forms of business recognized under the Company law and they can be cooperatives active in diverse fields of activity.

There are no targeted public sector schemes for social enterprises in FYR Macedonia as they are not formally recognized by public policies. At the same time, social enterprises have been able to take advantage of active labour market measures, which provide subsidies for the employment of vulnerable groups. Some of the public schemes for SME business support could also be expanded to include measures for social enterprises.


Social enterprises in FYR Macedonia are still in the early stages of development, either in blueprint or validation stage. The sector consists of mostly small entities that employ less than ten people and have annual income below EUR 100,000. There are approximately 40 to 70 social enterprises in the country. The majority operate as associations. They provide a variety of products and services in the fields of education, health and social protection. Most commonly they serve agricultural producers, people with disabilities, women and youth. Sustainability remains a challenge for Macedonian social enterprises; although they have a diverse funding base, they continue to rely heavily on grant support from international donors.

The social investment market in FYR Macedonia is underdeveloped. Overall, a support structure started to emerge in the last couple of years with potential to grow, even though it is still heavily dependent on donor funding. There is no real demand for investments; most social enterprises are not investment ready. They do not have repayment capacity, as they still do not generate steady income on the medium run. With a few

¹⁶⁹ Government of the Republic of Macedonia 2009

exceptions, most of them lack business planning and management skills and avoid financial risk. At this stage, they would mostly benefit from initial non-repayable finance, such as grant or philanthropic support, and extensive technical assistance. Patient loans with soft conditions or angel finance could be viable options for social enterprises that have already tested their business model and are preparing to scale.

Except for one regional financial instrument, there are no active social investors in FYR Macedonia and existing financial instruments are not suited to the needs of social enterprises. Available grant funding is project based with limited time frame, usually insufficient for validating the business model. Loans are available from commercial banks with market conditions. Most of the financial instruments offered to SMEs are not accessible to social enterprises, because they are nonprofit associations. Philanthropic investments are still at a modest scale, but there is potential for growth in the coming years. The need for support in the financing area is huge and it requires a coordinated effort of international players and local stakeholders.



The Association for Economic Empowerment of Women – “Krushevo Women” – aims to reduce poverty among women by strengthening their capacities, supporting women entrepreneurship and nurturing traditional values of the region. See page 161 for more information.

Social and Economic Overview

FYR Macedonia is a landlocked country with a population of 2.07 million,¹⁷⁰ the majority living in urban areas. Since its independence in 1991, the country has undergone significant structural changes in the political, economic and social system. With the GDP per capita of USD 5,094¹⁷¹ (EUR 4,786) and an average net salary of EUR 356 per month in 2015,¹⁷² the country remains one of the poorest in Europe.

FYR Macedonia is committed to EU and NATO membership and to integration in the global economy. In 2005, it was granted the EU candidate country status. Since 2015 it has faced a political crisis identified in the EU Progress Report¹⁷³ as “the most severe political crisis since 2001” with substantive challenges for the democracy and the rule of law. FYR Macedonia has a diverse ethnic composition; 64.18% are ethnic Macedonian, 25.17% ethnic Albanian, 3.85% Turks, 2.66% Roma, 1.78% Serbs and 2.36% others¹⁷⁴ and the inter-ethnic relations remain fragile.

In over two decades of transition FYR Macedonia has made progress in liberalizing the economy and improving the business environment. After the GDP drop of 0.2% in 2012, in the last years GDP has marked a steady growth reaching 3.7% in 2015.¹⁷⁵ The economy is service oriented, with services contributing 62.7% of the GDP, while industry represents 26.1% and agriculture 11.2%. The predominant industrial sectors are food

processing, beverages, textiles, mining and metallurgy, construction, and information technology (IT). As far as economic actors are concerned, 99% of the economy is comprised of small and medium size enterprises that employ 80% of the workforce. According to the national industrial policy vision,¹⁷⁶ by 2020 FYR Macedonia will develop sustainable and authentic industries such as: organic wine and food, eco-steel, eco-construction, creative industries, IT, medical equipment and services, authentic tourism etc. According to the EBRD, “given that the country is small and landlocked, the key challenge is to increase Macedonia’s level of integration into regional and global markets.”¹⁷⁷

The long process of transition brought structural socio-economic challenges. The labour market is characterized by low labour market activity of 57.3% in 2014, one of the highest unemployment rates in Europe (28% in 2014)¹⁷⁸ and 23.4% long-term unemployment. In 2014, 22.1% of the population lived below the national poverty line.¹⁷⁹ These long-term trends coupled with the deterioration of the public sector social services resulted in marginalization and social exclusion of many groups in society such as youth, women, ethnic minorities and people with disabilities. They face discrimination in achieving their social and economic rights on the labour market and in the access to services.

¹⁷⁰ Republic of Macedonia State Statistical Office 2017

¹⁷¹ Trading Economies 2017

¹⁷² Republic of Macedonia State Statistical Office 2017

¹⁷³ European Commission 2016

¹⁷⁴ Republic of Macedonia State Statistical Office 2005

¹⁷⁵ The World Bank 2015

¹⁷⁶ Government of the Republic of Macedonia 2009

¹⁷⁷ European Bank for Development and Reconstruction 2013

¹⁷⁸ Republic of Macedonia State Statistical Office 2017

¹⁷⁹ The World Bank 2015

Youth unemployment is almost double the national average, 53.1%, and has led to significant brain-drain in the recent years. The participation of women in the formal economy is low; 64% of all inactive citizens are women. This trend is particularly present in rural areas and among ethnic Albanian women. Women are owners of around 38% of the registered companies and only 2% own land. Women are also more likely to work as unpaid family workers in a family-owned business.

Roma are one of the most disadvantaged ethnic groups in the country. The unemployment rate of the Roma population is 53% with up to 70% among Roma women. They mostly work in the informal economy.¹⁸⁰

People with disabilities remain one of the most socially-excluded groups. The general discourse continues to regard them as social welfare cases rather than active citizens. This has led to multiple barriers in terms of basic infrastructure, access to services, access to quality education and employment. Most people with disabilities are employed in sheltered companies, which are regulated by the *Law on Employment of People with Disabilities*. As explained later in the chapter, these companies are offered special benefits and subsidies for the employment of this target group.

Sustainable development is also challenged by the urban-rural disparities. While around 40% of the population lives in rural areas, they lack proper infrastructure and access to quality public services such as education and health care.

¹⁸⁰ United Nations Development Programme in Europe and Central Asia 2017

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

The introduction of targeted policies related to social entrepreneurship has been in the public discourse in the last few years thanks to advocacy efforts of CSOs, as well as trends in EU countries. Yet, no targeted policy on social entrepreneurship currently exists. The concept remains unknown and unclear for most stakeholders and policymakers and there is no agreed definition of social enterprise.

The creation of a legal framework for social enterprise has been envisioned in several national strategic documents. The *Programme of the Government of Republic of Macedonia (2014-2018)* has included the adoption of a law on social entrepreneurship as one of the measures in the field of social security and protection. The development of social economy is one of the objectives of the *Strategy for Cooperation of the Government with the Civil Society Sector (2012-2017)* under the priority “Economic development and social cohesion.” According to the strategy’s action plan, a law on social entrepreneurship should have been adopted in the period between 2014 and 2016. The *National Employment Action Plan (2014-2015)* adopted by the Ministry of Labour and Social Policy also envisages a law on social entrepreneurship as a measure to improve social inclusion and to fight poverty.

The law on social entrepreneurship has been in the drafting phase since 2012 and has not been passed due to constant changes in the leadership and key personnel within the designated Ministry of Labour and Social Policy. The draft versions of the law that were publicly available indicate that the focus in the legislation will be given to social enterprises as models for employment of vulnerable groups. This approach might fail to recognize the broader impact of social entrepreneurship on sustainable development and social cohesion and it

might stifle innovation. In a fear of potential misuse, the draft law might create administrative and legal requirements that existing social enterprises will not be able to meet, and that are not in line with the benefits the law could offer. Nevertheless, having in mind the context and policy practice in the country, a targeted law on social enterprises is seen as important by stakeholders for the following key reasons: a) to provide a definition of social enterprises the existing ones can identify with; b) a formal definition will make the design of support measures easier for public institutions; c) the law will contribute to formal recognition of social enterprises by the public; d) the law is expected to provide specific incentives and support to social enterprises.

Regardless of the lack of a special law, the existing legislation enables the functioning of social enterprises in FYR Macedonia. The most important pieces of legislation are as follows:

- Law on Associations and Foundations
- Law on Public Procurement
- Law on Social Protection
- Law on Free Legal Aid
- Company Law
- Law on Employment of People with Disabilities
- Law on Cooperatives

Most of the existing social enterprises operate as legal entities under the *Law on Associations and Foundations*. The latest law from 2010 enables economic activities in line with the social mission of the organisation, if the generated surplus income is used for nonprofit purposes. There is no limit to the level of income from economic activities or the fields of engagement. Associations can also establish for-profit companies under the *Company Law*, if they want to pursue economic activities unrelated to their social mission. Other pieces of legislation such as the *Law on Public Procurement*, *Law on Social*

Protection and Law on Free Legal Aid recognize CSOs as service providers, and thus enable them to be sub-contracted by the government for the provision of goods and services. By including the legal requirements for participatory governance and limitations to distribution of profits for private aims, *the Law on Associations and Foundations* provides the basis for the establishment and growth of social enterprises as understood by the definition of the EU Social Business Initiative.¹⁸¹

Social enterprises may also take other legal forms, such as a company or cooperative. The *Company Law*¹⁸² recognizes the following legal forms of business: general partnership, limited partnership, limited liability company, joint-stock company, limited partnership by shares, and sole proprietors. Like the registration of associations and foundations, the registration process is quite straightforward through the central registry. Company forms are not widely used by social enterprises in FYR Macedonia. As the law does not prescribe provisions related to democratic governance and distribution of profits, a for profit social enterprise would have to reflect these characteristics in their statutory documents to qualify as a social enterprise.

Cooperatives¹⁸³ can be established by at least three physical or legal persons for the improvement or protection of their economic interests. In principle, cooperatives have a participatory governance structure. The law allows the distribution of profits with the restriction that at least 5% should be set aside as reserves for 20 years. A separate law regulates the work of agricultural cooperatives, but there is no legislation on social cooperatives.

The final piece of legislation to consider is the *Law on Employment of People with Disabilities*, which regulates the establishment and operation of the sheltered/protected companies. They are required to employ at least 40% of their workforce from this vulnerable group and could be considered social enterprises on paper. The sheltered companies receive significant subsidies and other benefits from the state. Even though by law their primary purpose should be to employ persons with disabilities (social goal), in practice they are mostly established by entrepreneurs who see opportunities in using the government's financial support, while only formally complying with the employment requirements of 40%. These sheltered companies also do not have to comply with legal restrictions in terms of ensuring democratic governance and limits to the distribution of profits.

Even though the above pieces of legislation enable the functioning of social enterprises, they do not recognize their specific needs and do not provide any tax or fiscal incentives to support their establishment and operation.

¹⁸¹ European Commission 2017

¹⁸² Zakon za trgovski drustva, Official Gazette of the Republic of Macedonia No. 28/2004, 84/2005, 25/2007, 87/2008, 42/10,

48/10, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16 и 30/16, 61/16

¹⁸³ Zakon za zadrugite, Official Gazette of the Republic of Macedonia No. 54/02

Table 9: Key Stakeholders in the Social Enterprise Ecosystem in FYR Macedonia

| Policymakers | |
|---|--|
| Organization | Role |
| Ministry of Labour and Social Policy | <ul style="list-style-type: none"> Responsible for drafting and implementation of the Social Entrepreneurship legislation Responsible for drafting and implementation of the strategies and programmes related to employment and social welfare |
| Ministry of Finance | <ul style="list-style-type: none"> Responsible for drafting the taxation and fiscal regulation for SEs Contracting Authority for the EU IPA funding |
| Ministry of Economy | <ul style="list-style-type: none"> Responsible for drafting and implementation of legislation and strategies related to SMEs Implements the Programme for support of SMEs |
| Ministry of Agriculture | <ul style="list-style-type: none"> Responsible for legislation related to cooperatives |
| General Secretariat of the Government of RM, Unit for Cooperation with NGOs | <ul style="list-style-type: none"> Responsible for drafting and coordination of implementation of the National Strategy for Cooperation with CSOs Administers the Programme of the Government for financial support to CSOs |
| Networks and Platforms | |
| Organization | Role |
| Street magazine Lice v lice | <ul style="list-style-type: none"> Promotes social enterprises Raises awareness and educates the public about the role of social enterprises (SEs) Advocates for encouraging a legal framework |
| Funders | |
| Organization | Role |
| Yunus Social Business | <ul style="list-style-type: none"> Provides social impact financing to social enterprises Manages accelerator programme for start-up SEs which includes mentoring, technical assistance and networking |
| Fund for Innovation and Technology Development | <ul style="list-style-type: none"> Aims to support innovation and transfer of technology within the SMEs Promotes cross-sector partnerships in technology, research and development Provides financial support and technical assistance to SMEs for innovation projects through several support schemes |
| HUB Skopje/CEED | <ul style="list-style-type: none"> Implements acceleration programme for young companies. SEs are eligible to participate and use the services of the HUB Provides equity loans to SMEs. SEs registered under the company law are eligible for funding Opportunity for matching the loan with angel funding |
| Microfinance Institutions Members of the Alliance of MFI (Moznosti, Horizonti, FULM and Macedonian Enterprise development Foundation) | <ul style="list-style-type: none"> Provides micro-credits to SMEs and informal businesses |

| | |
|---|--|
| State Employment Agency | <ul style="list-style-type: none"> • Provides subsidized employment and training • Provides self-employment measure |
| EU Funding (Civil Society Facility, IPA, EIDHR) | <ul style="list-style-type: none"> • Provides grant funding to CSOs for projects in various areas including social inclusion, employment of vulnerable groups, entrepreneurship development, etc. • Provides grant funding to CSOs for capacity building programmes for SEs |
| EU funding (WB EDIF) | <ul style="list-style-type: none"> • Provides financing solutions for SMEs, implemented and coordinated by the EBRD and EIB Group, including venture capital, risk-sharing, direct and indirect lending • Supports policy interventions to improve SME operating environment, capacity-building initiatives and targeted advisory support (through EBRD's ASB programme) |
| Macedonian Bank for Development Promotion | <ul style="list-style-type: none"> • Aims at supporting export through various mechanisms for support of SMEs • Provides various credit lines for SMEs through the commercial banks |

Support Organisations and Institutions

| Organization | Role |
|--|---|
| Alliance of Microfinance organisations | <ul style="list-style-type: none"> • Aims to achieve financial inclusion, poverty reduction and support to entrepreneurship • Provides capacity building to the clients of microfinance organisations |
| Association Konekt | <ul style="list-style-type: none"> • Committed to building partnerships between companies and the social enterprises • Offers brokerage between individual SEs and companies for counselling, mentoring • Promotes integration of SEs into companies' supply chains • Advocates for legal framework and effective ecosystem for development of SEs • Organizes workshops, conferences and other public events to promote social entrepreneurship • Plans to set up a Fund of private donors to the support SEs and impact investment |
| Mladiinfo/Social Impact Award | <ul style="list-style-type: none"> • Implements the Social Impact Award in FYR Macedonia which provides financial award, mentorship, advice and incubation • Promotes social entrepreneurship especially among the youth |
| EU <i>Technical Assistance for Civil Society Organisations (TACSO) Project</i> | <ul style="list-style-type: none"> • Supports SE development by commissioning relevant research, supports and organizes regional networking opportunities • Responsible for planning and implementation of the EU People 2 People Programme |
| Association for Development of New Options (ADNO) | <ul style="list-style-type: none"> • Supports the development and implementation of social innovation and promotion of new options and contemporary technological approaches for social change • Implemented the project "Youth Professional Kitchen-New technologies for social business" within UNDP's Youth Social Entrepreneurship Support Programme "Youth as agents of Community Development." • Runs project for philanthropy through green ideas and organizes annual competition for small business for the best green and social impact business ideas |
| UNDP in FYR Macedonia | <ul style="list-style-type: none"> • Supported the establishment of the Social Innovation Hub • Implements the state programme for self-employment • Provided support to young social entrepreneurs within its projects |

PUBLIC SECTOR SCHEMES

There are no targeted public sector schemes for social enterprises in FYR Macedonia as they are not formally recognized by public policies. The public support utilized by the existing social enterprises includes schemes that are allocated for support of CSOs, SMEs, cooperatives or employers.

Programme of the Government for Financing the Activities of Associations and Foundations

Overall, the level of state funding of CSOs is very low. In 2014 it amounted to around EUR 2,317,050, less than 3% of the total revenues of the sector. The system for financing social services of public benefit provided by CSOs is not developed and remains at small-scale project funding.

The annual "Programme for support of the programmatic activities of CSOs" provides small project grant funding from the state budget and is administered by the Unit for Cooperation with Non-Governmental Organisations (NGOs) within the General Secretariat of the Government. The total annual funding distributed through this programme is around EUR 195,000, expected to increase to EUR 813,000 in 2017. There are four eligible areas, which are quite broad and provide opportunity for social enterprises to apply: 1) economic development and employment growth, improvement of living standard and quality of life; 2) NATO and EU integration; 3) combatting corruption and promoting rule of law and 4) education, IT and innovation. The individual grants are up to EUR 5,000. Funding is allocated via open call procedures following the *Code of good practice for financial support to associations of citizens and foundations by the Government*.

Active Labour Market Measures

Active employment measures are implemented through the State Employment Agency. The support measures

target: a) development of entrepreneurship; b) subsidised jobs which are currently mainly covered by the project "Macedonia employs;" c) training; d) public works; e) pilot-programmes and f) employment services. Even though initially intended for private sector employers, almost all the measures are available to all employers including social enterprises. The measure of subsidised employment can be of importance for social enterprises that provide employment to vulnerable groups. It consists of exemption from social security contributions and personal income tax.

In addition, the *Law on Employment of Disabled People*¹⁸⁴ provides financial and other benefits to all employers that employ disabled people, including grants to cover salaries, funds to improve disability access in the workplace, equipment purchase, subsidy for social security payments and income tax.

Programme for Competitiveness, Innovation and Entrepreneurship

This programme is annually implemented by the Ministry of Economy and provides support to SMEs and the implementation of industrial policy. The measures targeting SMEs can be utilised by social enterprises registered under the Company Law. Funds are distributed via annual open calls.

- Support for women entrepreneurship consists of subsidies i.e. co-financing of up to 70% of costs and maximum EUR 2,000 to companies that are 50% owned or managed by women. Eligible costs include purchase of equipment and tools, refurbishment of offices/premises and child-care expenses.
- Financial support to cover costs for the introduction of ISO standards. It covers 70% of the costs up to EUR 1,600.
- Co-financing of projects for development and support of SMEs and promotion of entrepreneurship.

¹⁸⁴ Law on Employment of Disabled People, Official Gazette of the Republic of Macedonia No. 44/2000, 16/2004, 62/2005,

113/2005, 29/2007, 29/2007, 88/2008, 161/2008, 99/2009 и 136/2011

This support scheme is available to CSOs and includes activities to promote and support social enterprises and social entrepreneurship. The scheme provides modest funding of up to around EUR 2,500.

- Support in business, product and market development is available to manufacturing companies and it provides co-financing of 75% of the costs up to around EUR 3,000. The eligible costs include implementation of information and communication technology, improvement of productivity and efficiency, development of packaging and branding or energy efficiency solutions.
- Co-financing of specialized technology training is available to companies in certain industries such as automotive, textile, food processing and metallurgy. The support covers the costs for the specialized training of up to around EUR 5,000.

The Innovation Fund was launched by the government in 2015 to support the innovation and transfer of technology within the SME sector. One of its financing mechanisms might be suitable for innovative social enterprises that are registered under the Company law. The Innovation Fund offers several support schemes:

- Co-financed grants for newly established companies in the “proof of concept” stage or in pre-commercial stage. It provides grants of 85% of the total costs of the project up to EUR 30,000. After successful commercialisation, the recipient pays royalties to the Fund of 5% of the annual income that resulted from the project.
- Co-financed grants and conditioned loans for commercialization of innovation. This is aimed at SMEs in a prototype phase before full commercialization. It provides co-financed grants of 70% of the total project up to EUR 100,000 for the duration of two years.

In addition to direct funding, the Fund provides technical assistance in the form of training or coaching. It has been cooperating with the EBRD’s Advice for Small Businesses (ASB), which offered consultancy support to a few applicants in developing their proposals. There is an ongoing discussion for closer cooperation between ASB and the Fund in providing technical and consultancy assistance to potential Fund applicants/start-ups.

The Innovation Fund also has a co-financing line for business accelerators, which might be used for entities that are interested in establishing social enterprise accelerators. The Fund aims to support sustainable and profitable accelerators, so social enterprise accelerators might find it challenging to compete with commercial business accelerators. The mechanism of the Fund could be easily adjusted to serve innovative social enterprises regardless of their legal status.

The Fund has supported 37 projects to date. The evaluation of the financing strand for start-ups also includes social criteria. This could be attractive to social enterprises; however, priority is given to for-profit companies with high growth potential. The Fund has identified four among the supported projects that have strong social dimension.

GORDIAN SYSTEMS

[Gordian Systems](#) is a company that provides specialized IT services. The company received funding from the Fund for Innovation and Technology Development to implement the Project "Carrie." Carrie aims to address the increased need for support in the provision of specialized individual care for the elderly and persons with disabilities. Using new technologies, Gordian will develop a smart system that provides continuous monitoring of the person under care (in individual and community homes), analyse his/her state of health and long-term condition, and alerts the caretaker of any changes and possible accidents. The solution will enable improved quality and efficiency of social care for these vulnerable groups.

Support in Starting Up a Business

This measure is implemented by the State Employment Agency in cooperation with UNDP and it aims to provide support for the unemployed in setting up a new business. Thus, it can be used by young social entrepreneurs. The measure provides training and mentoring in business plan development, as well as subsidies of around EUR 3,000 for purchasing equipment and raw materials. It also offers an additional EUR 1,500 award for the most successful business plans. In a period of nine years, the programme supported the creation of 7,721 businesses (70% are still active). 35% of the entrepreneurs were women, while 31% were young people below 29 years of age.¹⁸⁵ There is no available information whether any of them established a social enterprise.

Programme for Voucher Counselling

The programme provides subsidies for consulting services for start-up companies as well as established SMEs. For established SMEs, it covers 50% of the counselling costs up to EUR 730. For entrepreneurs that are setting up a new business, it covers 100% of the costs up to EUR 500. This measure is underfunded with total allocation of only EUR 15,000 per year and is not able to provide support to all interested companies.

¹⁸⁵ Self-Employment Programme (ПРОГРАМА ЗА САМОВРАБОТУВАЊЕ) 2017

OTHER SUPPORT AND INFRASTRUCTURE

Business Planning and Capacity-building Support

The support infrastructure is still emerging, with a lot of the interest and support coming from international donors. Most of the existing social enterprises have received grants from the EU, USAID and other bilateral and international donors.

The EU has been one of the key supporters of social entrepreneurship initiatives in the last few years through the IPA, Civil Society Facility (CSF), EIDHR (European Instrument for Democracy and Human Rights), CIP (Competitiveness and Innovation Programme). This funding support is valuable as it funds the business planning and start-up phases. At the same time, it is project based with limited, often short-time spans, and thus it cannot provide much needed long-term support. Currently, there are a couple of EU funded projects that provide direct support to social enterprises. The Technical Assistance Project “Fostering Social Entrepreneurship” provides technical support to the government in completing the policy framework for social enterprise. It also works on building financial tools for social enterprises. The project will offer direct support to ten social enterprises to develop their business plans, research the market, develop partnerships and connect them with potential donors for start-up capital. Another ongoing EU funded project is “Smart Start,” which will support twenty social enterprises through training, developing the business plans and offering financial award of EUR 5,000 for the best ideas.

Association Konekt focuses on building partnerships between socially-responsible companies and social enterprises. It has set up a platform where managers from the private sector provide counselling and mentoring to CSOs and social enterprises. It also promotes their integration into the supply chains of larger

companies. Konekt plans include setting up a fund of private donors to support social enterprises and pilot impact investment. The organization is one of the most prominent advocates for enabling the legal framework and policies that could create a supportive ecosystem for social enterprises. It educates policymakers and other stakeholders about the social enterprise model and organizes public events to raise awareness on the issue.

Yunus Social Business Balkans is managed through their office in Tirana, Albania. It runs an acceleration programme and offers finance to social enterprises in the Balkan region.¹⁸⁶ Services are available to Macedonian social enterprises, but none of them are in the programme yet.

