



Social Enterprise: A new model for poverty reduction and employment generation

An examination of the concept and practice in Europe
and the Commonwealth of Independent States



SOCIAL ENTERPRISE:
A NEW MODEL FOR POVERTY REDUCTION
AND EMPLOYMENT GENERATION

*An Examination of the Concept and Practice in Europe
and the Commonwealth of Independent States*

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Foreword

Many countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) are confronted with the social costs of the political and economic transitions of the 1990s. While some gains have been impressive – such as increased labour productivity and reduced inflation – other forms of basic security have been lost or are under threat. Unemployment levels are persistently high, rising to over 30 percent in some countries.

Institutions of the third sector – as distinct from both the private for-profit sector (market) and the public sector (state) – have in many OECD countries emerged over the last 30 years to play a central role in addressing the problems of joblessness and to supplying crucial public goods. However, in most transition economies activities of the third sector, including foundations and civil-society organizations (CSOs), have been largely limited to humanitarian assistance, particularly in the post-conflict regions.

As a concept – and subsequently an organizing principle – the term ‘social enterprise’ was coined in the mid-1990s to refer to an entity that seeks to reconcile both social and economic ambitions. Social enterprise does not seek to supplant existing concepts for the third sector such as the social economy or the non-profit sector. Rather, it is intended to bridge these two concepts, by shedding light on features of the third sector that are currently becoming more prevalent: entrepreneurial activities focused on social aims.

So defined, social enterprise can include cooperatives, associations, foundations, mutual benefit and voluntary organizations and charities. Despite their diversity, social enterprises provide social services and contribute to work integration (e.g. training and integration of unemployed persons) thus assisting in the development of disadvantaged areas (especially remote rural areas).

The potential contribution of social enterprises to work integration, employment creation, and service delivery remains largely unrealized in CEE and CIS countries, particularly in relation to disadvantaged groups including the long-term unemployed, ex-convicts, people with disabilities, internally displaced persons and ethnic minorities.

With this in mind, the Bratislava Regional Centre of the United Nations Development Programme (UNDP) and the EMES European Research Network embarked on an ambitious collaborative effort to strengthen awareness about the conceptual and organizational understanding of social enterprises, their contributions to sectoral development and employment, and their legal status in CEE and CIS countries. These efforts were accompanied by practical support and training to social enterprises in selected countries.

Following two years of intensive effort, we are pleased to share the outcomes of our work in the form of this publication. We hope it will stimulate local and national debate on how social enterprises can improve the lives of vulnerable groups and support human development.



Jacques Defourny, President
EMES European Research Network



Ben Slay, Director
Bratislava Regional Centre, UNDP

Executive Summary

The present publication contains the results of a two-year research project comprised of several phases. These included a preliminary study to map the situation of social enterprises in 12 countries. After a multi-stakeholder seminar, three national reports were produced by three different research teams. While the four pieces have been integrated and share a similar structure, each reflects a different scholarly approach, socio-cultural standpoint, and style.¹

Social costs of transformation

Following a dramatic recession and decline in output that characterized the early transition years, the economies of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) are now benefiting from growth to varying degrees. Nevertheless, this positive economic trend has yet to be transformed into improved well-being for all groups of society. Moreover, severe economic and social problems risk undermining the legitimacy of the economic reforms that were adopted. Rising inequality can be partially accounted for by a lack of recognition of this problem in policy and by weak social safety nets.

Overall, in the transition to democratic political systems and market-oriented economies, social welfare systems have been comparatively neglected.² As a result, the social costs of the transformation have not been distributed equally among the population. They have been especially borne by the poor.³ New pockets of marginalized and socially excluded groups resulted from the closure and transformation of state enterprises, state farms, and other public institutions that previously ensured the delivery of crucial services. In this context, substantial reforms are still required to ensure the social inclusion of those segments of society that have been hit by the economic transition. In addition, citizens in

transition countries typically show limited trust in political institutions and relatively low levels of participation in democratic processes coupled with diminished stocks of social capital.⁴

Main vulnerable groups in target countries

From a labour-market perspective, structural reforms have resulted in new groups being threatened by social exclusion, including for instance disabled people, people over 50 years of age, young people with low qualifications, young mothers with children, rural workers, and marginalized groups such as former prisoners, the mentally ill, homeless people, immigrants, working poor, and national and ethnic minorities. All these groups have few opportunities to find employment on the traditional labour market, while also lacking adequate assistance from public agencies.

As far as the delivery of services is concerned, several countries of the region, especially CIS countries, are characterized by settlements which have no electricity, lack safe drinking water, and are cut off from gas supplies. Furthermore, gaps in service delivery affect other public goods, such as social, educational, and health services. Breaks in service delivery coupled with persistently high unemployment rates in some countries have in turn contributed to weak social cohesion. Despite the problems of income inequality and social exclusion among certain groups of the population, experience from the target countries shows that local problems that cannot be efficiently and effectively tackled by public and for-profit organizations can be dealt with, at least partially, through the self-organization and self-reliance of the citizens concerned.

The social enterprise approach

Against the background of supporting institutions that can sustain human development, *social enter-*

¹ The national reports included here were considerably shortened so as to comply with publication requirements regarding length. For the full versions see www.emes.net or www.undp.org.