The Social Impact Award (SIA) launched by the Vienna University of Economics and Business and the Impact HUB is implemented in FYR Macedonia by the NGO Mladiinfo. SIA is a competition for social enterprise business ideas of young people with an award fund of EUR 6,000. In addition to the financial award, awardees receive mentoring, advice and go through an incubation period.

Access to Support Schemes and Financing Available to SMEs

Microfinance may also become a relevant financing source for social enterprises. The Alliance of Microfinance Organisations aims to achieve financial inclusion, poverty reduction and support to entrepreneurship. Even though they have not directly targeted social enterprises so far, the main customers of their microfinance organisations are informal entrepreneurs from vulnerable groups; many of them get support to transform into a formal enterprise and this could create opportunities of support for social entrepreneurship. The members of the Alliance provide loans to micro and small enterprises of up to EUR

¹⁸⁶ More details on the programme are available in the Albania Country Study of this report (see page 29).

20,000. The Alliance is interested in providing capacity building to social enterprises, while their members might be interested in adapting some of their products to serve the financial needs of social enterprises.

The Macedonian social enterprise landscape already has several support organisations. HUB Skopje is funded through the USAID project for the development of microenterprises and implemented by the Centre for Entrepreneurship and Executive Development (CEED) Macedonia. HUB Skopje aims to raise the entrepreneurial spirit among young people and support ideas that also have a social component. It implements an acceleration programme for young companies, which includes training, mentoring, use of space at the HUB and potentially financial support. The HUB provides up to EUR 3,760 in equity (5% of the ownership) and requests a three-year business plan and exit strategy. They match the funding involving their CEED Business Angels Club. CEED also runs a Business Club for SMEs which provides targeted and general training, workshops, counselling and networking opportunities. The services of the club are also available to social enterprises. Only one social enterprise, Freshys (see box to right) and 11 finalists of the “Social Impact Awards” have used the pre-accelerator programme.

FRESHYS

[Freshys](#) is a healthy food take-out restaurant that identifies itself as a social business. Freshys' offers permanent price discounts for students, single parents and people with disabilities. The company is committed to donate 34% of their profits on a monthly basis. Freshys strives to build the spirit of solidarity. In cooperation with other organisations and informal citizens' groups, every week it provides food for over 150 homeless people and other socially-disadvantaged groups. The organization's future plans include providing training and employment for vulnerable groups.

SME support programmes may also be attractive and available to social enterprises. The European Bank for Reconstruction and Development (EBRD) provides support to SMEs through the Advice for Small Businesses (ASB) programme. On a cost-sharing basis, the companies can engage local consultants or international experts to transform and improve their business. To be eligible, companies should be majority locally-owned and have at least two years of track record. Technical assistance is mostly provided in areas such as management information system, marketing, quality management, human resource management, energy efficiency, business and strategic planning, financial management, export promotion etc. Over 900 SMEs have received support from the advisory services in FYR Macedonia. In terms of financing, the EBRD offers financing to SMEs through its direct financing instruments and through its partner banks.

In addition, EBRD's Women in Business Programme is also available to the women-led small businesses in FYR Macedonia. The programme provides female entrepreneurs with entrepreneurial skill courses, business advice, coaching and mentoring, as well as access to specific financial products.

The EBRD also provides its financing and advisory services through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), a platform established by the EU to provide a comprehensive set of complementary measures to improve access to finance for SMEs and foster economic development in FYR Macedonia and the wider Western Balkan region. The platform consists of five different pillars implemented by the EBRD and EIB group, which broadly include direct and indirect financing solutions to SMEs at different stages of development, policy interventions to improve the SME business environment and targeted advisory support.

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

The importance of entrepreneurship learning at all levels of education has been recognized by public policies and has resulted in the *National Strategy for Entrepreneurship Learning 2014-2020*. Entrepreneurship courses have been included in secondary education and fully integrated in higher education. However, the academic and vocational training systems have almost completely left out social entrepreneurship. It is not mentioned in the above strategy on entrepreneurship learning. In general, social entrepreneurship is included only as one of the topics within the entrepreneurship or business ethics curricula in management studies.

The state University of St. Cyril and Methodius in Skopje, the Faculty of Philosophy has included social entrepreneurship as one of the courses in the undergraduate studies on social work and social policy. It is also one of the courses in the graduate studies on human resource management at the same university.

The Social Innovation Hub (SIH) is founded by the Faculty of Computer Science and Engineering and the United Nations Development Programme (UNDP). It aims to make the most of technology to advance human development by encouraging innovative solutions to social and economic problems. It engages students in innovative projects often using new IT and mobile telecom technologies to address environmental or social issues in the country. The projects are funded or seconded by various national institutions, donors and other actors. It provides excellent entry point for the students to learn about social innovation through practice. The SIH does not yet offer courses on social enterprise management.

Most of the education on social entrepreneurship happens within the sphere of non-formal education based on training courses and workshops. Even in this sector, there is no consistency in the capacity-building offer and the training courses remain heavily dependent on donor funding.

Mapping of Social Enterprises

LEGAL FORMS

It is very difficult to determine the number of social enterprises in FYR Macedonia since there is no generally accepted definition and official statistics. However, based on estimates provided by key stakeholders, the number of social enterprises in the country ranges from 40¹⁸⁷ to 70, which is the number of social enterprises that are officially conducting economic activities. This number does not include agricultural cooperatives nor sheltered companies for reasons listed below.

CSOs have been at the forefront of the development of social entrepreneurship in the country. This was due to two factors:¹⁸⁸

1. The transition towards market economy resulted in high unemployment, decline in the government provision of services, increased social disparities and marginalization of certain social groups. CSOs were set up to address these challenges, and they continue to play a key role in the provision of social and health services to vulnerable groups.
2. Many CSOs were encouraged to consider economic activities when international donors began withdrawing their support, as a way to decrease their dependence on foreign funding and strengthen their financial sustainability. Thus, some CSOs launched economic activities to diversify their funding mix; many launched mission-related business activities which are considered social enterprises.

Cooperative is the other form of social enterprise even though most of the existing ones would not identify themselves as social enterprises. Available data shows that in 2008 the number of registered cooperatives was

91, half of which are agricultural cooperatives. The rest are involved in manufacturing, construction, trade and crafts. There is very little research on the functioning and impact of cooperatives. Newer forms of cooperative include cooperatives of consumers of organic products and they identify themselves as social enterprise.

Sheltered companies could be considered a form of social enterprise especially considering their impact on the employment of people with disabilities. In practice, most of these companies are driven by profit maximization, lack any form of participatory governance and are using this legal form to enjoy the benefits offered by the state. Thus, they should probably not be considered as real social enterprises, and they were not considered among the 40 to 70 social enterprises conducting economic activities. The number of registered sheltered companies in the country was 291 and they employed 2,455 persons with disabilities in 2014.¹⁸⁹

SIZE

Macedonian social enterprises are in the early stages of development, either in blueprint or validation stage. Only a few (besides the coops) are prepared to scale. They are micro enterprises with less than 10 full-time employees and with assets and revenues below EUR 100,000. They have a certain level of income diversification: sales revenue, philanthropic and grant support. Most of them are not financially sustainable yet and many believe that they should increase their sales to private entities to achieve sustainability.

¹⁸⁷ According to the EU Project for Technical Assistance Project "Fostering Social Entrepreneurship in Macedonia."

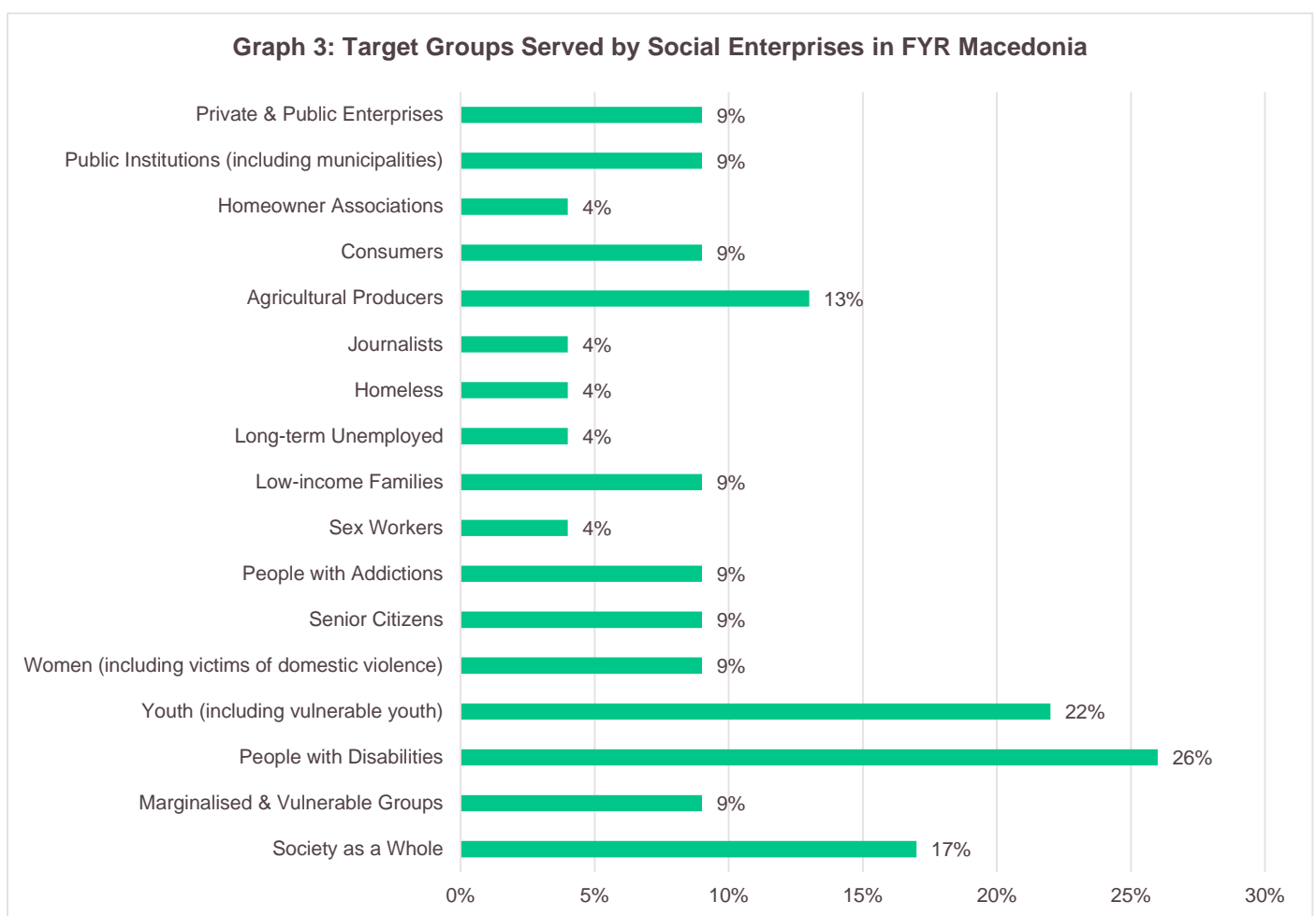
¹⁸⁸ Ilievski, et al. 2016

¹⁸⁹ Republic of Macedonia State Statistical Office 2017

TARGET GROUPS

Available data indicates that social enterprises serve first and foremost persons with disabilities, youth (including vulnerable youth) and agricultural producers. These groups are also among the key vulnerable groups identified in the national policies on social inclusion.

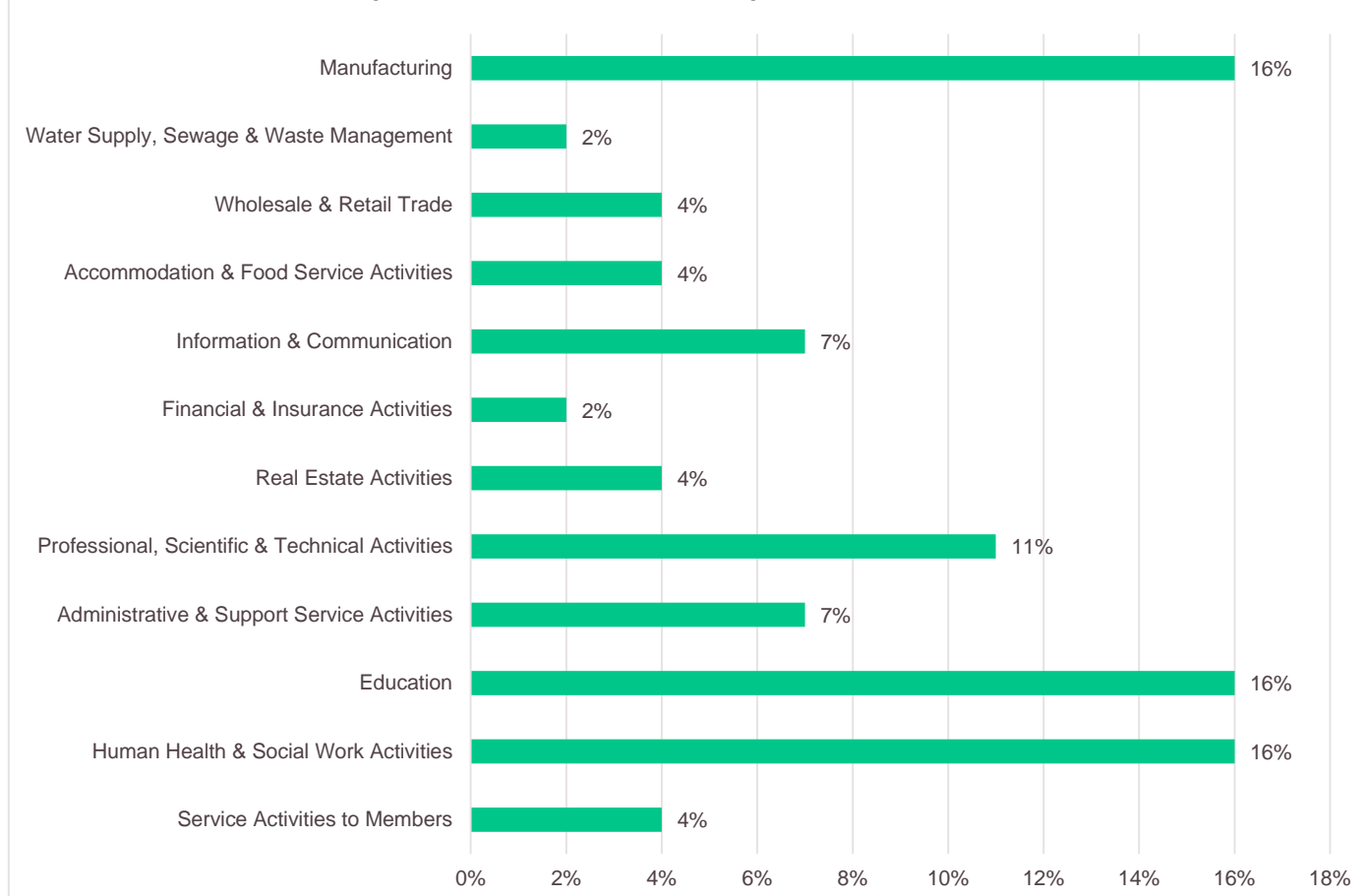
Graph 3: Target Groups Served by Social Enterprises in FYR Macedonia



FIELDS OF ACTIVITY

Macedonian social enterprises focus on several social issues: (a) promotion of human rights and social integration of vulnerable groups; (b) education and different forms of social innovation; (c) economic empowerment of the members and/or target groups; and d) provision of services to specific, often vulnerable, target groups. The 24 surveyed enterprises are highly represented in the production and sale of goods and the provision of social services in education, health and science and technology. Many offer those goods and services below market price or for free when their beneficiaries are vulnerable groups living in poverty.

Graph 4: Activities of Social Enterprises in FYR Macedonia



POKROV

The social enterprise Pokrov was launched and is managed by the CSO [Izbor](#) from Strumica. It is part of the organization's programme for long-term rehabilitation, resocialization and reintegration for people addicted to drugs, alcohol and hazardous substances.

The social enterprise produces certified organic fruits and vegetables in greenhouses and open air. The beneficiaries are engaged in the production as part of their rehabilitation and reintegration process. After they successfully complete the rehabilitation process, some of them are employed by the enterprise, while others find employment elsewhere. Thus, the social enterprise turns passive recipients of social welfare into active taxpayers. The families of participating beneficiaries are charged modest fees for the training and rehabilitation. The enterprise currently employs 11 full-time staff, three of whom are from the beneficiary group. Since being established, the social enterprise has provided six full-time jobs for beneficiaries and 24 fee-based work engagements.

Start-up funding for Pokrov was provided through grants (foreign donors and municipality) and donations. The land (14,000 m²) was donated by the Macedonian Orthodox Church. Corporate support enabled the purchase of additional equipment. The social enterprise has signed purchasing contracts with several health food stores for all of their produce. Most of the income is reinvested in expanding the production and opening new job posts. In the last two years Pokrov has generated around EUR 30,000 in net profits. The social enterprise is 70-80% self-sustainable, and it contributes to 20-30% of the sustainability of the mother CSO.

Pokrov is an example of a work integration social enterprise ready for growth. The organization's plans include a 50% increase in production and income and 25% increase in net profits. Pokrov also aims to start exporting its goods and wants to open a store in Strumica. It would also like to build a small canning factory and plant for eco-friendly compost. To achieve this, the team need additional investment of EUR 300,000 and additional technical support in marketing, business planning and greenhouse production.

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND EXPANSION OF SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

Youth and women are one of the best served target groups by the identified social enterprises. Unfortunately, there is no specific information available about their impact on youth and gender inclusion. This is due to two main reasons: (a) they are still in the early stages of development and the effects are yet to be seen, and (b) they rarely use systematic monitoring and evaluation to track and verify their social impact. Having said this, there is potential for these enterprises to make a visible impact on the life of these target beneficiaries in the medium and long-term.

FINANCING STRATEGIES

Many of the identified social enterprises initiated their social enterprise activities with grant support from foreign donors and philanthropists. This provided valuable initial support for the development of the business plan and for experimentation with low financial risk for the mother organization. Subsequently, social enterprises seek additional philanthropic or grant support for the expansion of their activities and services, because they are used to grants and are not aware of other financing options. They are not considering debt or investment and are not ready to take on repayable finance. Their capacity-building needs are met by various development programmes and donor funded projects.

GENDER ANALYSIS OF SOCIAL ENTERPRISES

There is no gender data on the ownership and management of social enterprises. Many of the interviewed and identified enterprises are managed by women, however, the sample is too small for general conclusions. There is no available gender-segregated data on membership, however, practice shows that cooperatives, especially the agricultural ones tend to be dominated by men. The available research data¹⁹⁰ on employment showed that in the surveyed social enterprises there was an equal proportion of men and women in the workforce.

None of the social enterprises have pointed out gender based discrimination in access to finance, markets or any other area related to their work.

MONITORING AND EVALUATION SYSTEMS

Social enterprises use the standard national accounting structures to monitor their financial results. However, they do not have an internal system to consistently track in-kind contributions and real costs (staff time, volunteer effort, etc.). Several social enterprises have pointed out the need to improve their skills around financial planning and management.

In terms of the social impact, social enterprises usually employ some form of internal monitoring and evaluation system to track their social impact. They also document case stories of the impact on their beneficiaries. However, they do not use comprehensive systems based on international standards that would provide comparable social impact data.

KRUSHEVO WOMEN

[The Association for Economic Empowerment of Women "Krushevo Women"](#) aims to reduce poverty among women by strengthening their capacities, supporting women entrepreneurship and nurturing traditional values of the region. Located in a mountainous region in Western Macedonia, Krushevo suffers from poverty and high unemployment. People over 40 years of age are particularly vulnerable; they have a lower level of education and represent 40% of the unemployed.

It is in the Macedonian tradition for women to produce fruit jams, herbal syrups, preserve fruits and vegetables. Krushevo is an area free from pollution and particularly rich in forest fruits and mountain herbs, which offered an opportunity for the local women to produce traditional homemade products. They used to sell such products to friends, but lacked the skills to set up a business, organise more professional production and marketing.

With donor funding from the US Embassy and support from the organization Finance Think, Krushevo women was established as a social enterprise to support women in developing their entrepreneurial activities. Initially 25 women were involved; most of them over 40 years of age from low-income families. They received capacity building to improve their skills in packaging, marketing and sales. Their products were unified under one brand "It's homemade, it's from Krushevo..." with professionally designed packaging, which was given to all participating women. Multiple sales channels were explored such as supplying local caterers, participation at fairs throughout the country, internet marketing etc. As a result, in only 10 months 80% of the participating women gained new customers and on average increased their annual income by 544%. They also reported that they have improved their skills which will help them further develop their business activities.

¹⁹⁰ Ilijevski, et al. 2016

Social Investment Market

DEMAND

Macedonian social enterprises are at early stages in their development, therefore they are still seeking non-repayable grant finance and donations in their funding strategy. There is no visible and realistic demand for repayable finance, and social enterprises are not ready to take on debt or equity of any sorts for many reasons:

- They have not got a validated and sustainable business model yet, which could generate enough surplus revenue to repay finance
- They do not have collateral to offer as loan security
- They lack the financial and business management skills to apply for and manage debt finance
- They lack awareness of available financial products in the market and the networks to be able to access them.

SUPPLY

Regarding social finance supply, currently there are no specialized mechanisms or funds operating in FYR Macedonia, except Yunus Social Business Balkans (YSB). YSB operates out of Tirana Albania, but its offer is open to social enterprises in all the countries in the Western Balkans.

It provides flexible loans in the range of EUR 80,000 – 500,000 to social enterprises set up as limited liability companies. The interest rate is 6-8% depending on the risk and repayment capacity of the social enterprise and this can be offered with a grace period of 6-18 months. The loan term is 6-7 years on average; this can be flexible depending on the sustainability of the social enterprise. There are possibilities for patient loans with a grace period of 5 years. When granting a loan, YSB practically buys an equity stake of up to 25% in the company and keeps that share until the loan is re-paid. YSB Balkans provides support to social enterprises in

their early stages of development and in various economic sectors.

There are a few new initiatives to start building a more diverse social finance offer, even if they only concentrate on simple debt finance at the beginning. The Impact Hub provides financial support to young entrepreneurs including social entrepreneurs. The CEED Business Angels Club is open to investing in social enterprises. The Alliance of Microfinance Organisations is also interested in encouraging their members to design specific financing products for social enterprises. Konekt is looking for private philanthropic funding as social impact investment in social enterprises. However, these initiatives are in their early stage, and they do not have money to finance social enterprises for the time being.

Mainstream financial institutions have not integrated social enterprises as a target market. Loans are available from commercial banks, but they would be under same conditions as to any other business. Most of the financial instruments offered to SMEs are not offered to social enterprises that have the legal form of associations.

Gap Analysis and Recommendations

LEGAL FRAMEWORK

FYR Macedonia does not have specific legislation or targeted policy for social entrepreneurship. Existing laws do not restrict the establishment and functioning of social enterprises, however, in terms of recognition and development, the lack of targeted policies resulted in the following gaps:

- absence of official definition of social entrepreneurship and social enterprise;
- absence of official data for following the progress of the social entrepreneurship;
- lack of recognition of the specific contribution of social enterprises to social justice and equitable development;
- existence of legal barriers and,
- lack of legally secured state support for the development of social enterprises and social economy¹⁹¹.

In addition, the employment and social security policies and procedures do not provide sufficient flexibility and mechanisms to stimulate other forms of work engagement beyond formal employment, which creates practical challenges for social enterprises that innovate in the work integration of vulnerable groups.

The draft law focuses on the employment of vulnerable groups through social enterprises, which ignores the importance of social entrepreneurship in providing goods and services to disadvantaged groups and their potential role in sustainable and equitable development. In the early stages of development of social enterprises, the law should take a broader approach that will provide space for emerging social entrepreneurs to innovate and experiment in various areas and market models. The entrepreneurial aspect needs to be strengthened by

raising awareness and engaging of the state and private actors in finance and business (rather than limiting the concept to the sphere of labour).

Public support for social entrepreneurship is crucial for start-ups and for raising awareness among other stakeholders. It should take various forms from tax incentives, subsidies for work integration social enterprises, through preferential treatment in public procurement or in-kind support from central and local government. Seed funding for start-ups would be also valuable and could encourage other actors to consider social investments in social enterprises. The administrative and legal requirements that the new legislation would introduce need to be proportionate to the benefits social enterprises would receive from registering.

Developing a strategy for the development of social entrepreneurship would also be helpful in recognizing the role of social enterprises and would provide a support framework with the participation of different public actors. Moreover, it is important that social entrepreneurship is recognized in other strategic policy documents, such as the strategy for development of SMEs. The government programmes for competitiveness, innovation and industrial development could extend their measures to include financial support to social enterprises similarly to the co-financing lines available to women entrepreneurs.