² Kate Schecter. (2001), *The Social Sector: A Failure of the Transition*, in Adrian Karatnycky, Alexander Motyl, Aili Piano, *Nations in Transit 1999-2000, Civil Society, Democracy, and Markets in East Central Europe and the Newly Independent States*, Freedom House.

³ Jan Adam (1999), *Social Costs of Transformation to a Market-Economy in Post-Socialist countries*, London: Macmillan Press Ltd.

⁴ Martin Raiser, Christian Haerpfer, Thomas Nowotny, and Claire Wallace (2001), *Social Capital in Transition: a first look at the evidence*, European Bank for Reconstruction and Development, Working Paper No. 61.

prises provide an innovative approach and are effective as poverty reduction agents that can contribute to the promotion of cohesive communities. This study draws on a conception of the social enterprise as a private and autonomous organization, providing goods or services, with an explicit aim of benefiting the community, that is owned or managed by a group of citizens, and in which the material interest of investors is subject to limits. More specifically, a social enterprise is conceived of as meeting both an economic and social goal within the *third sector*. The third sector refers to all non-profit organizations fostered by civil society, including organizations devoted to advocacy, redistribution or productive activities.

The interest in social enterprises stems from the importance of these organizations as institutional arrangements that are able to tackle economic and social concerns and challenges that neither public agencies nor for-profit enterprises can address effectively. As such, social enterprises can complement the roles already displayed by other actors (including, *inter alia*, public agencies, traditional cooperatives and advocacy organizations) in addressing the problems of the target countries. These include delivery of basic services (i.e. welfare, education, water and electricity) and the creation of additional opportunities for employment generation. In particular, their development contributes to strengthening organizational pluralism and thus the possibility that different interests of various social groups are channelled and represented, thus contributing to democratize economic and social systems.

Social enterprise contribution to human development cannot be conceived of without an innovative framework of cooperation and partnership between various welfare actors, both public and private.

Numerous examples from target countries – ranging from non-profit psychiatric hospitals for children, shelters for families, and schools for drop-out children – show that the method of directly providing innovative services by social enterprises and then attracting government support is often possible when lobbying and advocacy fail.⁵

The added value of social enterprise

The development of organizations driven by an entrepreneurial spirit, but focused on social aims, is a trend that can be observed in countries with different levels of economic development, welfare and legal systems. This can be ascribed to both demand and supply factors. On the demand side, recent years have seen an extensive growth and diversification of needs, which was prompted by the interplay of various factors, including changing patterns of behaviours and lifestyles coupled with the transformation of welfare systems. On the supply side, public funding constraints and bureaucratic burdens have made it increasingly difficult to expand, or even to maintain, the provision of certain services. This appears to be all the more dramatic for economic and social systems that are strongly characterized by weak and young welfare systems, such as those in the target countries. In many countries of the CEE and the CIS, structural change and severe economic shocks have led to unemployment or under-employment, as well as severe shortcomings in the delivery of public services, especially for those who are unable to pay. The potential of social enterprises as institutions capable of matching demand for services with supply, and thus of contributing to the socio-economic development agenda in various ways, has emerged against this background.

The contribution of social enterprises to socio-economic development can be seen from various perspectives:

- providing access to basic services (social, educational, and health) to local communities, including people who are unable to pay;
- contributing to a more balanced use of local resources encouraged by wide participation of local stakeholders;
- contributing to the promotion of inclusive governance models that empower the local community in strategic decision-making;
- creating new employment as a result of the new services supplied and favouring labour-market integration of disadvantaged people (minority groups, single women, people with disabilities, etc.) otherwise excluded from income-generating opportunities;

⁵ György Jenei and Eva Kuti, 'Duality in the Third Sector: the Hungarian Case', *Asian Journal of Public Administration*, Vol 25, No 1 (June 2003), 133-157.

- contributing to enhance social capital at local levels (based on broad ownership and local participation), which is of crucial importance;
- contributing to take informal activities out of the underground economy for instance by regularizing the situation of illegal workers on the black market.

They can serve all these roles thanks to their combining both social and economic roles, thereby allowing the pursuit of explicit social goals through the carrying out of economic activities.

Summary of findings

Overall, the role displayed by social enterprises appears to be marginal in the target countries in comparison with Western Europe. While the relevance of advocacy organizations for the construction and strengthening of democracy has been generally acknowledged, the role of other than investor-owned organizations, including cooperatives, as economic and welfare actors has been overlooked. Whereas traditional cooperatives are often still seen as a remnant of previous times, advocacy and civic organizations, including environmental groups, succeeded in attracting Western funding.⁶ Overall, social enterprises in the social systems and economies of post-communist countries are still a largely untapped resource and generally overlooked as economic actors.⁷

There are considerable impediments to social enterprises. The barriers that hamper social enterprise development include the lack of supporting environments and infrastructure, restricted access to resources, privileged administrative treatment of specific organizational forms, unsuitable institutional framework and an inconsistent legal environment. As a result, there is often a void in terms of suitable legal regulations. Moreover, the legal frameworks in place fail to consider the social commitment and degree of disadvantage taken on by social enterprises and

restrict their potential to carry out economic activities. In addition, fragile political systems prevent social enterprises from building medium and longer-term strategies while the lack of skills of social entrepreneurs adds to the chronic financial problems of most social enterprises. The marginal role of other investor-owned enterprises can be partially ascribed to the negative image enjoyed by cooperative enterprises following their previous association with communism.⁸ It is also linked to a number of scams and scandals that endangered the reputation of the sector in many countries and lowered people's trust in third sector organizations.⁹

As far as the development of social enterprises is concerned, three main development trends can be pinpointed. First, the institutionalization of social enterprises in some new member countries, where legal frameworks designed for social enterprises have been introduced. This is the case in Poland, where a law on social cooperatives aimed at integrating disadvantaged people has been enacted. A category of *Public Benefit Companies* has been introduced in the Czech Republic. Nonetheless, several shortcomings of the laws enacted still prevent the full exploitation of the new legal frameworks. Second, the strength of enterprises integrating disadvantaged people. Despite a general mistrust towards economic activities carried out by third sector organizations, social enterprises appear to be more accepted when integrating disadvantaged workers into the workplace. The Polish and Slovenian examples illustrate this, as such enterprises have managed to upgrade their capabilities and offer their services on the open market. A possible interpretation of this more favourable attitude is the long-standing tradition of cooperatives for the disabled that were established under communism and continue to exist in all post-communist and socialist countries. Third, the creation of subsidiary commercial enterprises - set up and owned by associations and foundations - which are aimed at raising money to support the social activities carried out by their founders. Their income-generating activities are

⁶ Toepler, S. and Salamon, L. (1999), *The Nonprofit Sector in Central Europe: An Empirical Overview*, Draft prepared for the 1999 Symposium 'Ten Years after: Civil Society and the Third Sector in Central and Eastern Europe', Charles University, Prague, The Czech Republic, October 15-16.

⁷ Leš, E. and Jeliázková, M. (2007), *The Social Economy in Central East and South East Europe*, OECD Local Economic and Employment Development (LEED) Programme.

⁸ Adam Piechowski, 'Non-Cooperative Cooperatives: New Fields for Cooperative and Quasi-Cooperative Activity in Poland', in *ICA Review of International Cooperation*, Volume 92, No 1, 1999.

⁹ Toepler and Salamon, 1999.

normally not consistent with the social goal pursued by the founders. This trend is, however, the only way whereby social entrepreneurial activities can be developed both in countries where the carrying out of economic activities by third sector organizations is limited by legal inconsistencies (Bulgaria) or strictly outlawed (Macedonia and Belarus).

Support policies for social enterprises

Prerequisites for a full exploitation of the important social, economic and employment-generation roles of social enterprises include a number of basic policy and legal measures that are important for creating an appropriate environment for social-enterprise development.

In broad terms, the principal requirement is to create a legal context which does not disadvantage social enterprises in comparison with business organizations – this means a legal framework that is not over-restrictive or over-regulated, but allows flexible entrepreneurial activity.¹⁰ In order to avoid criticism of unfair competition, the measures implemented to facilitate the entrepreneurial activities of social enterprises vis-à-vis unsubsidized small- and medium-sized enterprises (SMEs) should be based on the merit of the products and/or services delivered, and an overall evaluation of externalities for the community. Second, the social dimension of activities carried out by social enterprises should be supported through fiscal measures. Social enterprises can overcome problems faced by public agencies and for-profit providers such as the beneficiaries' inability to pay and problems stemming from information asymmetries between providers and beneficiaries. Under such circumstances, social enterprises often represent a more efficient way of providing goods and services than for-profit and public organizations. As a result of the internalization of externalities taken on by social enterprises, public authorities should consider compensating in the form of fiscal advantages. There are two major arguments that justify the granting of fiscal advantages to social enterpris-

es. On the one hand, unlike the case in traditional enterprises, fiscal advantages should aim to compensate for the disadvantages dealt with by social enterprises (e.g. disadvantaged workers integrated into the work force). On the other hand, fiscal advantages should be granted to social enterprises when they contribute to the public interest and well-being of communities. In both cases, social enterprises should benefit from fiscal exemptions on the non-distributed profits (this is a means to sustain social enterprise capitalization), while additional advantages should be granted and fiscal measures adopted with a view to reducing the cost of the activities carried out. Third, the institutional context should be adapted to ensure that social enterprises can have access to equivalent (financial, products and services) markets as SMEs, despite the different goals pursued and different modes of operation. In particular, access to public procurement markets should be developed. Fourth, the institutional context in which social enterprises operate should be supported so that self-regulatory federal bodies can represent the interests of the sector, and financial and business support bodies can be developed to increase the capacity and effectiveness of social enterprises. Such self-regulating federal structures might also take on the task of taking measures to reduce corruption.

Despite the difficulty of offering recommendations with the same degree of relevance for all the targeted countries, the study advances some recommendations for further action. In a nutshell, actions from governments (at all levels) should focus on the creation of enabling legal and fiscal frameworks; the development of a conducive institutional context for social enterprises; and further interaction with social enterprises. These recommendations, however, are to be considered while taking into account the existing context, national legislation, and the role played by the third sector in the countries under study. Finally, the study advances specific recommendations to support the intervention of international actors and development practitioners, as they can provide credit and assist in raising awareness of realities that are not yet fully recognized in national contexts.