Overall, there is a lack of comprehensive knowledge and understanding among policymakers and public institutions, thus there is an increased need for raising their awareness of social entrepreneurship.

Recommendations

¹⁹¹ Ilijevski, et al. 2016

- A law on social enterprises and a corresponding strategy for their development would be welcome by all stakeholders. Legislation should take a broader approach that will allow social entrepreneurs to innovate and experiment in various areas and market models, not only focus on employment models
- Public sector funding schemes should be considered for several aspects: direct finance for start-up social enterprises, support for intermediary organisations, incentives to leverage private donors or investors to provide co-financing
- Government could offer tax incentives to funders and investors of social enterprises and support them with awareness-raising campaigns
- Government support programmes for SME development, innovation and competitiveness could include social enterprises, which are important innovators in many social fields
- Public sector officials need further awareness and capacity to get a better understanding of social enterprise and recognise potential areas of collaboration with government (central or local)

ACCESS TO FINANCE

Social enterprises in FYR Macedonia are in their early stage of development, either blueprint or validation. Being young businesses, the majority would not be able to take on repayable finance as they still do not generate sufficient and steady income. Another challenge could be collateral: associations as the predominant legal form of social enterprise rarely possess assets to back up a loan. They also lack business management skills to plan for and manage a more diverse financing structure. In such circumstances, most of the social enterprises would benefit from initial non-refundable finance (public sector grant or philanthropic support) and technical assistance (including mentoring). This support is needed for developing the business and operational plans including

detailed financial and marketing plans and for testing and refining the business model.

Targeted microfinance opportunities should also be explored. For the social enterprises that have already tested the business model but are still not ready to scale, soft or patient loans would be beneficial. Equity funding and social enterprise angel support is also an option; however, associations do not have shares or ownership stake to offer. In such cases the associations could spin-off the social enterprise as a limited liability company, which can then absorb equity. Practice shows that social enterprises (similarly to SMEs) are reluctant to share the ownership of the enterprise as they are personally invested and prefer to maintain independence in governance. In their governance structure the least represented groups are the investors and donors; the most represented groups are citizens, volunteers and beneficiaries¹⁹².

It is important that the financial instruments be adequate for the social enterprises they intend to finance and match their existing absorption capacity. Large grants may not serve the interest of the enterprise in the long run as they may give a false sense of security. Grant funding usually has a very limited timeframe (on average around one year) and is project based, so alternative finance is needed. However, existing financial instruments are not suited to the needs of the existing social enterprises. The exception is the Programme Civica Mobilitas funded by the Swiss Development Cooperation, which provides institutional grants.

A frequent challenge on the demand side is the mind-set of social enterprise leaders. As many come from the civil society sector, their primary strength lies in their commitment to the mission, the vision for change and knowledge of the needs of the target groups they serve. They need to strengthen the business component of the social enterprise and build their knowledge on how to

¹⁹² Ilijevski, et al. 2016

manage a business venture. This would then enable them to fully explore the range of available financial instruments.

Recommendations

- Social enterprise leaders need to strengthen their business orientation and skills and become more open to market based models. This would enable them to develop more robust business and operational plans including detailed financial projections and marketing plans, and test and refine the business model
- Social enterprises would benefit from more non-repayable finance for start-ups from both public sector and philanthropic source. This could take many forms – from classic grants to donations or convertible grants.
- Targeted microfinance opportunities should be explored; for social enterprises that have already tested the business model but are still not ready to scale, soft or patient loans could be viable options.
- Equity funding and social enterprise angel support could also be explored, although enterprises that are run as associations would need to reconsider their governance structures for that to work. They could spin off the social enterprise as a limited liability company, which could absorb equity, or they could take on convertible grants, if those were on offer.

CREATION OF AN ECOSYSTEM

Analysis shows that there is a lack of a comprehensive ecosystem that will provide ongoing consistent support to social enterprises. The existing support mechanisms are mostly project based and sporadic. The initiatives to bring on board socially-responsible companies to support social enterprises are plausible but will take time to reach scale. Following the example of the Impact Hub, other business incubators and accelerators could consider extending their services to social enterprises. Consistent technical support is needed in the form of workshops, mentoring, coaching and knowledge sharing. As indicated above, the existing and emerging social enterprises mostly need support in developing their

business and financial management skills and financial reporting. They would also benefit from individual in-depth needs assessments which would help them set priorities and draw up professional development plans.

Stakeholders do not know enough about social enterprises and their needs. Currently, there is no social enterprise network in FYR Macedonia, thus continuous exchange of knowledge and experience is missing, as well as policy advocacy. On top of that, most of the social enterprises have not recognized this need and have not initiated any action in this direction. Raising awareness about the importance of networking and supporting the establishment of a network of social enterprises will enable them to better identify themselves in the public eye and in front of policymakers. In addition, setting up some form of council for social entrepreneurship engaging different stakeholders would be beneficial for improving the social enterprise ecosystem in the country.

One of the unusual channels for the promotion of social enterprise is the street magazine “Lice v lice,” which is a social enterprise established by the CSO Public. “Lice v lice” provides work opportunities for over 40 beneficiaries from vulnerable groups such as street youth, homeless and people with disabilities. Beyond work integration, the magazine aims to promote social and environmental issues in the public discourse thus they raise awareness and educate the public about how social enterprises can provide credible solutions to these issues.

Recommendations

- Efforts should be made to increase the range of capacity building, mentoring and technical assistance available to social enterprises.
- Incubators could broaden their target clientele to include social enterprises
- Support organisations should come up with a long-term course offer that accompanies social enterprises on their development journey. They could think about pooling resources and link up with

each other, instead of providing one-off quick fix interventions

- Support organisations need funding and in-kind support to develop a sustainable offer and their own long-term business model
- Socially-responsible corporations could work with support organisations to design mentoring and consulting schemes
- Social enterprises need to be more proactive to create a network that would share know-how and experience, advocate on their behalf and conduct regular research into the needs and achievements of the sector.
- Social enterprises could initiate a multi-stakeholder social enterprise council, which would include all important stakeholders and work on policy recommendations and concrete support measures
- Social enterprises and their support organisations need to do more to raise stakeholder awareness of interesting models and successful examples

CHAPTER 12

Social Enterprise Ecosystem in Montenegro

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Executive Summary

Although social entrepreneurship is increasingly seen as an alternative and innovative way to promote inclusion, integration and the employment of disadvantaged groups of society, the ecosystem for the support of social enterprises in Montenegro is still in an early stage of development. The study found social enterprises lack capacities, resources, learning and networking opportunities and have only a few support programmes to rely on.

Montenegro is a young country in the Western Balkans. It declared independence from Yugoslavia in 2006 and is still in a process of transition to a market economy. The country is now being considered for membership in the European Union (EU), while it is still facing serious social and economic challenges such as unemployment, especially among youth, as well as poverty, social and economic exclusion and regional disparities.

In 2013 the government drafted a law, strategy and action plan for social entrepreneurship, but these have not been adopted and implemented so far due to disagreements between key stakeholders and lack of harmonization with existing legislation. There are a small number of social enterprises operating in the country, although the legal framework is still not supportive of social enterprise development.

According to estimates provided by local support organisations, there are 20 to 30 social enterprises in Montenegro. Most of them are cooperatives and civil

society organisations (CSO) that have up to ten employees and rely heavily on volunteers. Lack of business planning and financial skills among these CSOs is found to be a major obstacle to social enterprise development. The existing network of support organisations actively advocate for a more enabling environment for social entrepreneurship.

The funding landscape for social enterprises is poor. There is no targeted government support, so organisations mostly rely on public funds that support civil society and the employment of vulnerable groups. Most social enterprises were set up with funding from local organisations, foundations or international donors and pursue additional donor funding to develop their initiatives. There are a number of funds now that offer financing and technical support to small and medium enterprises (SMEs) that could be available to CSOs, business organisations and cooperatives developing social enterprise models. At the same time, CSOs are not used to or ready for financial instruments other than grants and are not well-informed about existing opportunities, so they continue to seek traditional donor support. This is becoming increasingly difficult, as foreign donors are losing interest in Montenegro due to the economic crisis and the integration process of the Western Balkan countries into the EU.

The social investment market does not yet exist in Montenegro. There is a government facility that could perhaps be used by social enterprises in the future: it is the Investment and Development Fund of Montenegro (IDF), which offers favourable loans to encourage the setting up of businesses that employ and empower disadvantaged groups in society.

Social and Economic Overview

Montenegro is a small country in the Western Balkans with a surface area of 13,812 km² and a population of about 627,000. It declared its independence in 2006 and is now considered for membership in the EU. It opened formal membership negotiations with the European Commission (EC) in 2011 and began accession talks on 29 June 2012.

The Montenegrin economy experienced high growth rates until 2010, thanks to tourism and the real estate investment boom. However, since the escalation of the 2008 economic crisis, it has faced several difficulties. Tourism is likely to be the driver of future economic growth, but the institutional and infrastructure requirements for this are not in place yet. According to the European Bank for Reconstruction and Development (EBRD), the environmental risks of further tourism growth are significant.¹⁹³

Montenegrin society is facing serious social issues such as unemployment, poverty, social exclusion and regional development disparities. The poverty rate is rapidly increasing due to high rates of unemployment and economic instability. The government's statistics office estimated that 8.6% of the population lived below the poverty line in 2014. This figure goes up to 18% in the Northern regions, where unemployment rates are twice as high as the national average and the population has limited access to public services.

In 2015 the national unemployment rate was 17.6%. The labour market is characterized by a relatively inactive population (especially regarding women), lack of mobility, long-term unemployment and the mismatch between labour supply and demand.

Long-term unemployment is a serious concern, since 68% of unemployed persons have been out of work for more than two years.¹⁹⁴ Youth unemployment is higher than in other countries in the region, reaching 41.3% in 2016.¹⁹⁵

Due to the high rate of unemployment and poverty, some societal groups in Montenegro are in an especially vulnerable position. According to the UNDP Human Development Report for 2009, the Roma, Ashkali and Egyptian (RAE) population, the beneficiaries of social and child protection, the displaced persons, the long-term unemployed, and people with disabilities (PWDs) are particularly disadvantaged.

Like other countries in the region, Montenegro has many refugees and internally displaced persons (IDP) who live in the country because of the Yugoslav wars of the 1990s. They often had limited access to employment, health care, and social services due to language barriers, insufficient integration programmes, lack of documentation or unclear or inconsistent administrative

¹⁹³ European Bank for Reconstruction and Development 2013

¹⁹⁴ Babović, et al. 2015

¹⁹⁵ Djuric 2016

procedures. To resolve the refugee crisis, the government worked closely with the United Nations High Commissioner for Refugees office (UNHCR) and other international organisations to assist refugees in applying for refugee status.

People with disabilities face significant discrimination in employment despite the existence of programmes that offer financial incentives to employers who hire persons with disabilities. According to the state employment agency, only 2% of disabled people were employed in 2015, with more than 2,000 unemployed.



The digital printing office Our ID Card was founded by the CSO Nova šansa u Novom in 2009, with the objective of providing employment and professional training to people with developmental disabilities. Learn more on page 182.

Ecosystem for Social Enterprises

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

Montenegro does not have a specific law regulating the work of social enterprises and the legal framework is not particularly supportive to their development. The government lacks a strategic approach, which contributes to the underdeveloped nature of the social enterprise ecosystem.

Even though social entrepreneurship is considered an innovative way to promote social inclusion, integration and the employment of disadvantaged groups, there is no consensus regarding its definition either in the literature or in legislative practice. In the *Strategy for the Development of Non-Governmental Organisations (2014-16)* social entrepreneurship is recognized and defined as the use of innovative practices in the sale of goods and services on the market to generate income to be used to serve public interest. This first and foremost refers (but it is not limited) to the employment of hard to employ social groups and the social and economic inclusion of marginalized people.¹⁹⁶ The definition was also used by organisations who are conducting research on the sector. However, parties interviewed for this research share the view that there is a need for a better understanding and a more concrete definition of social enterprise; one that is more in line with EU practices.

The legal framework in Montenegro still lacks concrete legal forms for organisations that are implementing social enterprise initiatives. In practice, existing social enterprise initiatives are mostly operating as non-governmental organisations, cooperatives and some in the form of business organisations (limited liability companies).

In 2013, the government of Montenegro programme required the Ministry of Labour and Social Welfare to draft a *Law on Social Entrepreneurship*, a *Strategy for Social Entrepreneurship 2013-2016* and the *Action Plan for 2013*. The Ministry invited representatives of relevant ministries, trade unions, employers and civil society to form a working group and introduce new terms relating to social entrepreneurship as well as procedures to regulate the sector and provide the basis for its further development.¹⁹⁷ This law was never adopted due to disagreements between key stakeholders and lack of harmonization with existing legislation.

There are several documents and laws which are relevant for the development of the social enterprise sector, as they contain provisions that may constitute the basis and support to the development of social entrepreneurship:

- Law on Non-Governmental Organisations (NGOs)
- Law on Professional Rehabilitation and Employment of Persons with Disabilities
- Law on Business Organisations
- Law on Agricultural Cooperatives

The *Law on Non-Governmental Organisations* adopted in 2011 allows organisations to perform economic activities but it requires them to use any profits to further the activities and goals of the organization. This law defines two types of organisations: non-governmental associations and non-governmental foundations. Annual revenues from economic activities are limited to EUR 4,000 or 20% of the total annual revenue of the previous calendar year. If a NGO exceeds the threshold, it must halt economic activities and pay the surplus to the state budget. If the organization plans to have higher revenues, it is required to register with the Central

¹⁹⁶ The Government of Montenegro 2014

¹⁹⁷ Babović, et al. 2015

Registry of the Commercial Court in Podgorica for the purpose of conducting economic activity.

The *Law on Professional Rehabilitation and Employment of Persons with Disabilities* offers positive and active measures to encourage the employment of persons with disabilities. The law provides several incentives for enterprises willing to employ this target group, including social enterprises:

- Grants that the employer can use to adapt the working space and conditions in order to meet the needs of people with disabilities
- Favourable subsidized loans for equipment, tools and machines that are to be used at the work post of a person with disabilities
- Partly funded salaries for personal assistants
- Subsidies to the employer for each employed PWD

There are also some specific forms that the law recognizes, such as “working centre” or “enterprise for professional rehabilitation;” they would employ PWD high above the minimum required quotas. However, the enterprises currently operating under this law are mainly state owned, are somehow a continuation of the same practice that existed in socialist times, and most importantly are not market oriented as they rely heavily on state subsidies and regular grants from the state for many different purposes.

Through the *Law on Business Organisations*, social enterprises can also be set up as companies. This is a less common practice although it is sometimes used by associations given their limitations on economic activities. There are also some successful examples of social enterprises that are set up as cooperatives using the *Law on Agricultural Cooperatives*. Although, the law does stipulate guidelines on governance that are

participatory, it does not necessarily include a focus on social impact.

The government drew up a *Strategy for the Development of CSOs in 2014-2016*, in which social entrepreneurship was defined as the fourth measure for the creation of an enabling environment for civil society. The government also formed a Council for Cooperation between the State and CSOs. Unfortunately, the Strategy was later removed from the government’s agenda.

The importance of social entrepreneurship has been recognized in strategic documents such as the *National Strategy for Employment and Human Resources (2016-2020)*. It is perceived as a model that can contribute to job creation, especially for vulnerable groups of society.

The policy priorities defined by this strategic document are: increasing the employment rate, improvement of knowledge, skills and competences in view of increasing employment opportunities, increasing competitiveness through formal and informal education, and training and promotion of social inclusion and reduction of poverty.¹⁹⁸

Representatives from [fAkt](#), [Juventas](#) and [CRNVO](#), three organisations active in the promotion and development of social entrepreneurship in Montenegro, agree with other stakeholders that there is a need for a clear definition and a legal framework for social enterprise. One direction is the development of a law on social entrepreneurship, but support organisations also think that the first step could be the adaptation of existing laws, particularly the Law on Business Organisations and the Law on Non-Governmental Organisations, both of which could allow for greater benefits in relation to the creation of social enterprise activities.

¹⁹⁸ Babović, et al. 2015

Table 10: Key Stakeholders in the Social Enterprise Ecosystem in Montenegro

| Policymakers | |
|--|--|
| Organisation | Role |
| Ministry of Labour and Social Welfare | <ul style="list-style-type: none"> Develops key strategic documents around social entrepreneurship, social services and employment Prepared a draft Law on Social Entrepreneurship in 2013; Strategy for social entrepreneurship 2013-2016 and the Action plan for 2013 (which were never adopted) Adopted and implemented a National Strategy for Employment and Human Resources (2012-2015) |
| Ministry of Interior | <ul style="list-style-type: none"> Adopted Strategy of Development for CSOs for 2014-2016 |
| Ministry for Human and Minority Rights of Montenegro | <ul style="list-style-type: none"> Improves mechanisms and advances policies in accordance with international framework (UN and EU), national policies and development priorities of the country. Implements UNDP's Support to Women in Business Programme |
| Ministry of Agriculture and Rural Development | <ul style="list-style-type: none"> Develops legislation for cooperatives Develops and promotes the growth of the existing micro, small and medium enterprises and entrepreneurs in the sector of agriculture and food production Provides supporting mechanisms for the development of cooperatives. |
| Ministry of Education | <ul style="list-style-type: none"> Had a leading role in the education reform process where entrepreneurial learning is an integral part Involved in adoption of the "Strategy for life-long entrepreneurial learning 2008-2013" Implemented "Young Entrepreneurs" Programmes. |
| Networks and Platforms | |
| Organisation | Role |
| Fund for Active Citizenship (fAKT) | <ul style="list-style-type: none"> Provides financial assistance to CSOs Promotes social entrepreneurship Advocates for a more enabling environment Provides capacity building in the areas of advocacy, project management and financial management |
| Centre for Development of Non-Governmental Organisations (CRNVO) | <ul style="list-style-type: none"> Supports CSOs sustainability and development of SE initiatives Provides capacity-building programs for CSOs and social enterprises (SEs) Conducts studies and research Facilitates networking of SEs with socially responsible enterprises and other actors Promotes social entrepreneurship and advocates for a more enabling environment |
| Juventas | <ul style="list-style-type: none"> Published a Study on Social Entrepreneurship in Montenegro |

| | |
|---|--|
| Local Democracy Agency Niksic | <ul style="list-style-type: none"> • Works on development of democracy on the local levels • Supported ten CSOs to develop business plan, fundraise and build capacities in management and promotion; • Conducted research and mapping on SE needs in Montenegro; • Established Centre for Social Economy Development |
| Montenegro Chamber of Skilled Crafts and Entrepreneurship | <ul style="list-style-type: none"> • An umbrella organization representing the professional, economic and social interests of Montenegrin SMEs in skilled crafts industries; • Supported the creation of six social enterprises, with grants, capacity building and networking; • Implemented awareness raising campaign on buying SE products in 2014. |

Funders

| Organisation | Role |
|---|--|
| Fund for the Professional Rehabilitation and Employment of People with Disabilities | <ul style="list-style-type: none"> • Provides funding for professional rehabilitation of unemployed and employed people with disability • Supports active employment policies for people with disability • Co-finances special organisations for the employment of people with disability • Provide subsidies for the employment of people with disability |
| Investment and Development Fund of Montenegro (IDF) | <ul style="list-style-type: none"> • Provides a variety of financing mechanisms, such as co-financing and loans with favourable conditions • Runs finance facilities for specific target groups, e.g. youth or women |
| National Employment Agency | <ul style="list-style-type: none"> • Implements active employment policies • Finances or co-finances job creation and inclusion of the unemployed • Finances adaptation of premises and technical equipment for the disabled |
| EU funds (IPA) | <ul style="list-style-type: none"> • Supports development of the social sector through know-how support, experience exchange and funding • Supports SME sector development, including through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), which provides financing solutions for SMEs implemented by EBRD and EIB Group as well as targeted policy interventions and advisory services aimed at the SME sector |

Business Support Organisations

| Organisation | Role |
|--------------|---|
| BSC Bar | <ul style="list-style-type: none"> • Provides comprehensive and integrated support to small and medium-size enterprises • Provides training for the acquisition and improvement of business skills, advisory services for starting business • Offers micro-loans • Organized in 2016 first seminar on social entrepreneurship |

PUBLIC SECTOR SCHEMES

There is no systematic government support specifically targeting social enterprises in Montenegro and existing organisations mostly rely on the support aimed at civil society and the employment of vulnerable groups.

It is generally thought that the distribution of public funds to CSOs is characterized by lack of transparency, a limited number of areas of public interest, and a lack of systematic approach to monitor the implementation of projects and spending. Allocations of state funds to CSOs for the past few years have diminished and were only 0.26% of the total government budget in 2014.

Social enterprises can take advantage of public sector subsidy schemes targeting people with disabilities. The Fund for the Professional Rehabilitation and Employment of People with Disabilities can be grants, favourable loans for the purchase of machinery, equipment and tools, and subsidies for the salaries of disabled employees.¹⁹⁹

Even though this legislation offers major opportunities for rehabilitation and employment of persons with disabilities, employers prefer to pay fines into the Fund rather than employ disabled people. There is a problem on the spending side as well. According to fAKT, only 1.5% of the annually available EUR 4-5 million in funding was in fact donated to CSOs, because they lacked quality programmes and were unable to absorb the money. This Fund has huge potential and would be much better used, if it could support programmes for other socially vulnerable groups.

Significant public support is available from the government in the form of active employment policies, which can also be used by social enterprises. Active

employment policies are managed by the Employment Agency and they offer financing or co-financing of job creation, loans for investments in new production facilities, seasonal employment, assistance in training, adaptation of premises and technical equipment for the disabled, etc.²⁰⁰

Other potential sources of support to the development of social enterprises can be made available from the Ministry of Agriculture and Rural Development and the Investment and Development Fund of Montenegro (IDF). These initiatives have a variety of financing mechanisms, such as co-financing and loans with favourable conditions. These mechanisms are generally available to social enterprises registered as business organisations and cooperatives, but not as CSOs (NGOs). Some of the programmes specifically target women and youth. *IDF* has several support mechanisms, which operate under similar conditions: Support to Entrepreneurship Development Programme, Start-up Financing Programme, Youth Business Financing Programme, Women in Business Support Programme and Support to University Graduates Programme.

The Support to Entrepreneurship Development Programme provides loans for business development and it can potentially be used for the development of social enterprises, since its target groups include young people and women. Loan beneficiaries may be all forms of business entities and they can apply for up to EUR 50,000 with favourable conditions.²⁰¹ More details on the conditions and these financial mechanisms are provided under section Supply and Demand for Finance of this study.

¹⁹⁹ [Law on professional rehabilitation and employment of people with disability in Montenegro](#)

²⁰⁰ Official Journal of Montenegro 2015

²⁰¹ There have been several attempts to make contact with Investment and Development Fund during the December and

January, but none was successful. Presented information in the study is gathered from their website, but unfortunately there is no data if any social enterprise has used some of the mechanism.

In addition to the above, another important programme implemented through IDF is UNDP's Support to the Women in Business Programme. It is jointly implemented with the Ministry for Human and Minority Rights of Montenegro, and financed by the EU (Gender Equality Program IPA²⁰² 2010). The aim of this programme is to strengthen capacities, improve mechanisms and advance appropriate policies in accordance with international frameworks (UN and EU).

The Support to Agriculture and Food Production Programme focuses on the development and growth of the existing micro, small and medium enterprises in the sector of agriculture and food production through improving production capacities, introducing new technologies and improving competitiveness.

No data is available about how many social enterprises have accessed the above funds and programmes, but support organisations agree that social enterprises are not well-informed about them and find it difficult to navigate their non-transparent processes. This is aggravated by the lack of skills and capacities of social enterprises to apply for these funds.

OTHER SUPPORT AND INFRASTRUCTURE

Business Planning and Capacity-building Support

All the social enterprises identified in Montenegro were founded with funds from local organisations, foundations or international donors. Local CSOs like fAKT, the Centre for Development of CSOs and Juventas are active in the promotion of social entrepreneurship, advocating for a more enabling environment and providing support to SE initiatives.

The Fund for Active Citizenship (fAKT) provides financial assistance to CSOs through grant programmes and learning opportunities, with the objective to contribute to positive social change and democracy building in Montenegro. The grants and re-granting schemes mostly target CSOs that deliver social services and small local CSOs²⁰³ that are building their sustainability. Over the years, they have also supported six social enterprises. The grant amounts are usually around EUR 5,000 to 10,000 and they do not focus on a specific topic or social group. Thanks to EU funds, fAKT also provides capacity building in the areas of advocacy, project management and financial management.

The Centre for Development of NGOs (CRNVO) first supported social enterprises in 2014, through an EU funded cross-border project delivered jointly with Smart Kolektiv (Belgrade). They continued providing support to CSOs developing social enterprise initiatives, mostly through capacity-building programmes in cooperation with the Faculty of Economics, University of Montenegro. This included training, business plan development and marketing strategy. Selected projects were funded by the EU Delegation in Montenegro, the US Embassy and the Norwegian Embassy. CRNVO also launched the first school on social entrepreneurship, a website about social enterprises and the first social enterprise fair.

Juventas is a non-governmental organization primarily supporting youth education and activism, but it also works in poverty reduction programmes, providing social services to vulnerable groups, advocating for social inclusion of Roma communities and the rights of LGBT people. In March 2016 they published a Study on Social Entrepreneurship in Montenegro, developed within the project "SPEED UP" (Social Policies, Entrepreneurship, Employment, Dialogue Upgrading) supported by the EU Delegation in Montenegro. The goals of the study were

²⁰² From January 2007 onwards, [the Instrument for Pre-Accession Assistance \(IPA\)](#) replaces a series of European Union programmes and financial instruments for candidate countries or potential candidate countries, namely PHARE,

PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey.

²⁰³ Up to annual turnover of EUR 25,000.

to raise awareness of the importance and potential of social entrepreneurship for the socio-economic development of Montenegro, start a dialogue among relevant stakeholders and advocate for a more favourable legal framework. Some of the findings from the studies were shared during the interviews and are included in this study.

[Local Democracy Agency Niksic](#) was established with the support of the Council of Europe on May 11, 2001, as a local NGO, which functions within the network of eleven agencies in the former Yugoslav republics and with the support of the Association of Local Democracy Agencies. Their mission is the development of democracy at the local level. During 2014-2016 in cooperation with the Association of Cooperatives from Italy, they implemented a project aimed to develop social entrepreneurship in Montenegro. The main activities of the project included conducting research for mapping social enterprise needs, providing capacity building for CSOs and promoting the social enterprise model through roundtables with relevant stakeholders. During the project, ten CSOs participated in the trainings and workshops on topics including business plan development, fundraising, management and promotion. As part of the project they also created the Centre for Social Economy Development; a place intended to provide continuous support and advice to social enterprises. The project has been completed, so the organization is now fundraising for the activities and support that the Centre intends to offer in the future.

The Montenegro Chamber of Skilled Crafts and Entrepreneurship is an umbrella organization representing the professional, economic and social interests of Montenegrin SMEs organized through 15 professional associations. It started a three-year programme called "Third Sector and Social Enterprise Development in Montenegro" in 2012 partnering with the Cooperation for the Development of Emerging Countries (COSPE)²⁰⁴ from Italy. The programme was supported in the EIDHR²⁰⁵ scheme funded by the EU Delegation in Montenegro. The objective was to create six social enterprises in skilled crafts industries in Montenegro. Six CSOs representing vulnerable groups were selected to receive grants of EUR 7,500 each for their business start-ups:

1. Association of persons with disabilities "Heart" from Mojkovac (production of eco souvenirs),
2. Association of parents and youth with disabilities "Give us a Chance" (pastry/candy row food workshop);
3. Women's safe house "Nora" (hair and beauty salon Afrodita and Apolon);
4. Association of physiotherapist for youth and children with disabilities Podgorica (physiotherapy);
5. Association of Motor Vehicle Craftsmen (auto mechanic services) and
6. Association of parents of children with disabilities "Right to life" (house repairs, plumber, sanitary, carpenters, heating and other similar craft activities).

²⁰⁴ [COSPE](#) is a nonprofit association established in 1983 and recognized in 1984 as Non-Governmental Organization (NGO) by the Italian Ministry of Foreign Affairs and the European Union. COSPE is active in the international cooperation field in about 30 developing countries with approximately 100 projects.

²⁰⁵ [The European Instrument for Democracy and Human Rights \(EIDHR\)](#) was established in 2014 to contribute to achieving the

EU's policies relating to human rights and democracy in non-EU countries, including the objectives outlined in the Strategic Framework on Human Rights and Democracy adopted by the Council on 25 June 2012 and its new Action Plan for 2015-2019.

The Chamber also provided technical support particularly in the development of crafts and business plans as well as management and marketing; it also organised a study visit to Italy and an awareness-raising campaign. The selected CSOs started economic activities in 2014, but after the project had finished the Chamber was not able to raise money to carry on with the programme.

There are a few IPA programmes that could also be used for social enterprise development, for example [IPA Cross-border Cooperation Programmes](#) or the [IPA Adriatic Cross-border Cooperation Programmes](#). These programmes have a significant impact on the development of the social sector in Montenegro, primarily through know-how support, experience exchange and funding, but also through the development of networks of similar organisations, such as the [Balkan Civil Society Development Network](#) and [SIGN Network](#) of indigenous donors from South East Europe, who have already made some progress in empowering civil society and promoting the sustainability of the sector.²⁰⁶

International donors seem to be decreasing their support in Montenegro – and the region as a whole – due to the economic crisis and the integration process of Western Balkan countries into the EU. Social enterprises interviewed in this research said that they had received funds from IPA (EU), the Australian, USA and Norwegian Embassies, but these funds were targeting CSO sustainability and the empowerment of women, rather than social enterprise development.

Philanthropists and socially-responsible corporations also offer support for the development of the social enterprise sector in Montenegro. According to fAKT, they are still at a low level with significant space for improving the partnership between the CSOs and the companies. One of the main problems is that most of the smaller, less developed CSOs do not know how to connect with the business sector. Often, they are not able to adapt their ideas to appeal to companies, while the business sector finances only those CSOs whose programs align exactly with their specific CSR focus. At the same time, the culture of individual philanthropy and CSR is still underdeveloped, so there are few role models to follow or functioning mechanisms to use.

Access to Support Schemes and Financing Available to SMEs

Social enterprises operating in the company form could use the support intended for SMEs, start-up businesses and cooperatives. These programmes are implemented by business associations such as The Chamber of Economy of Montenegro, The Montenegro Chamber of Skilled Crafts and Entrepreneurship, Montenegro Employers Federation, the Montenegro Business Alliance and others.

The EBRD has been running Advice for Small Businesses (ASB), which provides support to small and medium-size enterprises. On a cost-sharing basis, the companies can engage local consultants or international experts to improve their business. To be eligible, companies should be majority locally owned and have at least two years of track record. Since 2002, some 625 enterprises have received business advice in Montenegro.²⁰⁷ Many SMEs recognized the importance of this support programme for accessing consulting services in marketing, strategic planning, quality management systems and similar areas.²⁰⁸

²⁰⁶ Babović, et al. 2015

²⁰⁷ European Bank for Reconstruction and Development n.d.

²⁰⁸ Vuković and Bulatović 2016

EBRD's Women in Business Programme is available to the women-led small businesses in Montenegro. The programme provides female entrepreneurs with entrepreneurial skill courses, business advice, as well as coaching and mentoring.

The EBRD also provides its financing and advisory services through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), a platform established by the EU to provide a comprehensive set of complementary measures to improve access to finance for SMEs and foster economic development in Montenegro and the wider Western Balkan region. The platform consists of five different pillars implemented by the EBRD and EIB group, which broadly include direct and indirect financing solutions to SMEs at different stages of development, policy interventions to improve the SME business environment and targeted advisory support.

There are two business incubators in Montenegro. The first, IT Business Incubator "Inventivnost" in Podgorica, was established in 2009 by the Directorate for Development of SMEs and the Capital City of Podgorica. Further support was provided by the University of Montenegro, GIZ, Turn Around Management (TAM) and the EBRD Advice for Small Businesses (ASB) and the Dutch CSO SPARK. Entrepreneurs with feasible projects joining the incubator are offered a specialized menu of support resources and services, such as physical space and equipment, management coaching and training, support in creating effective business plans, administrative services, transfer of knowledge and technology and business networking.²⁰⁹

The second, BSC Bar business incubator was launched in 2010 by the Municipality of Bar, with the support of SPARK and its primary mission is to provide

comprehensive and integrated support to small and medium-size enterprises. Entrepreneurs (new and existing companies) can stay in the BSC Bar at discounted rates for a maximum period of 3-5 years. The incubator also provides business skills training, advisory services for starting a business, and it offers micro-loans. Since 2007, it has trained more than 3,527 participants in the business skills trainings, facilitated the establishment of 120 enterprises, and supported 71 start-up business through the microloan fund. In total, it has invested EUR 495,290 as microcredit support (up to EUR 10,000 per loan) for the establishment of businesses. Social enterprises are eligible to participate in the programme and in 2016, the incubator held its first seminar on social entrepreneurship. Thirty CSOs and entrepreneurs attended and gained basic knowledge on how to develop a business plan, how to start a business and how to apply for microcredit. None of the social enterprises have applied for microloans or incubation yet, but the incubator will continue to promote and support social enterprises.²¹⁰

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

According to several interviewed stakeholders one of the biggest obstacles to the development of social entrepreneurship in Montenegro is the lack of education and leadership in this area. There is no systematic public education about social entrepreneurship and what there is mostly relies on the informal educational programmes conducted by CSOs.

Entrepreneurship in general, is a topic not generally covered in the formal education system, although this has begun to change. Parallel to education reform, a systematic development of entrepreneurial education began to take place in 2002. The subject "Entrepreneurship" was introduced in the curriculum of

²⁰⁹ According to available reports, they have supported around 700 enterprises through trainings and lectures and 9

enterprises were incubated. Their website is no longer available and attempts to interview them were not successful.

²¹⁰ BSC Bar n.d.

vocational high schools in Montenegro as a mandatory or elective course. During this reform process, a *Strategy for Life-long Entrepreneurial Learning 2008-2013* was introduced and it became the key document in this area. The main goal of the Strategy is the development of an entrepreneurial spirit through the development and promotion of an entrepreneurial mind-set in society.²¹¹

The process initiated cooperation among international organisations in the launch of several entrepreneurship initiatives. One was the “Young Entrepreneurs” Programme, developed by the Centre for Vocational Education, Montenegrin Ministry of Education and Sports

and the programme called [Strengthening Vocational Training in North East Montenegro \(MNE/011\)](#). It was designed for all students and teachers of secondary vocational and mixed schools which offer “entrepreneurship” as a subject. The goal of the programme was to help students develop an entrepreneurial mind-set, attain practical knowledge and skills to create their own businesses. The programme was launched in the 2012/2013 school year and it took place in 80% of the vocational high schools (37) with the involvement of 7,546 students.

Even though these projects did not target social enterprises directly, through the development of entrepreneurial skills of youth they are fostering a new generation of leaders and entrepreneurs that can become future social entrepreneurs.

²¹¹ Obradović, Brkanović and Pejović 2013

Mapping of Social Enterprises

LEGAL FORMS

In Montenegro there are no official data on the size and structure of social enterprises and their number varies in different studies. Since there is no system of data collection or national mapping of social enterprises, the analysis in this study is based on information gathered from interviews and found in existing studies.

According to representatives of support organisations, there are twenty to thirty social enterprises operating in Montenegro. Research conducted by the CRNVO mapped 19 social enterprises in 2015, with only 16 of them active. Among those CRNVO has identified three types: CSOs engaged in economic activity (14), limited liability companies established by CSOs (1), and sheltered workshops established by CSOs (1).²¹²

According to a 2014 study conducted by the European Movement in Serbia and SeCons,²¹³ most social enterprises operated as cooperatives and CSOs. The same study estimates that in 2014 there were some 140 cooperatives registered in the Central Register of the Commercial Court in Podgorica, which were operating under legislation from the former Federal Republic of Yugoslavia (1996). They are primarily engaged in agriculture, but student and housing cooperatives can also be found. There is no information about how many are social enterprises.²¹⁴

Regarding CSOs, according to the register of the Ministry of Interior in 2014 there were 3,096 NGOs in

Montenegro and 410 NGOs were registered to conduct business activity at that time.²¹⁵

SIZE

Social enterprises have up to ten employees and all of those that operate in the form of CSOs engage volunteers. The number of volunteers varies depending on the number and types of activities undertaken, but it is noticeable that ad hoc volunteering is the most common, for the purposes of organizing events, going to fairs etc.²¹⁶. There is no data available about the financial turnover of these social enterprises.

TARGET GROUPS

CRNVO's research (sample of 16 social enterprises) showed that people with disabilities are engaged in a total of eleven enterprises, women victims of domestic violence in two, elderly women in two, while one enterprise engages members from the Roma and Egyptian minorities.

FIELDS OF ACTIVITY

There is little coherent data about social impact and field of activity of social enterprises in Montenegro. According to the CRNVO, the production of souvenirs and other decorative items, garments, items for home decor and office promotional materials are the most common activities among mapped social enterprises. They are less active in providing services, but there are some social enterprises operating SOS phone lines, delivering

²¹² Vuković and Bulatović 2016

²¹³ [SeCons Development Initiative group](#) is an independent think-tank organization of experts, established with the aim of contributing to long-term socio-economic development and

improvement of living conditions of individuals and social groups in Serbia and the region

²¹⁴ Babović, et al. 2015

²¹⁵ Ibid

²¹⁶ Vuković and Bulatović 2016

assistance to elderly people, running assistance and day-care centres for people with disabilities or offering public relations services.

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

There is only anecdotal evidence available about youth and gender-related social enterprises. According to *CRNVO*, two social enterprises provided support to women victims of violence. Interviewed stakeholders agree that there is an increasing presence of women in social enterprises. At the same time, the Women's Centre for Human Rights and Juventas pointed out that due to a recent law on pensions for women with more than three children, more women are incentivized to stay at home raising families, so they are less likely to think about starting a business.

There are several CSOs providing support and services to youth with disabilities and some of them, such as [Nova Šansa u Novom](#) (New Chance in (Herceg) Novi) have a social enterprise. This is the only successful and sustainable social enterprise mapped in this study.

NOVA ŠANSA U NOVOM

The digital printing office Our ID Card was founded by the CSO [Nova Šansa u Novom](#) in 2009, with the objective of providing employment and professional training to people with developmental disabilities in Herceg Novi. The initiative was developed in partnership and with the support of local government, the Employment Agency, and the Ministry of Health, Labour and Social Welfare.

Our ID Card has received significant support from the local government of Herceg Novi which has been covering the costs of the CSO's offices since 2009. As the enterprise is recognized among the citizens and government as a very good example and important service in the community, it has a stable partnership with the local government. The Agency for Employment also provided strong support to the initiative by covering staff costs for six people with disability for the entire year of 2009. In the same year, they received EUR 25,000 in grants from fAKT and the Foundation for Open Society for the purchase of equipment and materials. During 2011-2013 they received USD 60,000 from USAID for materials and expert support for their further development. The CSO uses all the subsidies provided by the Law for Professional Rehabilitation of People with Disabilities: employment subsidies and grants for adapting work places and paying workplace assistants.

Today, the social enterprise provides full-time employment to five young people and two assistants. Their annual turnover is about EUR 115,000. At the moment they are developing a new, complementary economic activity, the production of craft objects from recycled paper from the printing office. With support from the Employment Agency they have employed another six disabled people in 2016 and 2017.

FINANCING STRATEGIES

Social enterprises in Montenegro are struggling with sustainability. They were mostly founded by NGOs using grants averaging EUR 10,000-15,000 received from international donors. None of the interviewed social enterprises have used other financing strategies so far.

Some support arrives through grant schemes run by local CSOs like fAKT and the Chamber of Skilled Crafts and Entrepreneurship. These schemes were supported by foreign donors or EU funds and were providing grants ranging from EUR 5,000-10,000, aimed at the development of CSO sustainability and social enterprises. Some of the social enterprises were also launched using grants from IPA (EU), the Australian, USA and Norwegian Embassies, targeting NGO sustainability and the empowerment of women.

The Local Democracy Agency Nikšić shared their observations that existing social enterprises rely mainly on subsidies and grants. They are still in very early stages of development and they need grants of about EUR 6,000 combined with solid educational support and follow up. Social enterprises are still not ready and do not have capacities for loans or any other repayable finance. It is preferable that grants are provided by local stakeholders that have a good understanding of the local context and have capacity for monitoring the implementation of grants received.

THE CENTRE FOR WOMEN'S RIGHTS

The Centre for Women's Rights started its business of sewing and printing bags and t-shirts, with two grants received from the Australian Embassy and local [Foundation Petrovic](#). The economic activity was started with the idea to form a self-help group where women sew, spend time together and support each other while making products that are interesting for the market. The income they generate goes to support activities of the CSO including free legal assistance for victims of violence. The CSO did not receive any technical support, which was a problem as they had no business knowledge or experience. They have invested their own resources in the business, but there is no record of the size of that investment.

For further development, the Centre needs working capital to secure the salary for a professional manager for at least one year and to pay for raw material. They would also like investment capital to buy new and modern equipment. Representatives of the CSO think that they are only able to take grant funding, which needs to be combined with technical support to develop a stronger business orientation and to achieve better results.

COOPERATIVE RUKATNICE

[SOS Line for Children and Women Victims of Violence Niksic](#) has established a women's craft cooperative called Rukatnice, with a goal of empowering women victims of violence. The workshop for making products out of recycled textile was started with a grant received from international donors and the Employment Agency of Montenegro. For further development of the craft workshop, they would need around EUR 20,000 per year and additional technical support in marketing and management and for the implementation of sustainable and strategic development.

Social enterprises have access to a few government schemes that are not specifically targeting social enterprises, but they are eligible to apply. As already mentioned, significant resources are available through public funds supporting CSOs and the Fund for the Professional Rehabilitation and Employment of People with Disabilities, which are aimed at supporting CSO sustainability, the provision of social services and employment to people with disability. Unfortunately, a very small percentage of these funds is used by CSOs and social enterprises. On the one hand these funds are perceived as non-transparent, on the other hand some support organisations flag the lack of capacity of CSOs and social enterprises to come up with innovative and entrepreneurial ideas that could absorb this type of funding.

There are also operating public schemes providing loans to SMEs, targeting specific social groups like youth and women. These have not been used by social enterprises so far. The Investment and Development Fund of Montenegro (IDF) offers favourable loans through several programmes.

The Start-up Financing Programme is a mechanism dedicated to lending to new business entities and entrepreneurs and support to establishing new work positions.

The Youth Business Financing Programme is a mechanism which aims is to support the setting up and the development of micro, small and medium enterprises owned by Montenegrin citizens aged up to 35 years.

The Support to University Graduates Programme is a support mechanism which aims to support the setting up and development of micro, small and medium enterprises and entrepreneurship owned by Montenegrin citizens with a university degree, who are registered as unemployed with the Employment Agency of Montenegro.

The Women in Business Support Programme was designed to support the establishment and growth of micro, small and medium companies and entrepreneurs wherein women carry out business activity. This is intended for supporting female entrepreneurship and promoting the participation of women in business.

All the listed programmes provide loans for investment in fixed assets and working capital without limitations and the amount can be up to 70% of the total investment value. The maximum loan amount is EUR 50,000, the interest rate is 2.50% annually, the maximum term is 12 years (including grace period), and the grace period is up to 4 years. Also, there are special loan conditions for the projects implemented in the Northern municipalities of Montenegro and in under-developed cities (Cetinje, Nikšić and Ulcinj).

GENDER ANALYSIS OF SOCIAL ENTERPRISES

According to CRNVO, many organisations engaged in social enterprise activities are women's associations, which are mostly governed by and engage women. Among the sixteen researched social enterprises, fourteen are women-led. There are no official statistics, but we can conclude that there are more female staff members and managers than male in social enterprises. This was probably encouraged by funding programmes supporting the economic inclusion of women and the sustainability efforts of women's organization in the past.

MONITORING AND EVALUATION SYSTEMS

According to the interviewed parties, there is no uniform system of reporting on financial results or social impact in Montenegro. Donors and organisations that provide support to social enterprises use their own methodologies for monitoring and evaluation, but only few track the progress of social enterprises once the project is finished. Social enterprises usually also have some system for tracking their beneficiaries and contribution to community, through internal evaluation, statistics and regular contact with beneficiaries and stakeholders.

The Centre for Women's Rights pointed out that one of the challenges is that their beneficiaries are engaged in their programmes only for the short term, so it is difficult to keep record on the impact of the programmes on the lives of the beneficiaries once the programmes come to an end.

Social Investment Market

SUPPLY

Social investment alternatives will need to be developed to meet the future financing needs of social enterprises. Tailor-made and “soft” instruments are necessary for small enterprises and social enterprises in Montenegro, according to a representative of Montenegro Chamber of Skilled Crafts and Entrepreneurship. The consolidation and growth of these businesses is usually longer than in more developed economies, so it would be ideal to incubate them for 4-6 years. Interest rates could be around 3%, while collateral would need to be offered by other sources, as social enterprises usually cannot provide any.

DEMAND

Social enterprises interviewed for the research started their economic activities with grants ranging from EUR 6,000 to 15,000 and used them for purchasing machines, materials and capacity building. Some of them like Nova Šansa u Novom, managed to fundraise significant amounts from multiple sources.

NOVA ŠANSA U NOVOM

Nova Šansa u Novom has an annual budget of around 100,000 EUR per year. The organisation is ready to move a step forward and register its economic activity as a separate social enterprise in the form of a company and further scale up its business operation. As they lessen their dependence on grants, they plan to be able to access loan finance with favourable conditions. Perhaps a mixed financial instrument would work best, where it would be able to use a grant to cover operating costs in the short run, and a loan for investment in purchasing their own offices, for the printing office and the working centre for people with disability.

Gap Analysis and Recommendations

LEGAL FRAMEWORK

Montenegro does not have a specific law regulating the work of social enterprises, although there have been several attempts to develop one and the concept is recognized in strategic documents. The legal framework is not enabling, but there is a small number of social enterprise initiatives operating in existing legal forms.

The lack of a strategic approach on the part of the government is one of the main reasons for the under developed ecosystem. Social enterprises believe that a targeted law would bring common understanding on the definition, and more importantly allow for subsidies, financial and other means of support that would stimulate the growth of the sector. Therefore, they all advocate for a law that would define the basic characteristics of social enterprises, prescribe how they should keep their records, what mechanisms of control they should use, and by so doing, also become eligible for specific incentives.

Carrying out social entrepreneurial activities within the NGO framework prevents long-term development of the business. Although the largest number of enterprises are still at start-up or validate stages, their representatives believe that restrictions on the levels of revenue from economic activities prescribed by the Law on NGOs is most likely an important barrier for future growth.

In its study on social entrepreneurship in Montenegro, Juventas lists three recommendations for the legal framework and most of the stakeholders interviewed for this study agree with their proposal: 1) changes in the laws referring to the functioning, financing and organization of business organisations to include social enterprises; 2) changes in the existing law on NGOs to recognize social enterprises; and 3) development of a specific Law on social entrepreneurship, that would define all the important aspects for launching and operating a social enterprise.

Stronger cooperation of stakeholders, decision makers and state institutions on the one hand and CSOs, business organisations and public on the other, would be important for the further development of the legal framework. A *Strategy and Action Plan* for the development of social entrepreneurship already exist, but funding and political will are missing for their successful implementation. Support organisations such as Juventas agree that there is a need for stronger support from the EU and an active exchange of experiences with other countries from the region and Europe. This could stimulate the representatives of the public sector to engage more in creating a favourable environment. There has been progress in raising awareness of the importance of social enterprise models, but more needs to be done in this area.

Recommendations

- The government should play a greater role in the development of social entrepreneurship and form an institutional body to coordinate all the activities, provide support to existing forms of social enterprises and work actively on regulation of this area
- A law on social enterprises could be considered to promote the development of the nascent sector
- The government should also review fiscal policies, the subsidy system and the public procurement procedures and provide opportunities for social enterprises in service provision.²¹⁷
- Limiting the revenue from economic activities of CSOs should be reconsidered to incentivise such initiatives to grow

ACCESS TO FINANCE

As explained in previous sections, there are several funds that offer financing and technical support but do not specifically target social enterprises. They are available to CSOs, business organisations and cooperatives that are developing social enterprise models. Social enterprises are not well-informed about all the available mechanisms and they mostly rely on traditional donors for fundraising. Government funds and schemes are perceived by many as non-transparent and inefficient. When it comes to repayable finance, like loans provided through public schemes, many agree that they are not suitable for social enterprises²¹⁸. Although in some cases interest rates and grace periods are favourable, the loan size and required collateral continue to be an impediment for most social enterprises. There is clearly a need for raising awareness about available financing schemes to social enterprises so that they can prepare for this type of financing.

The opinion of the support organisations is that it is important to work on the development of more grant schemes combined with strong, longer term capacity-building support in order lay the foundation for sustainable and successful social enterprises. They need to build such capacity before they can consider the risk of commercial finance. A representative of *Juventas* suggested that it would be forward looking to develop and test different models, for example matching grants, convertible grants that convert into loans, or hybrid models, where part of the support is a grant, part of it is a loan.