¹⁰ It is worth emphasizing that although many third sector organizations enjoy tax-exempt status (or at least a less burdensome fiscal status), social enterprises are not always granted this status despite the internalization of externalities that they bear.

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From the outset, we were aware of the enormity of the task and embarked upon it with the sense of humility that stems from many years of experience in researching the field in various national contexts. It is our hope that this publication will contribute to opening the door to future cooperation to deepen the knowledge of a growing – and still unknown – sector in CEE and the CIS. Already, it is satisfying to see that, since the beginning of the research project upon which this publication is based, several initiatives have been completed with an eye to exploring the potential of social enterprises in combating poverty and social inclusion in such countries as Armenia, Croatia and Ukraine.

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Acronyms and Abbreviations

ADF	American Development Foundation
ALMP	Active Labour-Market Policies
AWIN	Association for Women's Initiative
BRC	Bratislava Regional Centre
CAP	Counterpart Alliance for Partnership
CCC	Counterpart Creative Centre
CCU	Civil Code of Ukraine
CEE	Central and Eastern Europe
CIC	Community Interest Company
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CIVICUS	World Alliance for Citizen Participation
CRDA	Community Revitalization through Democratic Action
CSO	Civil Society Organization
ESF	European Social Fund
ES	State Employment Service of Ukraine
GDP	Gross Domestic Product
GoNGOs	Governmental Public Associations
GUS	Central Statistical Office of Poland
IDP	Internally Displaced Person
ILO	International Labour Organization
MoLSP	Ministry of Labour and Social Affairs of Poland
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PBC	Public Benefit Companies
PSE	Potential Social Enterprise
PWD	People with Disabilities
REGON	National Official Business Register
SCIC	Cooperative Society of Collective Interest
SE	Social Enterprise
SEC	Social Business Corporation
SEEC	South Eastern European Countries
SIF	Social Investment Fund of Serbia
SMEs	Small- and Medium-Sized Enterprises
TS	Third Sector
TSO	Third Sector Organization
UCAN	Ukraine Citizen Action Network
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
VAT	Value-Added Tax
VEH	Vocational Enterprise for the Disabled
WISE	Work Integration Social Enterprise

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PART I. INITIAL STUDY ON THE PROMOTION OF SOCIAL ENTERPRISES

Introduction

This study explores the social enterprise phenomenon in Central and Eastern Europe (CEE) and in the Commonwealth of Independent States (CIS). Despite recording rapid economic growth, these countries are afflicted by pockets of poverty, severe inequality and social exclusion. The study focuses on the following countries: Bulgaria, the Czech Republic, Estonia, Lithuania, Poland and Slovenia (new EU member states); Macedonia and Serbia (the Balkans); and Belarus, Kazakhstan, Russia and Ukraine (CIS countries).

For this study a social enterprise is a private and autonomous organization providing goods or services that has an explicit aim to benefit the community. It is owned or managed by a group of citizens, and the material interest of investors is subject to limits. The objective of the study is to identify the development paths of social enterprises in CEE and CIS countries with special regard to:

- the bottlenecks that prevent their expansion in areas severely affected by social and economic concerns, including high levels of unemployment and collapsing welfare systems, as well as the factors favouring their development;
- the roles displayed by social enterprises in transition processes.

More specifically, this study provides some recommendations for how to create an environment conducive to the development of social enterprises. The study focuses on trends in social enterprise development across the aforementioned countries, given their geographic proximity and their pre-communist cooperative traditions. In this light, the study relies on a theoretical framework that is supported by the good practices of the EU-

15 countries with the aim of replicating the lessons learned in the countries under study.

Social enterprises are important because they are able to address crucial economic and social concerns that neither public agencies, which are overburdened by serious budget constraints, and traditional for-profit enterprises, are unable to address effectively. As such, social enterprises can complement the roles already fulfilled by other socio-economic actors (including, *inter alia*, public agencies, traditional cooperatives and advocacy organizations) in addressing the crucial problems of CEE and CIS countries.

The development of organizations driven by an entrepreneurial spirit, but focused on social aims, is a phenomenon that can be observed in countries with differing kinds of economic development, welfare policies, and legal frameworks. There are a number of reasons for this trend, both on the demand and supply sides. On the demand side, recent years have witnessed an extensive growth and diversification of needs, which was prompted by such factors as changing patterns of behaviours and lifestyles, coupled with the transformation of the previous welfare systems. On the supply side, public funding constraints and bureaucratic burdens have made it increasingly difficult to expand, or even to maintain, the provision of certain general interest services. More specifically, in the countries of the region, the inability to ensure the previous level of security – through guaranteed employment, old-age pensions, free health care and other services – has led to unemployment or underemployment, and severe shortages in the delivery of general interest services, especially for those who are unable to pay. The potential of social enterprises as institutions capable of facilitating the confluence of demand for general interest services with supply, and thus of contributing to the socio-economic development

¹¹ Public goods are goods that are non-excludable and non-rival; consequently, they would either not be provided at all or they would not be provided in sufficient quantity by the market. For a thorough explanation on the various types of goods see Stiglitz, J. E. (2000) *Economics of the Public Sector*, 3rd ed., New York: W. W. Norton. Merit goods are destined for individual consumption, but they also produce some collective benefits.

agenda in various ways, has emerged against this background.