Recommendations

- Offer more information to social enterprises about available financing options
- Offer training programmes to social enterprises and CSOs about financial instruments and debt management
- Make grant schemes available for young social enterprises, ideally combined with longer term capacity-building support focusing on business planning and management skills
- Pilot programmes should be funded and implemented to test blended finance, matching grants or hybrid models

CREATION OF AN ECOSYSTEM

The social enterprise eco-system in Montenegro needs more actors and more proactive stakeholders with resources to invest in the support infrastructure and the enterprises themselves. While there is a growing number of social enterprises, most of them lack capacities, resources, learning and networking opportunities. A few programmes have been implemented to support start-up and developing enterprises, but they have not provided strong capacity-building support and networking opportunities.

²¹⁷ Local Democracy Agency Niksic 2014

²¹⁸ Vujovic 2017

The CRNVO published the *Report on needs assessment of social enterprises*²¹⁹ in 2016, based on a sample of 16 interviewed social enterprises. Most of the mapped social enterprises were operating in the form of NGO with financial sustainability being a major challenge. Their businesses did not generate sufficient revenue to cover costs, which is owing to a large extent to the lack of business skills that are necessary to start and run a successful social enterprise. Interview respondents lacked knowledge in business management, product placement and accounting, as well as business English. Lack of marketing knowledge and experience was identified by the report as a key obstacle to the successful sale of products and services. In similar research conducted by the Local Democracy Agency Niksic (ALD), the needs assessment of social enterprises clearly pointed out that they were struggling with sustainability. A lot of them need more expertise in writing project proposals, business communication, book keeping, dealing with legislation, developing and improving business plans, fundraising, finding donors and marketing and promotion.

CRNVO and ALD therefore recommend a strong, long term and tailor-made capacity-building support scheme aimed at social enterprises. The director of the Montenegro Chamber of Skilled Crafts and Entrepreneurship, estimated in the interview that social enterprises need at least three to five years of incubation support to develop sustainable businesses.

In ALD's opinion it is necessary to have the synergy of the entire society, the formal support of the state, a quality legal framework and forward-looking strategy as well as regional cooperation and networking, for the development of social entrepreneurship in Montenegro.

The Centre for Women Rights, one of the beneficiaries of the programme implemented by the CRNVO, viewed that non-financial, mentoring support provided by this organization was significant for starting their economic activities, but that they needed more intensive, tailor-made and long-term support to develop a more sustainable business. They believe that they would benefit from support in the areas of strategic planning,

²¹⁹ Vuković and Bulatović 2016

business development, branding and marketing. Hiring a professional manager that would be responsible for the strategic development of business operations for one or two years would significantly contribute to the enterprise's success. This position could initially be funded with a grant particularly until breakeven. Support organisations agree that it would be important to set up a communication channel that offers social enterprises timely information about training and funding opportunities available in the country and outside of Montenegro. There should be a body responsible for informing and advising social enterprises, but also providing some networking opportunities. There is still no platform for know-how exchange and sharing of experiences. It is recommended by all stakeholders that networking on the local, regional and European level should be encouraged.

Cooperation between social enterprises and private companies is not very well developed. At the same time, there are opportunities worth exploring: companies can play an important role as buyers of products and users of social enterprise services. Cooperation could also be non-financial in nature, where the employees of companies would transfer their knowledge of business management, marketing, accounting, information technology or graphic design pro bono.

Recommendations

- Continue research and data gathering about social enterprises to better inform policy and support programmes and showcase success stories
- Raise awareness of social enterprises with different stakeholders, who often are now aware that these entities make a productive contribution to the sector. Showcase examples of successful initiatives and partnerships
- Offer long-term capacity-building support to social enterprises to improve their business planning and management skills. Such capacity building should be complemented with sustainability training for CSOs, often the owners and incubators of social enterprises
- Encourage networking among social enterprises and create opportunities and/platforms for this to happen. Events as well as online opportunities could be very effective and involve existing social enterprise networks from neighbouring countries, e.g. Serbia or Bosnia & Herzegovina
- Encourage closer cooperation between social enterprises and private companies. Successful examples from Serbia and FYR Macedonia could be explored and adopted

CHAPTER 13

Social Enterprise Ecosystem in Serbia

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Executive Summary

Social enterprises in Serbia work in an environment that is not conducive to a more intensive and impactful development of their sector. The institutional framework is fairly underdeveloped, the legal framework is not particularly favourable and financial support is inadequate. However, there have been significant positive developments in the past couple of years, ranging from the launching of new social enterprises, to support programmes and the increased overall recognition of the sector.

Serbia is moving towards accession to the European Union (EU). The country has emerged from a very turbulent period of its history and has been on a path to democracy and a market economy for over 15 years. The economy and social service provision virtually collapsed after decades of state control. Currently the most pressing social problems are widespread poverty, rising unemployment, regional disparities combined with corruption and inefficient public administration. Socialist and post-socialist governments have not encouraged or supported an entrepreneurial culture. This led to a worrying mind-set, whereby nearly two thirds of the young population would prefer the state as their employer.

In the past decade, social economy models were introduced in Serbia. The social enterprise sector is emerging in an evolving institutional framework without targeted support or specialised public sector partner. One of the key hurdles seems to be that social

entrepreneurship still does not have a Serbian definition and the concept is not entirely understood by policymakers. They tend to narrow the meaning to social employment or employment of vulnerable groups, which could be very limiting for the development of the sector. There have been several attempts for more concrete regulation, but the drafts of the *Law on social entrepreneurship* have failed to be adopted so far.

Civil society is recognized as major promoter and booster of the development of social enterprise ecosystem in Serbia. The Coalition for the Development of Social Entrepreneurship in Serbia and the Social Economy Network of Serbia connect active social enterprises and other organisations, and its members provide financial and technical support. In recent years, there has been more support from large companies through CSR activities, which provide pro bono assistance, promotion, finance, access to market, in kind donations and other types of support. International donors have played a major role through programmes combining financial and non-financial support to social enterprises.

The number of social enterprises cannot be determined accurately. According to the 2014 study presented by SeCons and Group 484,²²⁰ in 2012 there were 1,196 social enterprises of different types, the majority cooperatives. Social enterprises employ a small percentage of the work force and make up a marginal 0.6% of the Serbian GDP. They are active in a number of industries and services, focusing on the economic empowerment, employment and social inclusion of disadvantaged groups in society. Social enterprises were built using mainly grant funding, and a handful of

²²⁰ Statistical Office of the Republic of Serbia, SeConS and Group 484 2014

successful ones are now facing challenges in financing their scaling and growth.

Finance is a central issue for social enterprises in Serbia, which face barriers in conventional financial markets, as well as declining grants and foreign sources. International donors who have played a significant role in supporting the ecosystem so far and are expected to continue to provide support, even if to a lesser degree. Although banks have a dominant position in Serbian financial services, they have been largely irrelevant for social enterprises so far. The banking offer for small and medium enterprises (SMEs) might be accessible for social enterprises, but it is generally very conservative and risk-averse. Some banks such as Erste or UniCredit are aware of the needs of social enterprises and are piloting tailor-made lending schemes, which is encouraging.

Public sector is providing financing opportunities to social enterprises through several schemes and institutions. These funds are perceived by many as non-transparent and inefficient, but with potential use for social enterprises in the future.

The social investment market is yet to develop: both supply and demand are small and have not gone beyond experimentation. There are, however, local civil society organisations (CSOs) and foundations that are strategically oriented towards the development of social entrepreneurship and are building the network of donors, companies and investors that will provide funds and support in the future.

Naša Kuća¹ (Our House) was founded in 2007 by a group of parents of children with disabilities, with a mission to improve the life of people with disabilities and their social inclusion. Learn more about the organization and its social impact on page 217.



Brief Social and Economic Overview

Having emerged from a turbulent period of its history, Serbia is now moving towards accession to the EU. While still undergoing a difficult process of transition to democracy and market economy, Serbia carries some unfavourable legacies of its socialist past. The economy and social services system virtually collapsed after decades of state control, leaving those dependent on state provision with a strong distrust of that same state and wary of social ownership. The most pressing social needs currently are widespread poverty, rising unemployment, regional disparities and social exclusion of vulnerable groups.

During the period of reforms prior to the economic crisis (2000-2008), Serbia experienced relatively high economic growth, intensive privatization processes, improvement of conditions for entrepreneurship and increasing living standards. However, these processes were not completed; growth was based on an increase in consumption and the onset of the economic crisis in 2008 revealed that this model was not sustainable. Up until 2016, these factors presented significant challenges to achieving stable and sustainable economic growth. The state retains a significant share in key industries. The engagement of the private sector in the economy is still low, even in regional comparison, and SMEs, which are the backbone of the private sector, struggle with access to finance.²²¹ Since 2009 the economy has been shrinking; the reduction in foreign direct investment (FDI)

only aggravated the recession and minimized opportunities to launch new economic initiatives.

According to the World Bank, in 2016 the Serbian economy benefited from increases in investment which has brought growth to various sectors of the economy.

Economic growth is projected to reach 2.5% in 2016. Unlike in previous periods, private investment provided support to growth in both 2015 and 2016, and in the past year consumption also started to recover.²²²

As growth returned, unemployment fell steadily from 17.7% on average in 2015 to 15.2% in the second quarter of 2016. Still, two-thirds of the newly created jobs are in the informal sector. Overall wages continued to recover in 2016, rising faster in the private sector.

With economic growth and improvements in the labour market (though with remaining structural challenges), poverty is expected to decline gradually, to about 13.4% in 2017.²²³

The unemployment rate in Serbia decreased to 13.8% in the third quarter of 2016. It was the lowest jobless rate since the first quarter of 2008 in a country where the unemployment rate averaged 18.77% between 2008 and 2016.²²⁴

²²¹ European Bank for Reconstruction and Development 2014

²²² The World Bank 2015

²²³ Statistical Office of the Republic of Serbia 2011 and Statistical Office of the Republic of Serbia 2014

²²⁴ Statistical Office of the Republic of Serbia n.d.

Despite encouraging economic trends, widespread poverty and social problems persist. With limited support from both the private and public sectors, this has created a need for social enterprise models that could aid recovery and growth, bringing economic reform and positive social change.

In recent years Serbia had to face up to a new international political and social issue: migration and the refugee crisis. According to a Human Rights Watch report, Serbia saw a dramatic increase in the numbers of migrants and asylum seekers in 2015, many of them

from Syria, Afghanistan, and Iraq, seeking to transit via the Balkan route to Western Europe. In the first 6 months of 2015, Serbia registered 66,428 asylum seekers, nearly ten times the number registered during the same period in 2014. In November 2015, border restrictions were imposed on migrants and asylum seekers, allowing only people from Syria, Afghanistan, and Iraq to enter the country from FYR Macedonia. As of November 1, Serbia had granted refugee status to a total of 16 asylum seekers and subsidiary protection to 14 others in 2015.²²⁵

²²⁵ Human Rights Watch 2016

Ecosystem for Social Enterprises

In the past decade, social economy models were introduced to Serbia as several social enterprises appeared throughout the country; estimated at 1,196²²⁶ at the moment. However, the opportunities for social enterprise have been somewhat limited so far, and the sector is still emerging.

LEGAL FRAMEWORK FOR SOCIAL ENTERPRISES

Even though there are many operating social enterprises, Serbia still does not have a government institution that is responsible for social entrepreneurship. Existing social enterprises use a range of legally recognized forms (associations, cooperatives, foundations, limited liability companies etc.), but face various difficulties and limitations. The term “social enterprise” was already used in the *Law on Professional Rehabilitation and Employment of People with Disability* (PWDs) and represented an important step towards the recognition of the concept by public sector institutions, but it has not contributed significantly to the development of the sector.

In 2012 the *Draft Law on Social Entrepreneurship* was commissioned by the Ministry of Labour, Employment and Social Policy, but it did not meet the expectations of stakeholders. Major concerns about this law were that it would reduce the social entrepreneurship concept to the employment of vulnerable groups, burdening existing organisations with an obligation to transfer 50% of their profit into a state fund and limiting the level of profit that social enterprises can have. The Coalition for the

Development of Social Entrepreneurship in Serbia and many social enterprises appealed against the draft at the Parliament hearing.

In 2015, the Ministry of Labour, Employment, War Veterans and Social Affairs drafted a new proposal for the *Law on Social Entrepreneurship*. There were significant improvements in the new draft, but the understanding of social enterprise was still limited to the employment of difficult to employ groups and gave an important role to local authorities. The process was halted because of parliamentary elections in April 2016, but it is expected that work will resume in 2017.

There are several pieces of legislation that target the social entrepreneurship sector and regulate the possible fields of activity of social enterprises, the way in which they are constituted and in which they act, as well as the way in which they are taxed.

The most important pieces of legislation are as follows:

- Law on Social Protection
- Law on Professional Rehabilitation and Employment of Persons with Disability (PWD)
- Law on Associations
- Law on Endowments and Foundations
- Companies Law
- Cooperatives Law
- Law on Volunteering
- Law on Profit Tax
- Law on Value Added Tax (SORS 2014).

²²⁶ Statistical Office of the Republic of Serbia, SeConS and Group 484 2014

There are several studies with detailed analysis of the legal framework and specific pieces of regulation (SORS 2014; SeCons, EminS, 2014)²²⁷. For the purpose of this study, we present a brief overview below.

The term “social enterprise” has only been used in the *Law on Professional Rehabilitation and Employment of PWDs*. This law stipulates that special forms of employment and recruitment of PWDs aimed at improvement in the quality of life of PWDs may be organized as social enterprise. There are two main problems with this piece of legislation: 1) the lack of precision, since it does not specify the proportion of income that should be allocated for the integration of PWDs nor whether wage subsidy is standard regardless of the degree of disability, and 2) the limitation to apply it to other vulnerable groups in society (SeCons EminS 2014).

The Law on Associations was adopted in 2009 after significant pressure from civil society to allow associations to obtain earnings from economic activities. The law specifies that associations are allowed to engage in economic activity as an additional activity, which should be registered with the Business Register Agency²²⁸. The economic activity should be related to the purpose of the organization, be “small-scale” and limited to the extent necessary for the achievement of the purposes of the association. This requirement is questioned by the public since there is no concrete specification of “relatedness” (to purpose) and the conditions of “small-scale.” Associations are exempt from paying profit tax, if their profit is less than 400,000 RSD (approx. EUR 3,250). They are also allowed to establish their own companies to undertake commercial activities, but the relations between the founder

association and the spin-off company are not precisely defined.

The Law on Endowments and Foundations adopted in 2011 allows foundations to engage in economic activity, but also limits it with the requirement that economic activity must be related to their mission goal. At the same time, economic activity cannot be a core activity and it must be registered with the Business Register Agency. This law allows for much tighter control of founders over assets in this type of organization, since the foundation form is not presently seen as a principal model for social enterprise in Serbia, but rather as a model for founders and sponsors of social enterprises.

In practice, social enterprises often take the form of a limited liability company (Ltd). This form can be suitable for social enterprises when statutory restrictions on profit distribution are included. It is also suitable for social enterprises that can claim tax exemption and want to have access to commercial banking products.

The Law on Churches and Religious Communities also provides possibilities for the establishment of social enterprises, but there are no examples to our knowledge of church-run social enterprises.

In addition to the above listed key pieces of legislation, there are several laws that address social enterprises indirectly such as the *Law on Social Protection* and the *Law on Volunteering*. They create space for the development of social enterprises and draw on additional resources.

²²⁷ Babović, et al. 2015

²²⁸ *The Serbian Business Registers Agency (SBRA)* was established by the Business Registers Agency Law in 2005. Founding the SBRA has brought about significant reforms in the field of business registration, as well as the harmonization

of Serbia's legislation with European standards. The SBRA runs business registers as single, centralized, public electronic databases for companies, entrepreneurs, associations, foundations, media, tourism, sport associations and others.

In 2014, 489 CSOs from the Western Balkans and Turkey signed the *Belgrade Declaration on the Development of Social Entrepreneurship*²²⁹. The goal of the *Declaration* was to point out to decision-makers both in the EU and the countries involved the necessary steps which will contribute to the development of social economy as a relevant model for the socially sustainable development of the entire region. The signatories invited the EU and local institutions to take responsibility and actively engage in the development of social entrepreneurship following the *Strasbourg Declaration*²³⁰ as a starting point for national policies. The *Declaration* was initiated by the Coalition for the Development of Social Entrepreneurship in Serbia and contributed in efforts to build consensus on the definition of social enterprise to be used in future advocacy initiatives.

PUBLIC SECTOR SCHEMES

Much like the legal framework, government institutions that are dealing with the sector are varied and fragmented. There is no single institution or public body that could provide more coordinated action to improve the environment or the performance of social enterprise organisations. According to the Coalition for the Development of Social Entrepreneurship, as part of the ongoing process of drafting a law on social entrepreneurship, there were initiatives to form a dedicated team for social enterprise development within the Ministry of Labour, Employment, War Veterans and Social Affairs. The Ministry is showing interest to strongly support the further development of the concept, but it still lacks understanding and agreement on the definition of social entrepreneurship.

There are several ministries and national level institutions relevant for the development of social enterprise. The Social Inclusion and Poverty Reduction Unit (SIPRU) was formed by the government in 2009, with a mandate to strengthen government capacities to develop and implement social inclusion policies based on good practices in Europe. Furthermore, the SIPRU provides support to the government to coordinate, monitor and report on the efforts in the field of social inclusion. According to some sources, SIPRU has recognized social entrepreneurship as a good mechanism for social inclusion and economic empowerment of marginalized groups, for provision of social services and for the development of rural and underdeveloped municipalities. The Unit supported the founding of the Coalition for the Development of Social Entrepreneurship and continues to be its main partner in activities related to public policy and promotion of the social enterprise concept. In 2012 they engaged an OECD team to conduct a detailed assessment and a market study on social entrepreneurship and its potential in Serbia, with a goal to develop an action plan and a national strategy. The OECD LEED study led to a series of recommendations.²³¹ However, the government has not taken any action to support the initiative or work on developing a national strategy.

²²⁹ Belgrade Declaration on the Development of Social Entrepreneurship in the Region of the Western Balkans and Turkey 2014

²³⁰ Strasbourg Declaration 2014

²³¹ Local Economic and Employment Development (LEED) Programme 2012

Table 11: Key Stakeholders in the Social Enterprise Ecosystem in Serbia

| Policymakers | |
|---|---|
| Organization | Role |
| Ministry of Labour, Employment, War Veterans and Social Affairs (previously Ministry of Labour, Employment and Social Policy) | <ul style="list-style-type: none"> • Developed first Draft Law on social entrepreneurship in 2012 • Formed working group for drafting the new Law on Social Entrepreneurship (2015) • Manages <i>Budget Fund for vocational rehabilitation and promotion of employment of PWDs</i> • Supports enterprises for people with disability through the <i>Lottery Fund</i> |
| Social Inclusion and Poverty Reduction Unit (SIPRU) | <ul style="list-style-type: none"> • Mandate to strengthen government capacities to develop and implement social inclusion policies • Supported the founding and work of the Coalition for the Development of Social Entrepreneurship • Engaged OECD in detailed assessment and market study on social entrepreneurship and its potential, with a goal to develop an action plan and a national strategy • Advocated direct support to social enterprises in programming of IPA 2013 • Successfully advocated for adding a social component in public procurement bids |
| National Employment Service | <ul style="list-style-type: none"> • Defines and implements programmes for active employment, supporting the employment of vulnerable groups; including subsidies • Provides training and financial support for start-ups, SMEs, self-employment and implementation of public works |
| Ministry of Economy and Regional Development | <ul style="list-style-type: none"> • Provides start-up grants to entrepreneurs through the National Employment Service (NES). • Provides support to SMEs; • Supports employment of youth |
| Ministry of Finance | <ul style="list-style-type: none"> • Draws up and implements the government's fiscal policy and support mechanisms. |
| Belgrade Centre for Social Entrepreneurship | <ul style="list-style-type: none"> • Founded in 2013 by the city to provide educational and training programmes to develop social enterprises at local level • Mostly implemented employment programmes rather than entrepreneurship so far |

| Networks and Platforms | |
|--|--|
| Organization | Role |
| Coalition for the Development of Social Entrepreneurship | <ul style="list-style-type: none"> • Advocates for better legal framework and more enabling environment including draft law on social entrepreneurship • Promotes concept to key stakeholders • Provides research and analysis of the ecosystem • Initiated <i>Belgrade Declaration on the Development of the Social Entrepreneurship</i> |
| SENS – Social Economy Network Serbia | <ul style="list-style-type: none"> • Promotes social entrepreneurship and its members; • Creates networking and learning opportunities for its members. |
| Smart Kolektiv | <ul style="list-style-type: none"> • Offers comprehensive support to social enterprises, including start-up and incubation • Provides opportunity for learning and partnership with business sector • Promotes the concept among business sector and other stakeholders • Organizes annual regional conference <i>Social Innovation Forum</i> aimed at fostering social entrepreneurship • Member of the Coalition for Development of Social entrepreneurship • Co-administers SENS network with <i>Initiative for Development and Cooperation</i> |
| Junior Achievement (JA) Serbia | <ul style="list-style-type: none"> • Promotes and support youth entrepreneurship and social entrepreneurship in high schools • Provides education in the field of entrepreneurship, financial literacy and work readiness • Organizes student competitions, trade fairs and online contests. |
| Association of Business Women in Serbia | <ul style="list-style-type: none"> • Provides support and promotion of female entrepreneurs • Advocating improvement of the business climate and • Fosters networking on a local, regional and international level |
| Funders | |
| Organization | Role |
| Budget Fund ²³² / via National Employment Service | <ul style="list-style-type: none"> • Supports companies for employment, vocational rehabilitation and different forms of engagement of people with disability; offers subsidies |
| Delta Foundation | <ul style="list-style-type: none"> • Support to social enterprises in agriculture through the Plantation for the future programme which provides grants, capacity building and support in product placement |
| The Development Fund | <ul style="list-style-type: none"> • Provides credit for businesses and new business start-ups, including SMEs and crafts shops. • Acts as a channel for funds from Ministries; works with the National Agency for Regional Development and regional development agencies supporting start-ups • Offers start-up loans for youth and adults with no business experience |

²³² Financial resources are distributed directly and in some cases through the National Employment Service.

| | |
|--|--|
| Erste Bank | <ul style="list-style-type: none"> • Provides loans and technical support to social enterprises through the “Step by Step” programme. • Purchases social enterprise products • Promotes social enterprises among the business community • Provides grants to young people, individuals, groups and organisations developing socially-responsible projects through the “SuperStep” programme |
| European Commission | <ul style="list-style-type: none"> • Supports sustainable socio-economic development, rural development, social inclusion, the development of social services and social entrepreneurship through IPA I (2007-2013) and IPA (2016 - present): • Runs programmes targeting CSOs and small businesses, including the Western Balkans Enterprise Development and Innovation Facility (“WB EDIF”), which provides financing solutions for SMEs implemented by EBRD and EIB Group as well as targeted policy interventions and advisory services aimed at the SME sector • Runs several other support programmes that could benefit social enterprises |
| Heinrich Böll Foundation | <ul style="list-style-type: none"> • Supports social entrepreneurship initiatives that build awareness and promote the strengthening of the sector |
| Opportunity Bank | <ul style="list-style-type: none"> • Specialized in microfinance providing micro, rural, agro and SME loans |
| UniCredit Bank | <ul style="list-style-type: none"> • Pilot loan programme for social enterprises in 2012 • Provided grants and capacity building through the “Idea for a Better Tomorrow” programme • Purchases products from social enterprises |
| United States Agency for International Development (USAID) | <ul style="list-style-type: none"> • Supported youth entrepreneurship through a variety of measures in the Sustainable Local Development Project (SLDP) • Supports CSOs and social enterprises through grant schemes |
| Yunus Social Business (YSB) | <ul style="list-style-type: none"> • Supports social enterprises through investment readiness programme YSB Balkans Accelerator for social enterprises from the Balkan region |

Business Support Organisations

| Organization | Role |
|----------------------------|---|
| Responsible Business Forum | <ul style="list-style-type: none"> • Promotes the concept and good practices of responsible business • Provides free access to knowledge and expertise offered by large companies |

One of the major successes of the SIPRU team was enabling direct support to social enterprises through the IPA 2013 programme,²³³ where EUR 1 million was designated for business development of social enterprises. SIPRU is also a member of the GECES²³⁴ group of the EU, where it has an observer's role without voting rights. Participation in GECES is valued by SIPRU as a great opportunity for learning and networking.

The Budget Fund for vocational rehabilitation and promotion of employment of persons with disabilities was launched in 2009. The fund draws money from the state budget and income from penalty payments levied on employers who do not comply with the obligation to employ a certain proportion of people with disability. The funds are used for stimulating employment, vocational rehabilitation, working engagement and different forms of employment. Since its establishment, this fund has collected approximately EUR 35 million. Financial support from this fund goes primarily to companies for the employment of PWD, some of which could be considered social enterprises. Funds can be used for funding salaries, improvement of working conditions and processes. Financial resources are partly distributed directly and in other cases through the *National Employment Service*. This mechanism has great potential, but is sometimes criticized for lack of transparency. It is limited only to supporting employment of people with disability and no other vulnerable group.

The National Employment Service (NES) also provides various subsidies for employment of different disadvantaged groups, beneficiaries of state welfare programmes and long-term unemployed. Both at central and local level, the National Employment Service defines and implements programmes for active employment, supporting the employment of vulnerable groups,

²³³ The Instrument for Pre-Accession Assistance, or simply IPA, is a funding mechanism of the European Union. As of 2007, it replaced previous programmes such as the PHARE, ISPA, SAPARD and CARDS. Unlike the previous assistance programs, IPA offers funds to both EU candidate

providing training and financial support for start-ups, including social enterprises and supporting implementation of public works. The measures are not specifically targeting social enterprises, but are used actively by them.

The Ministry of Labour, Employment and Social Policy supports enterprises for people with disability through the Lottery Fund. It has five main funding areas: disability, youth and sport, the Red Cross, local municipalities for social protection (receiving 19% each), and rare diseases (5%). Same as with the Budget Fund, its transparency and functioning as a public fund are often a point of discussion.

While there are a number of one-off programs implemented by the government, the most important on-going national programmes that support young entrepreneurs include the following: 1) the Ministry of Economy and Regional Development offers EUR 1,600 start-up grants to entrepreneurs through the National Employment Service (NES). NES disbursed 3,725 such grants in 2010. Young entrepreneurs are a priority group and account for about 25% of the annual grant applicants. 2) the Fund for Development offers start-up loans for both youth and adults with no business experience. Loans are between EUR 5,000 and EUR 40,000, with annual interest rates of 2.5-3%.

The main problem with the public schemes focused on the social enterprise sector is that government funds for

countries (Albania, Macedonia, Montenegro, Serbia, Turkey) and potential candidates (Bosnia and Kosovo).

²³⁴ GECES is the expert group of the European Commission on social entrepreneurship (Expert Group on Social Entrepreneurship (GECES) 2017).

social services are limited. Most of the government funds target people with disability, while other vulnerable groups are completely left out. As Serbia is now moving forward to opening new chapters of the *Acquis Communautaire*²³⁵, it can hope for more designated government funds for social enterprise supporting other vulnerable groups and social goals as well. Any additional funding could have huge potential for extending the social enterprise model beyond disabled people to other disadvantaged groups.

When it comes to institutional support, social enterprises are campaigning for reserved public procurement contracts and tax relief. The SIPRU team has also advocated for adding a social component in the evaluation of public procurement bids. It was officially listed as one of the criteria in the *Law on Public Procurement*, but so far this benefit has only been used for enterprises employing PWDs. Many of the partners interviewed for this research, mentioned as a key obstacle the lack of engagement of the Ministry of Finance in the process of drafting the *Law on Social Entrepreneurship* and in defining support mechanisms for social enterprises that would allow them to access contracts.

OTHER SUPPORT AND INFRASTRUCTURE

Business Planning and Capacity Building

[Smart Kolektiv](#) has been engaged in the promotion and development of social entrepreneurship through various programmes and initiatives since 2010. Smart has implemented several programmes providing direct support to social enterprises through financing, capacity building, links to business, networking and

SMART ACADEMY

“[Smart Academy](#)” is a one-year programme of capacity building and financial support for social enterprises. It includes a series of trainings, consultations with experts, tailor-made mentoring support, partnering with businesses, promotion and finance. During the programme, beneficiaries have the opportunity to advance their knowledge and skills in the areas of business idea development, strategic planning, marketing, management, partnership with companies and finance. Selected organisations can meet, cooperate, and get advice and support from representatives of some of the most successful organisations, foundations and social enterprises, as well as the representatives of the biggest socially responsible companies in Serbia. Most successful participants are awarded with funds of up to EUR 10,000 for starting or improving their sustainability.

During 2015-2016, 10 selected organisations received 500 hours of expert support working with thirty experts. The most successful organisations were awarded with grants and six months of additional one-on-one mentoring support. As a result, two social enterprises have started new economic activities, while four others have improved their business model, increased production capacities, introduced new services and/or improved their marketing strategies. One of the SE reported a 30% increase in sales.

²³⁵ *Acquis Communautaire* sometimes called the EU *acquis* and often shortened to *acquis*, is the accumulated legislation, legal acts, and court decisions which constitute the

body of *European Union law*. It has been divided into 31 chapters for the purposes of negotiation between the EU and candidate countries.

promotion. In partnership with international donors and private sector partners, Smart Kolektiv has supported more than 100 social enterprises to develop their businesses through programs like “Smart Academy,” a unique incubator programme.

Smart Kolektiv is very successful in building partnerships and joint programmes with its partners. Together with Responsible Business Forum, Smart gave the opportunity to over 100 social enterprises and CSOs to directly pitch for funding and develop partnerships with companies. Through the “[Academy of Business Skills](#),” it gives free access to knowledge and expertise of managers from the largest responsible companies in Serbia. Together with IDC, Smart Kolektiv administers the Social Economy Network Serbia (SENS). Since 2014, Smart has organized an annual conference called Social Innovation Forum Serbia, which is a regional conference aimed at fostering social entrepreneurship development. Smart Kolektiv is a partner of a number of European and global networks and associations and thus connects Serbian social enterprises to the most active and innovative international initiatives. They include the European Venture Philanthropy Association, Youth Business International, Global Social Entrepreneurship Network, Euclid Network and the Global ProBono Network.

Award programmes have served as great awareness raising tools in Serbia. The [Social Impact Award programme](#) is a global program that has been executed in Serbia by a local CSO called Razlivaliste since 2015. The programme aims to promote the concept of social enterprise among students and offers them support to start a social enterprise. Razlivaliste also launched the local version of the Unreasonable Lab programme in Serbia in 2016, targeting social enterprises in their start-up phase.

The Serbian social enterprise ecosystem can also count on structures of support that are driven by a new group of stakeholders, who have not traditionally been involved in social enterprise development: corporations. The [Responsible Business Forum Serbia \(RBF\)](#), a network of socially-responsible companies founded by Smart Kolektiv, provides different forms of support to social enterprises: pro bono assistance, promotion, finance, access to market, in kind donations and other. One of the strategic goals of the network is to develop social entrepreneurship and more companies have been engaging over the years.

According to a LEED OECD study (2012), the corporate social responsibility (CSR) practices of foreign banks in Serbia are less developed than in their home countries. However, there are examples of banks supporting the social economy in recent years through grants, loans, education and access to market, for example Erste Bank and UniCredit Bank (more on these mechanisms in the Access to Finance section of this report). The Responsible Business Forum network is actively engaged in the promotion of cross sector partnerships and supporting sustainable initiatives. According to Smart Kolektiv, in 2015 RBF members invested more than EUR 10 million in projects implemented with partners from civil society and social enterprises.

Supply chain opportunities can also grow out of these partnerships. There is a growing number of companies that purchase social enterprise products and are willing to select them as their suppliers with a goal of supporting the sector. IKEA, for example, is transferring their global programme experience to local level, selecting social enterprises as their permanent suppliers for sewing services and organic products for their restaurant. Social enterprises like Atina and Naša Kuća have become important catering suppliers for number of companies.

Even though their volumes have been reduced over the years, international donor programmes had a major influence on the social entrepreneurship agenda, and may continue to be an important alternative source of finance. Most of them did not provide capital or investment to launch or grow businesses, but focussed on capacity building and training.

The European Commission has been supporting sustainable socio-economic development, rural development, social inclusion, the development of social services and social entrepreneurship through different programs and instruments in Serbia. Most of the funds so far have been provided through *IPA I* (2007-2013), which was managed from Brussels until 2013, when it was decentralized. In the recent years, Serbia had access to funds from a number of EU funding programmes based in Brussels, such as EIDHR (European Instrument for Democracy and Human Rights), ERASMUS (a programme for the mobility of university students), Civil Society Facility, EaSI (Employment and Social Innovation) and COSME (Competitiveness of Enterprises and SMEs) programmes and the Western Balkans Enterprise Development and Innovation Facility (WB EDIF).

In 2016 organisations and businesses from Serbia were eligible to apply to two of the most relevant programmes from the social enterprise point of view: EaSI 2014-2020 and COSME. EaSI called for actions to boost the demand and supply side of the finance market for social enterprises, while SMEs have gained access to more favourable loans thanks to the COSME programme and the guarantee facility of the European Investment Fund. Through this instrument 3000 SMEs will have access to EUR 60 million in loans, available through Banca Intesa in Serbia. It is hoped that social enterprises constituted as companies may also have access to these funds.

The United States Agency for International Development (USAID) Sustainable Local Development Project (SLDP), implemented by Chemonics International, was a five-year project launched in 2011 supporting the long-term economic and social development of Serbian cities and municipalities. As part of the project, SLDP worked with Smart Kolektiv to support young entrepreneurs through the creation of Youth Business Serbia, based on the Youth Business International (YBI) methodology. USAID has also been actively supporting the sustainability efforts of civil society, economic empowerment of different vulnerable groups and social inclusion. It has funded Smart Kolektiv projects aimed at promoting social entrepreneurship, advocating for better environment and programmes providing comprehensive support (capacity building and finance) to social enterprises.

The Heinrich Böll Foundation has also supported social entrepreneurship in Serbia. Their grants range from EUR 5,000-10,000. Two years ago they began supporting a joint initiative of Liceuluce – the Serbian street paper – and the SENS network to produce a monthly newsletter dedicated to information and topics about social entrepreneurship. This year, the foundation is supporting Smart Kolektiv to add a specific set of social enterprise trainings targeting communication and marketing skills. They are also supporting the European Movement to conduct a series of meetings with various stakeholders to define a common set of policy and advocacy initiatives, and to lay the groundwork for self-regulation and governance of existing structures.

There were several significant projects funded by foreign donors and missions (British Council, UNDP, the Norway-funded Business Innovation Programme, BIP) in the last few years that were important for the development of the first social enterprises. Aimed at initiatives for job creation, social inclusion and economic empowerment of socially disadvantaged groups, these programmes offered grants (EUR 5,000-7,000), training, mentoring and study visits abroad for some of the first social entrepreneurs in Serbia.

The Ministry of Economy and Regional Development in cooperation with several other ministries and government bodies implemented from 2009-2011 the YEM project, a UN joint program for Youth, Employment and Migrants. This programme focused on the employment of youth and migrants, and included social enterprises employing these target groups.

The EBRD's Advice for Small Businesses (ASB) is addressing the needs of SMEs. On a cost-sharing basis, the companies can engage local consultants or international experts to improve their business. To be eligible, companies must be majority locally-owned and at have at least two years of track record. Technical assistance is mostly provided in areas such as financial management, management information system, marketing, quality management, human resource management energy efficiency, business and strategic planning, financial management, export promotion etc. This programme can be made available to social enterprises operating a commercial business.

The EBRD's Women in Business Program is also available to the women-led small businesses in Serbia. The programme provides female entrepreneurs with entrepreneurial skill courses, business advice, coaching and mentoring, as well as access to specific financial products.

The EBRD also provides its financing and advisory services through the Western Balkans Enterprise Development and Innovation Facility ("WB EDIF"), a platform established by the EU to provide a comprehensive set of complementary measures to improve access to finance for SMEs and foster economic development in Serbia and the wider Western Balkan region. The platform consists of five different pillars implemented by the EBRD and EIB group, which broadly include direct and indirect financing solutions to SMEs at different stages of development, policy interventions to improve the SME business environment and targeted advisory support.

Networks

Civil society is recognized as a major promoter and booster of the development of the social enterprise ecosystem. In 2010, several leading organisations founded the [Coalition for the Development of Social Entrepreneurship Serbia](#): European Movement in Serbia, Group 484, Initiative for Development and Cooperation (IDC), Trag Foundation for Community Initiatives, SeCons and Smart Kolektiv. As a network of organisations, the Coalition is dedicated to the advancement and development of social economy in Serbia; promoting the concept among different stakeholders, analysing the environment and the legal framework, advocating for an enabling environment and offering direct support to social enterprises. A member of the Coalition – SeCons, is actively involved in the development of the new draft law on social entrepreneurship. [SeCons](#) is also dedicated to research and analysis of the social economy sector and provides policymakers and practitioners with reliable and high-quality analysis.

[SENS – Social Economy Network Serbia](#), is the only national network that brings together social enterprises. It provides promotion and networking opportunities to its members, but also wants to raise general awareness of social enterprise models and success stories. SENS currently has 40 members from all over Serbia, including CSOs, enterprises for vocational rehabilitation of persons with disabilities, limited liability companies and cooperatives. SENS was founded in 2011 by Group 484 with the support of the Italian UniCredit Foundation. The SENS network is administrated by Smart Kolektiv and Initiative for Development and Cooperation (IDC).

SENS and the Coalition have very similar visions and goals, but target a different segment of stakeholders in the social enterprise ecosystem. SENS is a network of practitioners, mostly social enterprises seeking assistance in promotion, sales of products and services, networking, and training. The Coalition, on the other hand, is a grouping of several large national organisations, whose main purpose is advocacy and

policy advice. The Coalition interacts with the public sector, but also carries out analyses, research and drafts recommendations. Both organisations work closely together.

SOCIAL ENTERPRISE IN THE EDUCATION SYSTEM AND VOCATIONAL TRAINING

The education system in Serbia has limited entrepreneurship education opportunities and is still far from incorporating a social entrepreneurship dimension. At the university level, the system is burdened with many problems; the system of accreditation of private educational institutions is not working well, and the academic and vocational training programmes tend to be outdated and theoretical. At the secondary level, the Ministry of Education has incorporated entrepreneurship into the curriculum.

The limited entrepreneurial education opportunities and the lack of entrepreneurial mind-set is recognized by many stakeholders as one of the main challenges in development of the SMEs and social enterprises in Serbia. Young people are not informed about opportunities and do not experience alternative business models, so most of them want to become employees and do not consider the entrepreneur's route.

The Vocational Education and Training system (VET) does not offer entrepreneurial education. With the adoption of the Secondary Vocational Education Reform Strategy, entrepreneurship was included as one of the five key employability competences in the 2007-2008 school years. An entrepreneur-teacher training programme was accredited at the national level. Pilot projects on strengthening the entrepreneurial skills in secondary schools were introduced, but more should be done in this direction. The education system needs to be more connected with the economy and practice; it needs to promote creativity and innovation, develop the entrepreneurial spirit and thus make the option of self-employment equally attractive as working in an existing company.

The National Employment Service and the National Agency for Regional Development provide a number of trainings and education programmes for self-employment and entrepreneurship. They offer various forms of direct and indirect support to economic entities, primarily to small and medium enterprises from practical support for starting a company to financial support programmes. Both agencies offer special programmes for fostering women's and youth entrepreneurship. In addition to the National Agency, there exists a network of 15 regional agencies, which also have a significant role in educational and training activities.

The Belgrade Centre for Social Entrepreneurship, founded in 2013 by the city, was supposed to have a specialised approach. Its educational and training programmes were aimed at the development of social enterprises at local level. Unfortunately, the Centre has focused more on employment programmes rather than entrepreneurship.

EU programmes could also play an important and increasing role in entrepreneurship education in Serbia. IPA assistance could be especially useful, since it is supporting capacity building of CSOs, networking and exchange of experiences at local and EU levels, enhancing competitiveness and innovation of SMEs, youth employability and entrepreneurship, women entrepreneurship and inclusion of vulnerable groups. Available funding under this instrument was around EUR 198 million in 2010, rising to EUR 215 million in 2013.

Optimist started a programme for economic empowerment of vulnerable and Rómá families through the production of fruits and vegetables. See page 212 to learn more.



Junior Achievement (JA) Serbia offers a significant contribution to entrepreneurial education by implementing programmes in elementary and high schools in the field of entrepreneurship, financial literacy and work readiness. The programmes verified by JA Worldwide and accredited by the Serbian Ministry of Education are implemented throughout the school system either as a part of the curriculum or as an after-school activity. They represent best practices in developing entrepreneurial skills and knowledge of the market economy, and include competitions, trade fairs and online contests. Junior Achievement Serbia is currently active in 90 municipalities with over 286 schools participating in their programmes (around 15%). Since its launch in 2005, over 60,000 students have attended one activity or another. JA also encourages innovation and social entrepreneurship among high school students.

The Social Impact Award programme is planning to develop close cooperation with Belgrade University in 2017 and to organize a series of lectures and workshops for students in partnership with the Faculty of Economy, Faculty of Organizational Sciences and other Faculties. Their goal is to introduce more students to social entrepreneurship and invite them to apply to their Unreasonable Lab Serbia and Social Impact Award 2017 programme. Smart Kolektiv became an accredited member of the [Youth Business International](#) network at the end of 2016 for the programmes supporting young entrepreneurs and young social entrepreneurs. Membership in the network will enable Smart to scale their operations more effectively, improve methodology and network with peers from the global community.

Mapping of Social Enterprises

According to the 2014 study presented by *SeCons* and *Group 484*²³⁶, in 2012 there were 1,196 social enterprises of different types operating in the Republic of Serbia.

LEGAL FORMS

The cooperatives represent the biggest (65.6%) followed by associations of citizens (23.7%).

Cooperatives are social enterprises by the definition laid down in the Law on Cooperatives, since they entail free association, solidarity-based business operations and decision-making based on equal rights. However, practice shows that cooperatives don't really operate like social enterprises usually serving the interests of the management and employees, and not the members of the cooperative. Also, they don't necessarily have a social focus and their business operations are directed solely at profit making.²³⁷ For this reason, the share of cooperatives in the total number of social enterprises must be further explored and should be given less weight than other forms of social enterprises.

SIZE

There were 10,326 employees in the social enterprise sector in 2012, which was 0.6% of the total number of employees in the Republic of Serbia. Cooperatives distort the picture again; more than a half (58.6%) of the employees were working in cooperatives. Enterprises for employment of persons with disability employed 20.2% and associations of citizens 14.0%.

Table 12: Number and Legal Form of Social Enterprises

| Legal Forms of Social Enterprise | Number |
|--|--------------|
| Cooperatives | 785 |
| Associations of Citizens | 283 |
| Enterprises for the Employment of People with Disabilities | 45 |
| Development Agencies | 32 |
| Foundations | 23 |
| Business Incubators | 18 |
| Spin-off Enterprises | 8 |
| Other | 2 |
| Total | 1,196 |

Source: (Statistical Office of the Republic of Serbia, *SeCons* and *Group 484* 2014)

²³⁶ Statistical Office of the Republic of Serbia, *SeCons* and *Group 484* 2014

²³⁷ Cvejić n.d.

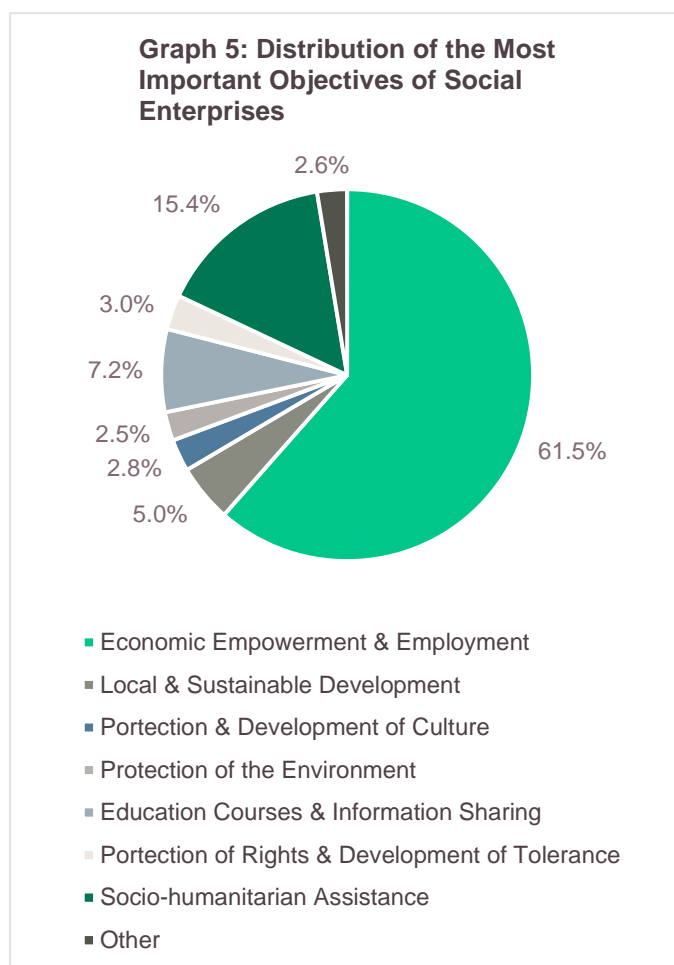
In the same year, social enterprises achieved gross value added (GVA) of about EUR 62 million, which accounted for 0.2% of the country's GDP in 2012. However, since most of the GVA was contributed by cooperatives (75.3%), which are large not mission-led agricultural coops, this figure is again misleading. Currently there are no estimates for the growth potential of the sector and its various segments.

TARGET GROUPS

In the existing studies, there is no relevant data related to the target groups of social enterprises. Yet, we know through networks and coalitions that many social enterprises provide social services, inclusion and working engagement opportunities for people with disabilities. A significant number of initiatives offer job opportunities and economic empowerment to women from different disadvantaged groups (women over 50, long-term unemployed women, women from rural areas and women who were victims of violence).

FIELDS OF ACTIVITY

According to the same study (SORS 2014), social enterprises focused on a number of fields of activity in 2012. As *Graph 5 (right)* shows, the most important objectives were economic empowerment and employment, which make up over 60% of the total. This dominance can probably be explained by the fact that almost two-thirds of the sector consists of cooperatives, where nearly 90% put economic empowerment and employment as one of the top three objectives.



Source: (Statistical Office of the Republic of Serbia, SeConS and Group 484 2014)

A more detailed analysis of this aspect shows that associations of citizens and foundations are primarily focussed on socio-humanitarian objectives (44.1%) and education courses, promotion of and information sharing about the key values they advocate for (18.3%).

The social enterprise sector overall is dedicated to the most important social issues such as employment, socio-humanitarian assistance, local development and education.

Table 13: Objectives by the Legal Form of Social Enterprise

| | Associations & Foundations | Cooperatives | Enterprises for Employment of People with Disabilities | Other |
|---|----------------------------|--------------|--|-------|
| Economic Empowerment & Employment | 2.5% | 88.7% | 75% | 44.9% |
| Local & Sustainable Development | 7.6% | 1.4% | 3.7% | 32.5% |
| Protection & Development of Culture | 9.7% | 0.1% | 0.9% | 0% |
| Protection of the Environment | 7.7% | 0.6% | 0% | 0% |
| Education Courses & Information Sharing | 18.3% | 1.8% | 0.9% | 14.6% |
| Protection of Rights & Development of Tolerance | 5.7% | 2.1% | 0.9% | 0% |
| Socio-humanitarian Assistance | 44.1% | 3.8% | 14.7% | 0% |
| Other | 4.3% | 1.5% | 2.8% | 7% |

Source: (Statistical Office of the Republic of Serbia, SeConS and Group 484 2014)

SOCIAL IMPACT

According to the SORS 2014 study, the social impact of social enterprises in 2012 was rather weak; this is in line with their limited financial success. At the same time, the impact is very much determined by the type of enterprise; enterprises that employ persons with disability and that received significant subsidies from the state were the biggest generators of employment, hence they were able to demonstrate greater social impact on their beneficiaries.

Enterprises founded by associations of citizens with a social mission (spin off) show more entrepreneurial initiative, but their number is far too small at this point to have any significant impact at national level. Their strength could be social impact brought about by successful income generation which is used to sustain their core socially-focused activities.

Cooperatives, as the most numerous of the social enterprises, exhibit very feeble social impact. They do not generate significant employment, and they earmark only about half their income for solving problems of the local community or vulnerable groups.

OPTIMIST BOSILEGRAD

[Optimist](#) is a CSO that started a programme for economic empowerment of vulnerable and Roma families through the production of fruits and vegetables.

The programme was launched in 2011 and has already had great social impact on the municipality of Bosilegrad, located in the southern parts of Serbia and characterized by decreasing population, unemployment, poverty and economic stagnation. More than half of the agricultural land in Bosilegrad is not cultivated and half of the working age population is unemployed. Optimist has engaged 43 beneficiary families (280 members) in agricultural production with the support of several donors and local authorities. Families were given land, greenhouses, irrigation systems, seeds and expert support in growing strawberries – at a value of EUR 80,000. In cooperation with local companies, Optimist has also guaranteed the purchase of the entire harvest from families. Over the years, the families have received EUR 123,000 in income.