The contribution that social enterprises can make from a social and economic point of view is recognized in the old EU member states, at both the national and EU levels. Their economic value is self-evident, as they:

- supply basic public and merit goods,¹¹ such as social, educational, health and general economic interest services (water, electricity etc.) to local communities, including to people who are unable to pay;
- contribute to the economic development of deprived communities;
- create new employment opportunities as a result of the new services supplied;
- favour the integration of disadvantaged people, including minority groups, single women, people with disabilities, etc.

They fulfil these roles through the exploitation of resources that would not otherwise be allocated to meet welfare and development needs.

Moreover, many of them contribute to the integration of different kinds of disadvantaged workers. Hence, they contribute to the enhancement of social cohesion, to the accumulation of social capital, and to a more equitable economic development at the local and national levels. Accordingly, social enterprises can act as poverty reduction agents.

The research conducted shows that recognition of the real potential of social enterprises is still lacking, albeit to varying degrees, in all the countries of the region, and especially in the CIS and Balkan countries. In this region social enterprises are acknowledged to play only a marginal role. This is due in part to the prevalence of a political and cultural approach that assigns only an advocacy and redistributive role to organizations that are neither investor-owned (for-profit) enterprises nor public (state) agencies.¹² Examples are

cooperatives that developed a negative image because of their bureaucratization, centralization, subordination to state control and monopolization of certain spheres of the economy during the socialist era.¹³ Hence national governments and donors paid particular attention to participatory aspects and there was a general mistrust towards economic activities carried out by third sector organizations. While cooperatives were considered remnants of communist times, advocacy organizations (including for instance environmental groups) were the most successful in attracting Western funding.¹⁴ Overall, economic activities carried out by third sector organizations appear to be marginal, in the countries of the region, compared to what is the case in Western European countries. When the law permits third sector organizations to carry out economic activities, the general trend is to recognize them as long as they remain marginal, and to circumscribe them strictly, allowing only those economic activities that sustain the organizations' statutory goals. In those countries where the direct engagement of third sector organizations in economic activities is not allowed (Belarus, Bulgaria, Macedonia and, to a certain extent, Serbia and Ukraine), third sector organizations create commercial enterprises to manage economic activities. In both situations the third sector takes on a complementary role to those of the state and market.

An exception to these trends is provided by work-integration enterprises, such as cooperatives for disabled people that have been inherited from communist times. Economic activities are, in this case, tolerated. However these enterprises aim to serve niche markets, rather than addressing the wider market.

Part one includes three sections. Within the first section, subsections one and two describe the emergence and evolution of social enterprises across the 15 countries that used to form the European Union, prior to its enlargement in 2004, offering a historical background. Subsection three places the social enterprise phenomenon within the context of the third sector. Subsection four describes the main economic theories that account

¹² Organizations other than investor-owned enterprises and public agencies will henceforth be defined as third-sector (TS) organizations.

¹³ Piechowski, 1999

¹⁴ Toepler and Salamon, 1999

for the emergence of social enterprises. Lastly, subsection five provides a working definition to map social enterprises in CEE and CIS countries.

Section two is divided into two main subsections that cover the social enterprise phenomenon in the countries under consideration. The first subsection provides a historical overview and a description of the third sector in these countries. It then draws attention to the modernization processes in the market and civil society, the impact of early reforms on fostering the third sector, as well as the sector's political and legal recognition. The structure and dynamics of unemployment in the region are described, while focusing on enterprises whose aim is to integrate disadvantaged workers. The second subsection explores more specifically the theme of social enterprise in CEE and CIS countries. It focuses on the extent to which third sector organizations are allowed, in the various legal systems, to carry out economic activity. An overview of the specific legal frameworks for social enterprises that have been enacted so far in a few countries – including Poland, the Czech Republic, Slovenia and Lithuania – is then provided. At this point, an analysis is offered regarding the functions played by social enterprises in transforming the economies and societies of the countries from the region and the impact of foreign donors. The third and last section of part one includes the various appendices relative to this initial study. In an effort to synthesize the main findings of the exploratory phase of this preliminary study, country overview tables are offered. A methodological note about the study and a conceptual note about the EMES approach to social enterprises and its adaptation to CEE and CIS countries close this section.

Part two includes the selection of three country studies from three different sub-regions – Poland (section one), Serbia (section two), and Ukraine (section three).

Lastly, part three provides some general recommendations on how social enterprises could be supported in the countries under study. Based on the evidence, some preliminary conclusions are offered in the first section. Following an assessment of the potential for social enterprise development in the selected countries (second section), the characteristics of optimal policy and legal frameworks for social enterprise are

described in section three with a view to legal and fiscal aspects, relationships established with public bodies, and institutional aspects. Finally, specific recommendations, both for national governments (fourth section) and possible intervention for development practitioners (fifth section), are advanced. Some closing remarks about the ways in which social enterprises' advancement can be supported and facilitated are included in the fifth section.