Business operations started in 2011 with assisted production of strawberries on the land of the families. The strawberries were first offered in local markets, but with the increasing number of families involved in production, Optimist started developing a partnership with local companies that guaranteed the purchase of the products at fair prices. In 2015, Optimist bought agricultural land, raised their own plantations and in 2016 built a facility for processing fruits and vegetables. The processing plant was built in accordance with ISO standards and equipped with machines worth EUR 65,000, funded with grants. Three women over the age of 50 from different vulnerable groups are employed in the facility. The products are sold in small healthy food shops in larger cities in Serbia. In the first year, the facility brought EUR 8,000 profit to the CSO, which it was used to fund the programmes of the CSO and for the renovation of the houses of three Roma families.

Currently, Optimist is looking for funds to invest in purchasing new equipment (i.e. solar drier and cold storage), developing new products, packaging, branding and promotion.

LEVEL OF DEVELOPMENT OF SOCIAL ENTERPRISES

None of the studies so far tried to explore the level of development of social enterprises in the country, namely the number of social enterprises in start-up, validate, prepare to scale and scaling phase. Most of the supporting programmes target social enterprises in the start-up phase and there are not many that offer support and funds to enterprises in the later stages of their development.

According to Smart Kolektiv most of the social enterprises they have supported over the years took about three to five years to start and validate their business. The process is taking longer than expected due to several reasons: most of the initiatives come from CSOs which lack entrepreneurial skills and knowledge; they lack resources, dedicated staff with the right set of skills, and there is limited access to funds. They have to deal with a non-entrepreneurial environment, low purchasing power and very little awareness of social entrepreneurship among customers. Therefore, many social enterprises stay trapped in the early development phases or eventually give up. From approximately one hundred initiatives that Smart Kolektiv supported in the last six years, about fifteen are now in the prepare to scale phase. They have validated their product/service and business model and are moving toward achieving operational stability. Four of the social enterprises supported are in the scaling phase, with developing new products/services and expanding to new geographies.

DAJ DAJ LTD.

[Daj Daj](#) is a social enterprise from Belgrade producing bamboo diapers, an environmentally-friendly product which is healthier for children and good for the planet. In 2012, Daj Daj diapers became Serbia's only textile product to bear the country's eco-friendly label Eko Znak. Disposable diapers are second only to plastic bags in terms of waste produced. Total ecological damage is far greater, as disposable diapers remain a problem for 500 years after their use.

While developing the business model in 2008, the founders decided that in addition to generating environmental impact, that the model would generate social value through the employment of women from disadvantaged groups who had difficulties finding a job. Daj Daj's beneficiaries are older women, who produce the diapers, and babies and mothers who use them. More than 80% of their buyers choose their products because of health issues. Society benefits, because using eco-diapers reduces waste and the enterprise's ecological foot print. Additionally, Daj Daj offers part of the profits to organisations that support mothers.

Their main products are bamboo diapers, but over the years Daj Daj started producing accessories, such as training pants, breast pads, nursing pillows, bamboo infant car seat covers and other textile products. The annual turnover of the company is around EUR 81,300, which resulted in a EUR 4,065 profit last year. This innovative entrepreneurial idea turned Daj Daj into a recognized domestic brand; in the last four years more than 50,000 people visited their website for online sales and their products are also sold in department stores for children. Customer interest is on the rise including interest from foreign customers. The Association of Businesswomen of Serbia awarded the founder with the "Flower of Success for the Dragon Lady of 2015" prize as one of eleven best female entrepreneurs in Serbia in 2015.

At the moment Daj Daj is looking for investments and support to scale up its business operations, to strengthen its position on the Serbian market and to expand to Germany.

CONTRIBUTION TO YOUTH AND GENDER INCLUSION AND EXPANSION OF SERVICES TO REMOTE OR LEAST DEVELOPED REGIONS

There is no relevant research or data available about this aspect. There are several programmes created by international donors, such as USAID or Erste Bank that aim to support the employment or self-employment of women and youth. The Association of Business Women in Serbia²³⁸ is also active in providing support to and promotion of female entrepreneurs, advocating for the improvement of the business climate and actively fostering networking on local, regional and international levels. Social enterprises use available funds and programmes to start or improve economic activities supporting these two beneficiary groups. According to the SENS network, many programs in the last 10 years was particularly targeting the economic empowerment of women from vulnerable groups: women from rural areas, women over 50 years old, victims of domestic violence and other. As a result, a number of CSOs have started different economic activities mostly in handicrafts, the textile industry, traditional crafts, catering services and organic agriculture. During part of that 10-year period, the National Employment Service provided subsidies for the employment of women over 50 years old, which was a great opportunity for social enterprises targeting this beneficiary group.

Regarding youth, there are a number of social enterprises providing social services and work opportunities to youth with disabilities and many social enterprises engage young people through employment, internships and volunteering. Enterprises supporting young people with disabilities were mostly supported through IPA I funds, allocated to inclusion and employment. Yet, according to SENS, there is no social enterprise in their network with a mission to foster the employment of youth under the age of 35.

According to a representative of the EU Delegation in Serbia, in the IPA programming for 2013 and 2014 certain funds were allocated for youth employment initiatives. These funds will probably be available in 2017 or 2018 through the National Employment Service. Also, as part of the IPA 2016 and 2017 programming, significant support will be dedicated to institutional support and the creation of a national body for gender equality. Efforts to promote economic empowerment of women and support to women organisations are expected to be included as other key measures of support. These funds will likely be available in 2018 and/or 2019, and could be used strategically by social enterprises that wish to contribute to gender inclusion.

FINANCING STRATEGIES

According to Smart Kolektiv research conducted in April 2016, 91% of social enterprises find that lack of financing sources is one of the main challenges in their work. This was also confirmed by all the social enterprises interviewed for this research and a 2014 survey conducted by the Statistical Office of the Republic of Serbia (SORS 2014). There is an expressed need to create a comprehensive framework that meets the financial needs of social entrepreneurs and SME entrepreneurs during all phases of development.

Most of the interviewed social enterprises started developing their business ideas with grants ranging from EUR 5,000 to 10,000, but said that they had invested between EUR 30,000 and 50,000 in the start-up and validation phase. Most of the investments were obtained from grant schemes and programmes described in the sections above. All the social enterprises faced challenges in fundraising additional funds for economic activities as those are usually not supported by traditional donors or existing programmes could not support them for more than one year. Social enterprises registered as Ltds, like Daj Daj, had to jump even more

²³⁸ [Association of Business Women in Serbia](#) is the largest national organization for female entrepreneurs.

hurdles, as most social enterprise development programmes were targeting only CSOs (associations). On the other hand, to take advantage of different financing options, some of the CSOs have registered as spin offs of profit companies.

Some of the social enterprises have taken EUR 5,000 to 10,000 from the first loan instruments provided by Erste Bank and UniCredit Bank. These instruments were not commercial products, but specially designed loans provided in closed pilot programmes. In 2012 and 2013, UniCredit Bank provided loans with favourable conditions to eight social enterprises: amounts reached up to EUR 5,000, there was a 24-month repayment period, low interest rate and no collateral requirement, as the deposit for collateral was provided by the UniCredit Foundation. The programme was successful, but in subsequent years UniCredit Bank and Foundation decided to return to grants, as that was more in line with the needs and stage of development of social enterprises.²³⁹

In 2015-2016, [Yunus Social Business](#) (YSB) implemented an investment readiness programme called “YSB Balkans Accelerator” targeting social enterprises from the Balkan region. The 4-month intensive programme provided access to the trainings, networks and experts that social enterprises needed to develop successful business solutions and access finance later. The programme was open to social enterprise from Serbia, but final beneficiaries came from Kosovo, Albania and Bosnia and Herzegovina.

Social enterprises that are registered by the *Company Law* can apply for bank loans targeting SMEs, but those products are usually offered at unfavourable conditions for social enterprises and do not serve start-ups. In the last two years, some of the banks introduced more

favourable products targeting SMEs through special programmes dedicated to women entrepreneurship (with the support of EBRD) or the COSME²⁴⁰ programme for SMEs (supported by the European Investment Fund).

Some social enterprises could also apply to the Development Fund, which is the main source of state-funded credit for businesses and new business start-ups, including SMEs and crafts shops. It offers credit over a range of periods at attractive interest rates (1.5 to 3.5%), grace period of 3-9 months and repayment period up to 7 years. It also supports less-developed areas through for example credits for the unemployed and micro-credits. According to their last report, the minimal approved amount for start-ups was EUR 3,300 while the maximum reached EUR 17,000.²⁴¹

Smart Kolektiv found a growing number of social enterprises that have validated their models and wish to scale up their business, but do not have access to adequate financial instruments and support. Social enterprises from Serbia can apply for an increasing number of investment readiness programmes in Europe. Unfortunately, even if they were investment ready, the amounts offered by social impact investment funds in Europe are out of reach. Those funds wish to make investments in the range of EUR 150,000 to EUR 500,000, while Serbian social enterprises are not ready or sufficiently developed for that level of investment. There is a need to fill the gap between available grant schemes (up to EUR 15,000), social enterprise financing requirements and the offer of existing investment funds (EUR 150,000–500,000).

²³⁹ In the later sections there will be more details about the pilot lending programmes of these banks and the assessment of the creditworthiness of applicant social enterprises.

²⁴⁰ COSME: Europe's programme for small and medium-sized enterprises 2017

²⁴¹ Loans for Entrepreneurs Program Fund 2017

GENDER ANALYSIS OF SOCIAL ENTERPRISES

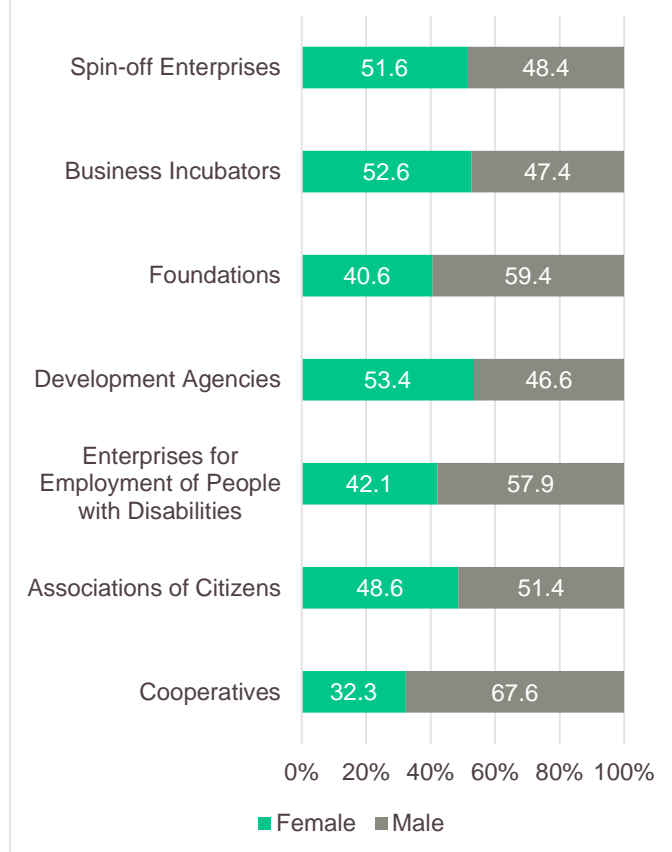
The social enterprise sector lacks gender-focused research and analysis. The only available data in Serbia is about differences between men and women when it comes to employment in social enterprises (SORS 2014). In 2014 male workers constituted the majority of the employees, 62.3%, while female workers accounted for 37.7% of the total. The gender composition of employees by type of social enterprise shows a fairly balanced picture, except for cooperatives and enterprises for the employment of disabled people, which tend to employ more men than women.

MONITORING AND EVALUATION SYSTEMS

Smart Kolektiv and SENS research show that social enterprises do not use a unique system for reporting on financial results or social impact. Donors, companies and support organisations use their own methodologies for monitoring and evaluation, but only few of them monitor the progress of social enterprises once the funded project is finished. Social enterprises usually also have some system for tracking their beneficiaries and the contribution to the community, through internal evaluation, collecting statistics and regular contact with beneficiaries and stakeholders.

Interviewed social enterprises have confirmed that they have internal monitoring and evaluation procedures, and all of them agree that there is a need for improvement of their methodologies. Naša Kuća said that there should be a basic consensus in the sector and an effort to develop common criteria for measuring social impact. Representatives of interviewed companies said that in their experience social enterprises have challenges in financial reporting and they need more support in financial management and reporting.

Graph 6: Gender Composition of the Employees of Social Enterprises



Source: (Statistical Office of the Republic of Serbia, SeConS and Group 484 2014)

Social Investment Market

DEMAND

Social enterprises that are in the start-up and validating phase are looking for grants in the EUR 5,000-25,000 range to cover operating costs, purchase of equipment and working capital. Social enterprises that employ people with disability or provide community services need grants and subsidies for a longer period of their development, and those enterprises struggle to be competitive on the market and become self-sustainable. Naša Kuća and Atina, both in preparation to scale, suggested that for enterprises of this maturity a combined instrument would bring most benefit; grants for education and employment of their final beneficiaries and loans for investment in business operations.

Most of the interviewed social enterprises said that they were seeking investment in the EUR 25,000 to 50,000 range to further develop and grow their business. These amounts would be used for investment in new equipment, working capital, marketing, or developing an export strategy. At the moment, the only available instrument for them is provided within the program “Step by Step” of Erste Bank, where they can apply for up to EUR 35,000 but with 100% covered collateral. Social enterprises still do not have a lot of experience with repayable financial instruments. Some of the pioneers considered current lending processes slow and bureaucratically demanding. They would like banks to be more flexible and adjust their risk procedures and provide more affordable loans.

SUPPLY

Banks and mostly international banks have a dominant position in Serbian financial services. However, the banking offer for SMEs (including social enterprises) is generally regarded as conservative and risk-averse (RCC 2015). Erste Bank Serbia and UniCredit Bank Serbia stand out as being most in tune with the needs of social enterprises. UniCredit Bank has provided a total of

NAŠA KUĆA

[Naša Kuća \(Our House\)](#) was founded in 2007 by a group of parents of children with disabilities to provide day care services. The social enterprise was launched later, as parents realised the limitations of the day care centre and a need to provide work opportunities for their grown-up children. The organization’s goal today is to provide their members with support, new knowledge and skills that would help them become included and active members of society.

The social enterprise currently engages 10 young people with mild intellectual disabilities. They work with labour coaches and a psychologist. Significant efforts have been put into the building a motivational training system, with individual work plans prepared daily.

Over the years Naša Kuća has developed several activities, including a day centre to offer programmes for disabled young people, a production facility making paper bags and cardboard packaging, a training centre for teaching catering skills, a print and art workshop, and a hydroponic production facility for healthy vegetables and fruit called “choco plum” (čoko šljiva). The production of the paper bags and cardboard packaging is the most profitable activity, with EUR 44,000 of the annual turnover and EUR 25,000 profit in 2015. Products are sold to other companies, including pharmacies, bakery shops and catering services. All current business activities are linked with the employment of Naša Kuća members, while part of the profits is used for the activities of the day care and education centre.

The CSO has proved to be very innovative and entrepreneurial, developing many different economic activities of a smaller scale. For their further development, it would be good to have grant support mixed with some repayable instrument. Strong and long-term expert support and advice in strategic development and management could lead to significant change and improvements in business results and impact.

EUR 101,000 in grants to fifteen social enterprises and EUR 35,000 EUR in loans to eight social enterprises. Erste Bank has just launched the “Step by Step Programme” expected to provide loans to up to ten social enterprises in 2017. More details on the instruments provided by these banks are provided below in section b) of this chapter.

Local CSOs and Foundations, such as Smart Kolektiv are strategically involved in the development of social entrepreneurship and are building the network of donors, companies and investors that could launch funds to social enterprises.

It is expected that with Serbia on the path to EU accession, more finance will become available from different EU funding sources, of which a few will be relevant for social enterprises. It is unclear how many will actually offer social investment or investment readiness support programmes. Some foreign donors, such as USAID, UN agencies or the Heinrich Böll Foundation that remain active in the country, may also continue to support entrepreneurship and social enterprise development by offering some sort of finance.

SPECIALISED SOCIAL INVESTORS AND SOCIAL FINANCE INSTRUMENTS

Currently there are few social investors, specialized social financial institutions or impact investment funds present in Serbia. Financial instruments targeting social enterprises are rare. There are a couple of pilots, which offer valuable lessons learnt for pioneer followers.

In 2012 UniCredit Bank Serbia ran a pilot project and approved loans to social enterprises. The project was initiated and supported by UniCredit Foundation and the financing package consisted of grants and loans. The project was conducted through Group 484, a non-governmental organisation (NGO) which had substantial experience in dealing with social enterprises. At the very beginning of the project (2012) UniCredit Foundation allocated EUR 50,000 to Group 484, which was deposited in UniCredit Bank Serbia as deposit/collateral

for loans which were to be approved. The maximum loan amount was EUR 5,000 with repayment period up to 24 months. The interest rate was very competitive and below market at the time when loans were approved. The screening assessed the social aspects, the business plan, sustainability potential and the ability of the social enterprises to repay the loan. Eight applicants received loans in this pilot. All of them managed to repay the loan, but during the monitoring and evaluation programme it was concluded that social enterprises lack capacities and resources for this type of lending programme. The Bank and UniCredit Foundation agreed to continue to support social enterprises, but rather through grants and capacity building, as those were more in line with their needs at the current stage of development.

Currently, UniCredit Bank does not offer a special product designed for social enterprises, but in case an applicant meets pre-defined criteria, loans from the standard offer can be approved. UniCredit continued to provide support through the [“Idea for a Better Tomorrow”](#) programme. In 2014 and 2015 the programme offered grants to social enterprises in the range of EUR 5,000 to 8,000. Applications were assessed based on social impact, team composition, business plan and the evaluation of the needs of the enterprise. This programme was implemented in partnership with the Divac Foundation and Smart Kolektiv. Winners have been awarded with grants in the overall amount of EUR 101,000 so far. In addition to funding, social enterprises gained support in business plan development, marketing and management through trainings, lectures, mentoring and networking.

A more recent development is the new initiative of Erste Bank Serbia, which launched a special support programme in November 2016. “Step by Step” aimed at start-ups, social enterprises and civil society. The Bank has signed a guarantee agreement with the European Investment Fund, aimed at supporting micro-enterprises in Serbia under the EU Programme for Employment and Social Innovation (EaSI). The agreement will cover a loan portfolio of EUR 4.7 million for around 850 Serbian

micro-borrowers, who will be able to benefit from loans with attractive terms. Enterprises will also have access to training and mentoring support that will be provided by Bank's partners, Smart Kolektiv and Start Up Alliance.

This is an important step forward as it is the first commercial finance product for social enterprises, offering access to working capital or investment loans. The maximum amount is up to EUR 25,000 (partly secured) or EUR 35,000 (100% secured), with a grace period of up to one year. The loan repayment period is 3-5 years. During the first year of repayment social enterprises are offered mentoring support. This is a pilot programme, whose objective is to develop a loan product in line with needs of social enterprises. It will be tested to determine how many social enterprises can pass the risk assessment criteria and agree to the loan conditions. Approval criteria include the social mission, a sustainable business idea and plan, and the potential for growth. There are some social enterprises that will welcome this unsecured loan offer and will be able to manage repayment. The pilot is testing the beneficiary side as well as the Bank's flexibility.

Erste Bank Serbia was one of the pioneers in providing different levels of support to social enterprises; loans, advisory service, purchasing social enterprise products and active promotion of social entrepreneurship among the business community. Through programmes like ["SuperStep"](#), Erste provides grants to young people, individuals, groups and organisations developing socially-responsible projects. In 2014, Erste supported young entrepreneurs with "SuperStep" loans, through a programme that Youth Business Serbia implemented in partnership with Smart Kolektiv.

The third example of a funding programme targeted at social enterprises is the ["Plantation for the future"](#) initiative of the Delta Foundation launched in 2015 with the goal to support social enterprises that are contributing to local community development, employment and poverty reduction. In cooperation with different partners and supporters, they have provided access to finance, education and market to 12 social enterprises. Through grants ranging from EUR 2,000 to 15,000, they have invested a total of EUR 198,550 over the last two years. The programme is closely monitoring the progress and achievements of the enterprises, and provides expert support involving employees of companies owned by Delta Holding.

Gap Analysis and Recommendations

LEGAL FRAMEWORK

Social enterprises in Serbia work in an environment that is not conducive to a more intensive and impactful development of their sector. The institutional framework is underdeveloped, the legal framework is not particularly favourable and financial support is inadequate.

One of the key issues is that social entrepreneurship is still in the process of being defined; the concept is not entirely understood by policymakers although there is a general awareness of its importance. Policymakers tend to narrow social enterprise to mean social employment or employment of vulnerable groups, which could be very limiting for the development of the sector.

There have been several attempts for the more concrete regulation of this area, but these efforts have brought incomplete results. The *Draft Law on Social Entrepreneurship* commissioned by the Ministry of Labour, Employment and Social Policy in 2012 did not fit within the existing EU framework and practice of social enterprises, nor did it respond to the actual needs. In 2015 a new working group started drafting the second proposal for the Law, but it was put on a hold due to parliament elections in May 2016. Serbia therefore still does not have specific legislation when it comes to social entrepreneurship.

Most of the interviewed parties agree that there is a need for a more strategic approach to the existing legal framework before developing a specific law. Both the representative of the Coalition and the EU Delegation in Serbia, agree that it is important to advocate for and work on a national strategy for the development of social entrepreneurship, draw up a concrete action plan and adjust existing laws, in order to enable the sector to grow and develop. It would be more appropriate to draft a

social enterprise law once there are more social enterprises and a better understanding of what they mean at local level. Some experts²⁴² believe that the law should enable the registration of social enterprises that already operate in the market and not only the creation of new or hybrid social enterprises.

Existing social enterprises should be better promoted and engaged in the process. Some argue that the official definition should consider what already exists and is accepted at national and EU level. In the absence of a specific legal form, social enterprises are choosing the most suitable form for their needs.

Indeed, the *Law on Public Procurement* lists social criteria as added value, but these are not fully used by procurement bodies and eligibility is limited to enterprises for the employment of persons with disability. The SIPRU representative admitted that more needs to be done with existing regulations and their implementation in practice. Small changes to the legislation could go a long way. For example, one social enterprise stated that the Law on Public Procurement could simply be expanded to include other types of social enterprises.

Since there is no specific law, existing social enterprises use a range of legally recognized forms (associations, cooperatives, foundations, limited liability companies etc.), but face various difficulties and limitations. All stakeholders agree that there is potential for improvements in each of the relevant laws and those would bring benefits for social enterprises. Many of the partners interviewed for this research, mention as a key obstacle the lack of engagement of the Ministry of Finance in the process of drafting the *Law on Social Entrepreneurship* and in defining support mechanisms of

²⁴² Cvejić n.d.

the government. By not naming the Ministry of Finance, the draft Law focuses less on the integration of social enterprises as part of the country's economic and finance sectors, and too much focus on its use as an instrument of employment for certain vulnerable groups.

Public funding schemes have a great potential for the development of social entrepreneurship but government funds are not always used effectively and in a transparent manner. It seems that there is lack of transparency regarding any surplus, and the funds' policies for using that surplus. Funds should be reformed, become more transparent and open to supporting various social groups.

Recommendations

- Government should work with stakeholders to develop a national strategy for the development of social entrepreneurship, draw up a concrete action plan and adjust existing laws, in order to enable the sector to grow and develop
- Government should revise existing regulation that affects the operation of social enterprises and strive to harmonise those, so that they aid social enterprises to achieve maximum social impact. An example is the public procurement legislation, which does not take social value into account in practice, thus keeping the public-sector market closed for social enterprises, except those that employ people with disabilities.
- Public sector officials should make an effort to have more dialogue with social enterprises and to increase their understanding of the needs and opportunities that social enterprises present.
- Government funding schemes should have more transparent operations and be open to a wide variety of social enterprise ecosystem actors, including support organisations and networks.

ACCESS TO FINANCE

Many social enterprises and interviewed stakeholders complain about the lack of funding opportunities both in start-up and later stages of development. There is a strong need for more tailored financial instruments, particularly for social enterprises in the prepare-to-scale and scaling phase (EUR 10,000 to 50,000 investments). Social enterprises that currently operate in Serbia predominantly rely on financing through grants, donations and subsidies. This kind of finance ranges between EUR 5,000 and EUR 15,000 – sums that are sufficient to start a business or make a small investment, but are not sufficient for growth.

Lack of finance does not only mean insufficient amounts; it also means forms of finance that are inadequate for particular phases in the lifecycle of the social enterprise. There is a growing number of enterprises that wish to develop and scale their business but do not have access to the right financial instruments. There is a gap between grants and other funds that social enterprises would be able to access through investment readiness programmes. The gap will now be partially filled by patient capital—longer repayment periods and below market interest rates—such as *Erste Bank* loans, but it is questionable how many social enterprises will be able to provide the requested collateral. Associations in Serbia usually do not own assets; therefore, there is a need for unsecured investment and guarantee mechanisms that support this type of investment and/or waive interest payments for an initial period of the loan term.

The majority of social enterprises would probably choose grants, if they were available alongside repayable finance, yet grants offered in Serbia currently are too short-term and project focused, rather than readily supporting business development. More grant instruments should be treated as “equity-type” investments, allowing for larger amounts and more flexible use of the funding.

A number of government funds could also be used for funding but those are often perceived as non-transparent, inefficient and unfavourable (see the *Public support schemes* section above). Significant support has been provided by civil society and donors through programmes combining financial and non-financial support.

Targeted programmes could also play a significant role in providing technical support to address the need for long-term approach and engagement when it comes to strengthening capacity and ensuring the sustainable growth of social enterprises. In *Smart Kolektiv's* experience, social enterprises need 2-4 years of comprehensive support to have stable incomes and sustainable operations.

Recommendations

- Government grant schemes or private funding programmes should target the finance gap in the range of EUR 10,000-50,000 in order to offer the adequate amounts that social enterprises need in the market validation and prepare to scale phases.
- The government should pilot a guarantee scheme or a grant scheme that offers grants as part of a blended finance package and thus encourage social lenders and investors to invest in social enterprises.
- Social lenders should consider offering unsecured loans or complementing their product offer with a guarantee facility, offered by a third party, typically the government.
- Successful cases of social investment should be shared and promoted, so that younger or more risk averse social enterprises could learn from them and take up the courage to enter the social investment space.

CREATION OF AN ECOSYSTEM

All quoted analyses agree that Serbian social enterprises lack basic as well as advanced business skills and that is a major barrier in their growth and development. Of the social enterprises that participated in *Smart Kolektiv's* research in April 2016, 42.5% expressed a need for training and lectures, while 46.5% said that they would need mentoring support. Regarding areas of support, 62.5% would like to know more about fundraising for alternative sources; 47.2% about cooperation with companies; 41.7% wants to develop in strategic planning; while 31.9% needs marketing and 30.6% branding advice.

The same research demonstrates other problems as well: social enterprises are usually overwhelmed and do not have enough management capacity and specialised knowledge to strategically develop their businesses. The lack of human resources expertise was reported by 47% of enterprises as one of their biggest challenges. They also stated they would need to better promote their businesses in the market and connect with other stakeholders. A lack of public awareness and access to markets was cited as a major problem by 71% of enterprises, and 54.1% said that they needed support in connecting with companies and different markets.

Interviewed social enterprises expressed that there is a strong need for combined technical and financial support. When they started developing social enterprises they did not have the necessary knowledge and skills, therefore free of charge training opportunities provided by different programmes meant a lot to them. However, short-term support programmes are not as helpful for social enterprises beyond the start-up phase that need more tailored mentoring and expert advice.

Regarding current needs, most of the interviewees agree that they require help in management, strategic development, investment planning, financial management, product placement and branding. Optimist pointed out that since social enterprises are usually established by CSOs, the main challenge is the transition from an NGO mind-set to business orientation.

Daj Daj explained some of the challenges related to the market; many social enterprises find it difficult to place their products in the market at competitive prices, where customers are overwhelmed with low- quality imported products. Secondly, marketing trends change very fast and due to lack of human resources it is hard for social enterprises to keep up with them. It would be useful to involve marketing agencies, but they are often not affordable for social enterprises. Therefore, many social enterprises are not able to assess the demand for their product and the size and needs of the target market.

Networking and cooperation among social enterprises can also bring numerous benefits; peer learning, exchange of experiences and sharing contacts, joint ventures and joint appearance in the market lead to higher visibility. Networks like SENS wish to provide that type of support, but they also struggle with limited or no funding. They also pointed out that a mentality shift is needed if social enterprises want to use repayable finance, which is a world that they are “afraid to enter.”

Recommendations

- Social enterprises need long-term comprehensive capacity building programmes, which would accompany them through the different stages of development. Business planning and basic financial management courses should be launched to assist start-up social enterprises.
- Advanced strategic planning, marketing and financial modelling capacity building should be designed and offered to social enterprises in the validation and scaling phases.
- Funders should consider offering combinations of financial and non-financial support, which would be the most effective ways to protect their investment.
- The work of support networks should be further encouraged and funded by grant support that allows them to work out their sustainability strategy. Linking them up with networks of business professionals would bring additional in-kind and mentoring resources to their members.

Appendix 1: Regional Summary Table

Table 14: Regional Summary on Ecosystems for Social Enterprises

| | National Social Enterprise Strategy | Social Enterprise Law | Definition of Social Enterprise |
|----------------------|--|---|--|
| Albania | Yes, through the National Strategy for Employment and Skills that envisages support mechanisms for SEs | Yes, nonprofit organisations that focus employment and service models but 30% of its workforce must come from marginalized groups. | Only as defined by the National Strategy for Employment and Skills |
| Bosnia & Herzegovina | Yes, through the Social Inclusion Strategy | No | Only as defined by the Social Inclusion Strategy |
| Croatia | Yes, Strategy on Social Entrepreneurship Development 2015-2020 | No | Yes, consistent with the SE strategy; defines nine criteria |
| Kosovo | No | Yes (to be approved in 2017), includes employment and service provision models | Yes; is part of the Law and must meet certain criteria |
| FYR Macedonia | No | In draft form since 2012, focuses on employment models only | No |
| Montenegro | No, 2013 draft alongside the SE Law | No, draft in 2013 but no agreement; non-aligned with existing legislation | Yes; in CSO development strategy but most stakeholders believe it should be broadened and aligned with EU definition |
| Serbia | No, SIPRU and Coalition for SE strong advocates | No, draft in 2012 but no agreement; law focused on employment models and included obligation to transfer 50% of their profit into a state fund, and limited profit level; New Draft in 2016, stalled because of elections | No |

| | Legal Forms Considered Social Enterprises | Most Common Forms of Social Enterprises | Tax Regime |
|----------------------|--|--|---|
| Albania | Nonprofit Organisations, Companies, Cooperatives | Nonprofit Organisations (Associations, Centres and Foundations); allowed to engage in economic activities related to their purpose; some opt to register as Sole Proprietors or SMEs. Cooperatives can be SEs but not according to the new SE Law. | NPOs might need to pay taxes; sole proprietors and SMEs are faster to register; are VAT-exempt, have simpler accounting and taxation rules, and opportunities to obtain funding and finance. |
| Bosnia & Herzegovina | Association, Foundation, Private Company, or Cooperative | Associations; can perform economic activities that are mission related, and non-mission related only to a certain level; however, distinction not clear in law so often opt to create private company. | Associations & Foundations are exempt from profit tax; non-mission related activities of associations cannot be higher than 30% of organisational revenues and no more than BAM 10,000 (approx. EUR 9.3K). |
| Croatia | Association, Foundation, Private Company Cooperative (Social Cooperative) Mutual insurance company ²⁴³ , Credit Union and Institution | Social Cooperatives (created without intention to take profit) followed by Associations; many of the latter prefer to register as companies given tax restrictions. | Associations and Cooperatives are exempt from profit tax but they must pay VAT if annual income from economic activities is higher than HRK 230,000 (approx. EUR 30,000). SEs registered as companies can apply for tax deductions, but cooperatives are not eligible. |
| Kosovo | Association, Foundation, Private Company or Cooperative (included in Law) | NGOs (Associations and Foundations); can perform economic activities with some limitations; certain fields can apply for Public Benefit Status but limits to the provision of the services (i.e. for the benefit of disadvantaged groups and be free of charge or under market value). | NGOs exempt from profit tax, if they are related to public benefit or mission of the organisation and up to a reasonable level of income; the level is not clear in the law and social enterprises do not usually show profit; the purchase of equipment and raw materials may be VAT-exempt. |
| FYR Macedonia | Association, Foundation, Private Company or Cooperative (no social cooperatives) | Associations and Foundations; can perform economic activities that are mission-related; non-mission related must be private companies. | Associations & Foundations are exempt from profit tax; no limit on level of revenues that can be generated from economic activities; pay VAT. |

²⁴³ Though there is no registered mutual insurance company in Croatia, the legal option exists under the Insurance Law (OG 30/15), effective of January 1, 2016. A mutual is an insurance company owned by policyholders. The sole purpose of a mutual insurance company is to provide insurance cover for its members and policyholders, and its members are given the right to elect the management.

| | Legal Forms Considered Social Enterprises | Most Common Forms of Social Enterprises | Tax Regime |
|------------|---|--|--|
| Montenegro | Association, Foundation, Private Company or Cooperative (no social cooperatives) | NGOs (Association and Foundations); can have economic activities and all profits must go back to the organisation. | NGOs exempt from income tax; revenues from economic activities up to 20% of annual revenues of previous year, otherwise must pay surplus to the state. |
| Serbia | Association, Foundation, Private Company or Cooperative (Social Cooperatives exist under the law but none are registered) | Associations; can have economic activity related to their purpose but at a small scale (not defined); Associations opt to create Limited Liability Company; statutes must restrict use of profits; Foundations can have economic activities but seen more as founder or sponsor of SE. Agriculture cooperatives distort data since most are not practicing SEs.aw. | Associations are exempt from paying profit tax, if their profit is less than 400,000 RSD (approx. EUR 3,250). Limited Liability Companies. |

| | Laws Focusing on Vulnerable Groups | Public Schemes Specifically Supporting Social Enterprises | Private Support for Social Enterprises |
|----------------------|--|--|---|
| Albania | <i>Ministry of Social Welfare and Youth</i> has national policy to support social enterprises to promote smart and inclusive growth in line with the best EU practices. Ministry of Trade sees SE as part of Business and Investment strategy. | None - schemes directed at CSOs, SMEs. The Albanian Development Agency has several schemes supporting SMEs. <i>The National Employment Service</i> provides support measures for employers to encourage the employment of vulnerable groups | No specific network |
| Bosnia & Herzegovina | Yes, law focusing on rehabilitation of people with disabilities (PWD) in both entities (B&H and Serbia) | None- Fund for Employment of people with disabilities; Lottery for people with disabilities; rest directed at SMEs include women and youth as vulnerable categories | No specific network |
| Croatia | Ministry of Labour and Pension, Office of Civil Society and the Foundation for Civil Society focusing on implementing the strategy. | European Social Fund offers SE funding; EUR 32 million of ESF support for increasing the number and sustainability of social enterprises and their employees. Ministry of Economy supports social cooperatives. Croatian Employment Services for disadvantaged groups; used by CSOs for PWD. | No specific network |
| Kosovo | Yes, Public Benefit status provides certain benefits; <i>Ministry of Labour and Social Welfare</i> introduced a system for the licensing of legal entities that provide social and family services, which recognizes CSOs as service providers | Ministry of Labour & Social Welfare for NGO service provision; all other schemes directed at SMEs, employers employing vulnerable groups. EU funding schemes focus more on SMEs. | CSR Kosovo provides in-kind services to SEs |
| FYR Macedonia | Yes, law supporting sheltered companies employing PWD; strongly subsidized | None except for EU- all schemes directed at CSOs, SMEs, cooperatives or employers. Innovation Fund for Technology provides grant, loans and business support to SMEs. Entrepreneurship support schemes. Several interesting EU funding schemes specifically for SEs. | Konekt builds partnerships between socially responsible companies and SEs |

| | Laws Focusing on Vulnerable Groups | Public Schemes Specifically Supporting Social Enterprises | Private Support for Social Enterprises |
|------------|--|--|---|
| Montenegro | Yes, law supporting PWD | None- schemes directed at CSOs, SMEs, cooperatives and employers. Fund supporting PWD from employer fines- currently social enterprise not tapping into these funds. Funds for employment and business development- agriculture, women, youth. Some EU funding schemes (IPA). | No specific network |
| Serbia | Yes, law supporting PWD; offers subsidies but does not specify wages to be paid and doesn't include other vulnerable groups. | SIPRU - EU/IP \$1 million in funding for social enterprises; Budget Fund for PWD from employer fines; National Employment Service. Other funds are for vulnerable groups including youth. Development Fund provides credit for businesses. Several interesting EU funding schemes for SMEs where SEs are eligible. Candidate for additional EU support for SE. | Responsible Business Forum provides different types of support to SEs |

| | Educational Programmes | Estimated Number of Social Enterprises in the Country | Estimated Number of Donors Supporting Social Enterprises |
|----------------------|--|---|---|
| Albania | SE not part of the formal education system; some private universities and young scholars focus on SE | 900; budget of EUR 50k | 9 sources- mostly focused on CSOs and SMEs; - 3 national, others foreign |
| Bosnia & Herzegovina | SE not part of the formal education system; several youth entrepreneurship focused initiatives | 30 (excluding coops most are not SEs) | 25-30 sources- mostly focused on CSOs or SMEs, mostly foreign; UniCredit focus on SEs |
| Croatia | SE not embedded in education system; 2 private universities (SZEM and VERN) and 2 public (Faculty of Economics at University of Zagreb, Course on Nonprofits; School of Social Work, Lectures) | 90-2000 | 5 sources, - 3 specifically for SEs; 2 for SMEs |
| Kosovo | SE not integrated in entrepreneurship education | 30-100; 71% budget of EUR 25K or less | 6 sources - mostly for CSOs or SMEs, mostly foreign |
| FYR Macedonia | 2 programmes- 1 social entrepreneurship, 1 social innovation | 40-70; majority budget of EUR 100K or less | 7 sources - mostly for CSOs or SMEs, mostly foreign |
| Montenegro | SE is not integrated in entrepreneurship education | 20-30; no data on revenue turnover | 4 sources- mostly for CSOs or SMEs; mostly foreign |
| Serbia | 2 programmes- 1 for city of Belgrade but focused more on employment; 1 University of Belgrade. Otherwise entrepreneurship education but several target women and youth | 1,196; no data on turnover | 7 sources- some for SEs and most for CSOs or SMEs; mostly foreign |

| | Estimated Number of Investors Supporting Social Enterprises | Estimated Number of Intermediaries Supporting Social Enterprises | Procurement Laws in Favour of Social Enterprises |
|----------------------|---|--|---|
| Albania | 1; Yunus Social Business | 1 network; 4 support organisations | Local governments stimulate participation of SEs in public procurement bids |
| Bosnia & Herzegovina | 1; Yunus Social Business; Mozaik Foundation is incipient stage | 4 support enterprises | Yes, procurement laws exist for "reserved contracts" for entities working with PWD |
| Croatia | 5; Erste for micro finance (some are SEs) and SEAF for SMEs; Ethical Bank in 2017; Yunus and TISE at a regional level | 3 networks; 3 support organisations | Yes, procurement Law allows for preferential treatment of bids that can demonstrate social value; often not considered at the time of evaluation. |
| Kosovo | 1; Yunus Social Business | 2 support organisations | Yes, new law envisions system for contracting CSOs |
| FYR Macedonia | 1; Yunus Social Business; 3 others are incipient stage | 1 network; 6 support organisations | Yes, procurement laws exist that recognize CSOs as social service providers |
| Montenegro | 0 | 5 networks; 1 business incubator focusing on SE | No |
| Serbia | 4; Erste, Opportunity Bank, UniCredit (although now focused on grants), Yunus Social Business | 6 networks; 1 business support | Yes, procurement law exists for CSOs but designed for those working with PWD; others lack support mechanisms |

Appendix 2: List of Interviewees

Table 15: Regional Overview Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|------------------|--|---|
| Michal Radziwill | TISE | Financial Institution/Intermediary |
| Cyril Gouiffes | European Investment Fund | Financial Institution |
| Mirjana Sakic | Erste Bank Group, Social Banking Development | Financial Institution |
| Karl Giacinti | European Commission, Directorate General for Enlargement | Government (European) |
| Sonja Nita | European Commission, Directorate General NEAR | Government (European) |
| Alice Arico | UniCredit Foundation | Financial Institution |

Table 16: Albania Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|----------------|--|---|
| Neritan Mullaj | EBRD Office in Albania | Finance Institution |
| Ariola Agolli | Partners Albania | Support Organization |
| Arumina Singh | Yunus Social Business Balkans | Impact Investor |
| Ermira Repaj | Yunus Social Business Balkans | Impact Investor |
| Marjana Meshi | Different and Equal/ New York -Tirana Bagels | Social Enterprise |
| Arben Shamia | Youth of Albania Professional Services (YAPS) | Social Enterprise |
| Savim Arbana | Association "Useful to Albanian Women" | Social Enterprise |
| Daklea Xinxo | Seniors' House | Social Enterprise |
| Blerita Çani | Albanian Disability Rights Foundation | Social Enterprise |
| Pezana Rexha | Pana | Social Enterprise |
| Ina Kokedhima | Ministry of Social Welfare and Youth | Government Policymaker |

Table 17: Bosnia & Herzegovina Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|------------------------|---|--|
| Vesna Bajšanski Agić | Mozaik Foundation | Social Entrepreneur & Support Organization |
| Samira Nuhanovic-Ribic | Mozaik Foundation | Social Entrepreneur & Support Organization |
| Dženan Šarić | Mozaik Foundation | Social Entrepreneur & Support Organization |
| Adiza Hotić | Association Fenix | Social Entrepreneur |
| Adnam Hodžić | Association Bosper | Social Entrepreneur |
| Ranka Ninković Papić | Foundation for Social Inclusion | Support Government Body |
| Minva Hasić | Association Orhideja | Social Entrepreneur |
| Saša Radetić | Association for Promotion of Controlling | Support Organization |
| Vedrana Ferri | LOK Micro-loan foundation | Finance Provider |
| Dženan Trbić | Youth Employment Project (YEP) | Support Organization |
| Saša Savičić | Ministry of Industry, Energy and Mining of Republic of Serbia | Government Organization |
| Dubravka Kovačević | Foundation for Strengthening Women | Support Organization |
| Predrag Borojević | Funky Guerilla d.o.o. | Social Entrepreneur |

Table 18: Croatia Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|-----------------------|---|---|
| Goran Jeras | Social Cooperative for Ethical Banking | Social Investment Finance Intermediary |
| Cvjetana Plavša Matić | National Foundation for Civil Society Development | Foundation |
| Jany Hansel | DEŠA | Social Entrepreneur |
| Sanja Vuković Čović | PRONI Centre for Social Education | Social Entrepreneur |
| Sonja Vuković | Slap | Social Entrepreneur |
| Teo Petričević | ACT Group | Social Entrepreneur |
| Matija Hlebar | UZOR HRVATSKE | Social Entrepreneur |
| Milena Bertram | Finance in Motion | Impact Investor |
| Jasmina Petrovic | Finance in Motion | Impact Investor |
| Jelena Puđak | Institute for Social Sciences Ivo Pilar | Research Institute |
| Daniel Nowack | Yunus Social Business | Impact Investor |
| Stela Fišer Marković | Government Office for Cooperation with NGOs | Support Government Body |
| Sandra Cvetko | Zagrebačka banka | Financial Institution |
| Renata Osrečki | EBRD | Financial Institution |
| Ivana Miličić | EBRD | Financial Institution |
| Aida Vujičić | EBRD | Financial Institution |
| Tina Sirotić | Erste Bank | Financial Institution |

Table 19: Kosovo Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|----------------------|--|---|
| Elena Petrovska | EBRD Office in FYR Macedonia | Finance Institution |
| Sebahate Beqiri | Down Syndrome Kosovo | Social Enterprise |
| Svetlana Stevic | Majka devet Jugovica | Social Enterprise |
| Skender Rama | USAID EMPOWER Private Sector | Support Organization |
| Sirje Pöder | EU Office in Kosovo | Support Institution |
| Valbona Bogujevci | UNDP Kosovo | Support Organization |
| Defrim Rifaj | Ministry of Labour and Social Welfare | Government Policymaker |
| Mentor Morina | Ministry of Labour and Social Welfare | Government Policymaker |
| Ahmet Jetullahu-Meti | Prishtina REA | Support Organization |
| Rinor Gashi | Association of Paraplegics and Paralyzed Children of Kosovo - HandiKos | Social Enterprise |
| Zana Rudi | Kosovo Women's Network | Support Organization |
| Donjeta Berisha | Sa-Punë | Social Enterprise |

Table 20: FYR Macedonia Country Study Interviewees

| Name | Organization | Role in the Social Enterprise Ecosystem |
|--------------------------|--|---|
| Anca Ionescu | EBRD Office in FYR Macedonia | Finance Institution |
| Vlado Bojadzievski | EBRD Office in FYR Macedonia | Finance Institution |
| Maja Anteska | EBRD Office in FYR Macedonia | Finance Institution |
| Goran Lazarevski | Union of Microcredit Institutions | Support Organization |
| Sokrat Manchev | Pokrov | Social Enterprise |
| Natasha Dimitrovska | Association Solem | Social Enterprise |
| Irina Janevska | Association for Development of New Options ARNO | Social Enterprise |
| Klimentina Iljevski | Lice v Lice | Social Enterprise |
| Aferdita Haxhijaha Imeri | Social Innovation Lab | Support Organization |
| Jovana Petkovska | HUB Skopje | Support Organization |
| Elizabeta Todorova | Ministry of Economy | Government Policymaker |
| Jasmina Popovska | Fund for Innovation and Technology Development | Financier |
| Daniela Huhmann | Delegation of the EU in FYR Macedonia | Support Institution |
| Barbara Sadowska | EU Project for Technical Assistance Project "Fostering Social Entrepreneurship in Macedonia" | Support Organization |
| Blagica Petreski | Krushevo Women | Social Enterprise |

Table 21: Montenegro Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|------------------|---|---|
| Ivana Vujovic | Juventas | Support Organisation/Funder |
| Anto Jankovic | Fakt | Support Organisation/Funder |
| Zorana Markovic | CRNVO Center for Non-Governmental Organisations | Support Organisation/Funder |
| Kerim Medjedovic | Local Democracy Agency Montenegro | Support Organisation/Funder |
| Boris Marđonović | Montenegro Chamber of Skilled Crafts and Entrepreneurship | Support Organisation/Financier |
| Maja Raicevic | Women's Right Center | Social Enterprise |
| Nada Koprivica, | Rukatnice SOS Nikic | Social Enterprise |
| Danka Latković | Office for cooperation with CSOs | Government |
| Vesna Odalović | Nova šansa u Novom | Social Enterprise |
| Saša Jovanović | BSC Bar | Business Incubator |

Table 22: Serbia Country Study Interviewees

| Name | Organisation | Role in the Social Enterprise Ecosystem |
|---------------------------|---|---|
| Vladimir Stojanovic | Optimist Bosilegrad | Social Enterprise |
| Anica Spasov | Kitchen on Wheels | Social Enterprise |
| Sonja Dakic | Daj Daj Diapers | Social Enterprise |
| Miroljub Nikolic | Caritas Šabac | Social Enterprise |
| Tijana Jovanovic-Petrovic | KobaYagi | Social Enterprise |
| Marijana Savic | Atina | Social Enterprise |
| Marija Jakovljevic | Social Economy Network Serbia | Support Organisation |
| Slobodan Cvejic | Coalition for development of social entrepreneurship and SeCons | Support Organisation |
| Ivana Stancic | Smart Kolektiv | Support Organisation/Funder |
| Jelena Milovanovic | Social Inclusion and Poverty Reduction Unit | Government |
| Nadica Milovanovic | Delta Foundation | Financier |
| Jelena Orescanin | UniCredit Bank | Financier |
| Sreten Vranic | Erste bank | Financier |
| Dejan Tonic | EBRD Office Serbia, ASB Team | Financier |
| Ivana Petrovic | EBRD Office Serbia, ASB Team | Financier |

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ABOUT NESST

NESST has been working for 20 years to provide dignified employment to lift people out of poverty in emerging markets. NESST achieves its mission by raising philanthropic capital to invest in and develop social enterprises that create employment and viable income opportunities for the poorest communities facing isolation, discrimination, lack of job skills and poor education. To date, NESST has invited 170 social enterprises to enter its portfolio providing them with an average of four years of support and investing more than US\$14 million in capacity building and direct funding. Through this investment, NESST has contributed to creating more than 49,000 dignified employment and sustainable income opportunities.

ABOUT THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The European Bank for Reconstruction and Development (EBRD) is a multilateral bank committed to the development of market-oriented economies and the promotion of private and entrepreneurial initiative in more than 30 countries from Morocco to Mongolia and from Estonia to Egypt. The Bank is owned by 65 countries, the European Union and the European Investment Bank.