1. Overview of the emergence and evolution of social enterprise

1.1. The historical background of social enterprise

Only recently has social enterprise been recognized as an innovative approach to addressing crucial issues such as gaps in social services, education, health care, housing services, environmental concerns and fair trade. However, economic entities with social goals have long played an important role in the social, economic and political history of market economies, former-communist and developing countries. Social enterprises are part of the economic fabric at both the national and local levels.¹⁵

Charities and other types of non-profit organizations have been spreading in the health and social service domains since the Middle Ages. Mutual societies date back to the same period: they were set up by workers to provide common insurance and assistance to their members. Entrepreneurial organizations with social goals started developing all over Europe in the middle of the 19th century; agricultural cooperatives, credit unions and saving banks were set up in almost every European locality, while other types of cooperatives were consolidated in specific countries. They include consumer cooperatives in the United Kingdom and housing cooperatives in Germany, the United Kingdom and Sweden. In countries such as France and Italy, which were characterized by a slower industrialization process, workers' production cooperatives took root.¹⁶ The first cooperative experiences were in fact a spontaneous defensive response, on the part of the workers, to the harsh conditions dictated by the industrial revolution.¹⁷ By promoting the interests of their members, cooperatives contributed to improving the quality of life of these disadvantaged groups.

As a result of the development of nation-states and their growing role – especially in welfare systems – the fight against poverty, support to the weakest segments of the population, protection of the public interest, redistributive functions and all the social and health services were increasingly shouldered by central and local government. In some countries the social and economic function of third sector organizations was gradually reduced. This can also be accounted for by the expansion of trade union movements and the development of competitive markets in a number of economic domains. In other countries, social services were increasingly organized by public agencies in partnership with third sector organizations.

The re-emergence of the economic and social commitment of third sector organizations was stimulated by the difficulties generated by the crisis among welfare states. The first 'social enterprises' emerged at the end of the 1970s just as economic growth rates declined and unemployment rose. These factors were at the origins of the crisis in the western European dichotomous model, which was centred around the 'state' and the 'market'.¹⁸ The traditional welfare state model proved itself to be insufficient for distributing welfare inclusively, as evidenced by its difficulty in coping with the growing inequalities and social exclusion. In particular, the traditional welfare model has proved inadequate at providing all the social services demanded, to ensure equal access to social services to all those in need, and to help people with non-standard problems.

The wide spectrum of socio-economic institutions that are neither investor-owned organizations (the for-profit sector) nor public agencies (the state) has been described in various ways, with the definition used and specific features emphasized depending on the specific traditions and national contexts, and the specific legal forms used. It may be said that three theoretical approaches to the study of these organizations have gradually spread internationally, accompanied by statistical work aiming to quantify their economic importance – namely the non-profit

¹⁵ Anheier, 2005.

¹⁶ CIRIEC, 1999.

¹⁷ Monzón Campos, 1997.

¹⁸ Borzaga and Defourny, 2001.

approach, the social-economy approach, and the third-sector approach.

The 'non-profit' approach

On the one hand, the 'non-profit' school emphasizes the non-distribution of profits. This 'non-profit-sector approach' has been developing since the second part of the 1970s, originally to address the US situation. The term 'voluntary sector', mainly used in the United Kingdom, also belongs to that school. Non-profit organizations fulfil a broad spectrum of societal and political tasks, including lobbying and interest representation and, in some cases, redistribution and service provision. The non-profit constraint excludes cooperatives and mutual-aid societies on the grounds that they can distribute part of their profits to their members.

The 'social-economy' approach

On the other hand, the concept of the 'social economy', that brings together cooperatives, mutual societies and associations (and increasingly foundations), stresses the specificity of the mission of these organizations, namely their aim to benefit either their members or a larger collective, rather than to generate profits for investors. This approach thus includes the non-profit organizational form, but rather than insisting on the non-distribution of profits, it highlights the democratic character of the decision-making process within the organizations, the priority of people and labour over capital in the supervision of the organization, and the limited distribution of profits (rather than the non-distribution constraint).

The 'third-sector' approach

The concept of the 'third sector' has increasingly established itself in recent years as a synonym for the terms 'non-profit sector' and 'social economy', especially in European scientific literature. The third sector, as defined by the British government, refers to *'Non-governmental organizations which are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organizations, charities, social enter-*

prises, cooperatives and mutuals'. Thus the term 'third sector' refers to the institutionalized entities found within civil society which are devoted to advocacy, redistribution or production. In CEE and CIS countries, these organizations are also called non-governmental organizations (NGOs) in order to emphasize their independent nature, as compared to the 'social organizations' that were under strict governmental control under the previous regime. The use of the term 'third sector' helps to overcome the differences between the many national models. Therefore, this report will mainly employ the terms 'third sector' and 'third sector organizations' to refer to all the entities that are situated between the public and private domains and pursue specific social goals, while being totally or partially bound by a non-distribution constraint. The term 'civil society organization' (CSO) is not used throughout the text as it implies a wider range of institutionalized and non-institutionalized entities, including trade unions, political parties, youth organizations, women's organizations, other public committees, independent committees, etc. The definition used here includes those cooperative organizations that limit the distribution of profits, which is the case of cooperatives in many European countries. Against this background, social enterprises are to be considered as a subtype of the third sector and as a new dynamic within the sector, involving both existing and newly established organizations.

1.2. From third sector to social enterprise in Europe

Against the historical background briefly described above, the social enterprise phenomenon has been fostered by the grassroots actions of citizens. Indeed, since the 1970s civil society in several countries has reacted to both the lack of social and community services and the inability of the welfare state to ensure employment – especially for the hard-to-employ. This development trend resulted in third sector organizations becoming increasingly involved in economic activities, through the production of general interest services, often by relying on the voluntary work of a significant number of citizens. The involvement of associations and foundations – which were traditionally committed to advocacy activities – in the production of services has

Box 1. Main Legal Frameworks Covered by Third Sector Organizations

- *Voluntary organizations, charities or associations*: this category includes both advocacy organizations and other forms of free association of persons for the purpose of advocacy, participation in civil society, and sometimes the production of goods and services where making a profit is not the essential purpose. Associations can be either general-interest organizations (a group of beneficiaries differs from a group of promoters) or mutual-interest organizations (the beneficiaries are the promoters). The names of these organizations vary from country to country (associations, non-profit organizations, voluntary organizations, non-governmental organizations, charitable institutions etc.).
- *Cooperatives*: Historically, these have developed in those economic fields in which capitalist activity remained weak. Cooperatives are associations of persons united voluntarily to meet their common economic needs through a jointly owned, democratically controlled enterprise. Profits may be distributed or not.
- *Mutual aid societies*: they were launched in the early 19th century to handle the problems of work disability, sickness and old age, on the basis of solidarity principles, by organizing the members of a profession, branch or locality in a group.
- *Foundations and trusts*: they are legal entities created to achieve specific goals for the benefit of a specific group of people or of a community at large through the income generated from assets held in trust. They have developed mainly in Anglo-Saxon countries and they are above all committed to supporting social, religious or educational activities and other general interest activities, according to the founder's will.

prompted these organizations to shift to a more productive and entrepreneurial stance. A parallel evolutionary trend has been displayed by cooperatives, which have traditionally focused on the promotion of the interests of their members (consumers, producers, farmers etc.). In some countries, cooperatives have gradually started to move beyond their traditional 'mutual-interest' goals of serving their members¹⁹ and have embraced general-interest goals, i.e. not simply promoting the interests of a specific category of stakeholders, but those of the community as a whole, through the production of general interest services. As a consequence, the traditional cooperative and associative models have become more similar, with associations becoming more entrepreneurial and cooperatives becoming less member-oriented. This shift, characterized by an expansion of the set of activities carried out, has assumed different patterns in different countries, depending on the role previously played by the third sector, its size, and its relationship with the public sector.²⁰

The concept of social enterprise

In Europe, the EMES European Research Network has conducted pioneering work in analysing and conceptualizing the social-enterprise phenomenon.²¹ On the basis of research carried out by this network, it is clear that the concept of social enterprise does not supplant existing concepts of the third sector – such as the concept of the social economy or that of the non-profit sector. Rather, it sheds light on features of the third sector that are currently becoming more prevalent, namely *entrepreneurial dynamics focused on social aims*. Organizations with legal forms which are typically for-profit can be considered as social enterprises when they demonstrate specific characteristics, including a constraint on the distribution of profits.

The importance of the context in which social enterprises emerge has recently been noted in the literature together with the strategic benefit of situating them in a larger 'social change framework' (Mendell and Nogales, 2008). Against

¹⁹ That is to say, single-stakeholder cooperatives, such as consumer cooperatives, agricultural cooperatives and producer cooperatives.

²⁰ Bacchiega and Borzaga, 2003.

²¹ The EMES European Research Network owes its name to its first research project launched in 1996 under the French title "L'Emergence de l'Entreprise Sociale". This work resulted in a book covering the 15 states which then made up the EU: Borzaga, C. and Defourny, J. (eds) (2001), *The Emergence of Social Enterprise*, London/New York: Routledge.

the temptation to present social enterprises as solutions to deeply rooted and structural problems of poverty and social exclusion – especially in vulnerable countries and regions – their potential can only be understood within a policy framework that recognizes their capacity and critical need for enabling policy measures and supportive structures. Experiences in Western European countries show that this is not a simple process and that variations exist across countries and cultures. Therefore, governments are actively engaged in the support of social enterprises to varying degrees as ‘the institutional contexts determine the extent and the nature of this engagement’ (Mendell and Nogales, forthcoming). Despite the fascination of international donors and governments in social enterprises, the impact and long-term sustainability of such organizations can paradoxically be reduced if they are suspended from their context (Mendell and Nogales, forthcoming). In this sense, the ‘third sector’ approach allows us to comprehend the complex tissue of socioeconomic (inter)action in which social enterprises are likely to emerge, and that varies greatly across countries.

What distinguishes social enterprises from other traditional third sector organizations? On the one hand, compared to traditional associations and operating foundations, social enterprises place a higher value on risk-taking related to an ongoing productive activity²² (in the world of non-profit organizations, production-oriented associations are certainly closer to social enterprises than are advocacy organizations and grant-making foundations). On the other hand, in contrast to investor-owned enterprises and many traditional cooperatives, social enterprises may be seen as more oriented to the needs of the whole community. Moreover, social enterprises can be created by different categories of stakeholders and reflect these in their membership, whereas traditional cooperatives and many associations are usually set up as single-stakeholder organizations. These contrasting elements, however, should not be overestimated, and while social enterprises are in some cases new organizations, which may be regarded as constituting a new sub-division of the third sector, in other cases they result from evolutionary

processes at work within the third sector. In other words, it can be said that the generic term ‘social enterprise’ does not represent a conceptual break with existing institutions of the third sector, but a new dynamic, encompassing both newly-created organizations and older ones that have undergone an evolution towards more entrepreneurial activities. Whether these social enterprises choose a cooperative legal form, an associative legal form or another legal form depends often on the legal structures provided by national legislations.

Box 2. Social Enterprises

Social enterprises may be defined as private, autonomous, entrepreneurial organizations providing goods or services with an explicit aim to benefit the community. They are owned or managed by a group of citizens, and the material interest of capital investors is subject to limits. Social enterprises place a high value on their autonomy and on economic risk-taking related to ongoing socioeconomic activity. Social enterprises are either prohibited legally from distributing profits, or are structured in order to exclude profit as the main goal.

Social entrepreneur, social entrepreneurship, social enterprise

Until recently, the concepts of ‘social entrepreneur’, ‘social entrepreneurship’ and ‘social enterprise’ were viewed practically as a continuum: social entrepreneurship could be seen as the process through which social entrepreneurs created social enterprises. However, it is important to note that the fast-growing literature on these subjects, on both sides of the Atlantic, has produced various definitions and approaches of each concept. Analysis of such differences is clearly beyond the scope of the present study, but a few features may be pointed out in order to stress some current trends:²³

- Since the mid-1990s, American foundations and organizations such as Ashoka have empha-

²² That is to say the production and sale of goods and services.

²³ Defourny, J. and M. Nyssens (2008), “Social Enterprise in Europe: Recent Trends and Developments”, EMES Working Papers Series, no 08/01. Liege: EMES European Research Network.

sized the term 'social entrepreneur', providing support to individuals who start activities focused on a social mission, while behaving as true entrepreneurs through their dynamism, personal involvement and innovative practices. Such a social entrepreneur brings about new ways of responding to social problems. In Europe, conversely, the emphasis is more often put on the collective nature and the associative or cooperative form of the initiative.

- The concept of 'social entrepreneurship' is increasingly used in a very broad sense as, for many authors, it now refers to a wide spectrum of initiatives, ranging from voluntary non-profit activism to corporate social responsibility. Between these two extremes, many different categories exist: individual initiatives, new activities launched by non-profit organizations, public-private partnerships with a social aim, etc. While North Americans now tend to stress the 'blurring borders' among institutional and legal forms as well as the 'blended value creation' (profits alongside social value), Europeans stress the fact that, beyond the variety of discourses, social entrepreneurship most often takes place within the third sector.
- The concept of 'social enterprise' first appeared in Italy in the late 1980s (well before its emergence in the United States) to refer to the pioneering initiatives for which the Italian Parliament invented the legal framework of 'social cooperatives' a few years later. As will be shown, various other European countries also passed new laws to promote social enterprises, most often within the third sector. Alongside such approaches, the EMES European Research Network stresses the institutional character of social enterprises. Drawing on the European tradition, social enterprises are conceived of as autonomous and long-standing legal entities which provide goods and services with a public orientation, and which succeed in combining the pursuit of a social aim and the adoption of entrepreneurial behaviours. They often rely on a mix of resources, including public subsidies linked to their social mission, commercial income, private donations and/or volunteering. This

allows for the positioning of European social enterprises 'at the crossroads of market, public policies and civil society'.²⁴ This clearly contrasts with a strong US tendency to emphasize the market reliance of social enterprises and to isolate them from public policies. In the United States social enterprises may sometimes also include initiatives and projects that come to an end following the accomplishment of the project that generated them, or enterprises that aim specifically to fund social initiatives.

In this complex conceptual landscape, there are opposing views as far as the mission of social enterprises is concerned. Social enterprises are accused of mission deviation, unfair competition, and fraudulent exploitation of non-profit legal status. Against this background, other institutional forms (including traditional third sector organizations) are considered by some to be better placed to serve the needs of fragile segments of society. Hence, the need to better understand the role and functions of social enterprises as economic institutions endowed with specific characteristics on the demand and supply side and explicitly devoted to pursuing social goals of various kinds.

Although it is useful to be aware of this conceptual complexity, the scope of the present study does not allow for wide theoretical debates. For the purpose of this study, we will rely mainly on the conceptual foundations that have been built up for more than 10 years by the EMES European Research Network. This choice is supported by the truly European nature of EMES's work, which results from a permanent dialogue among researchers from all parts of the European Union, representing various social, political and economic traditions. Moreover, as will be explained later, the EMES approach to social enterprise can (and will) be adapted in a pragmatic way in order to serve as a flexible tool for the countries in this study.

²⁴ This is precisely the subtitle of the latest EMES book: Nyssens, M. (ed.) (2006), *Social enterprise. At the crossroads of market, public policies and civil society*, London/New York: Routledge.

1.3. Locating social enterprises within the economy

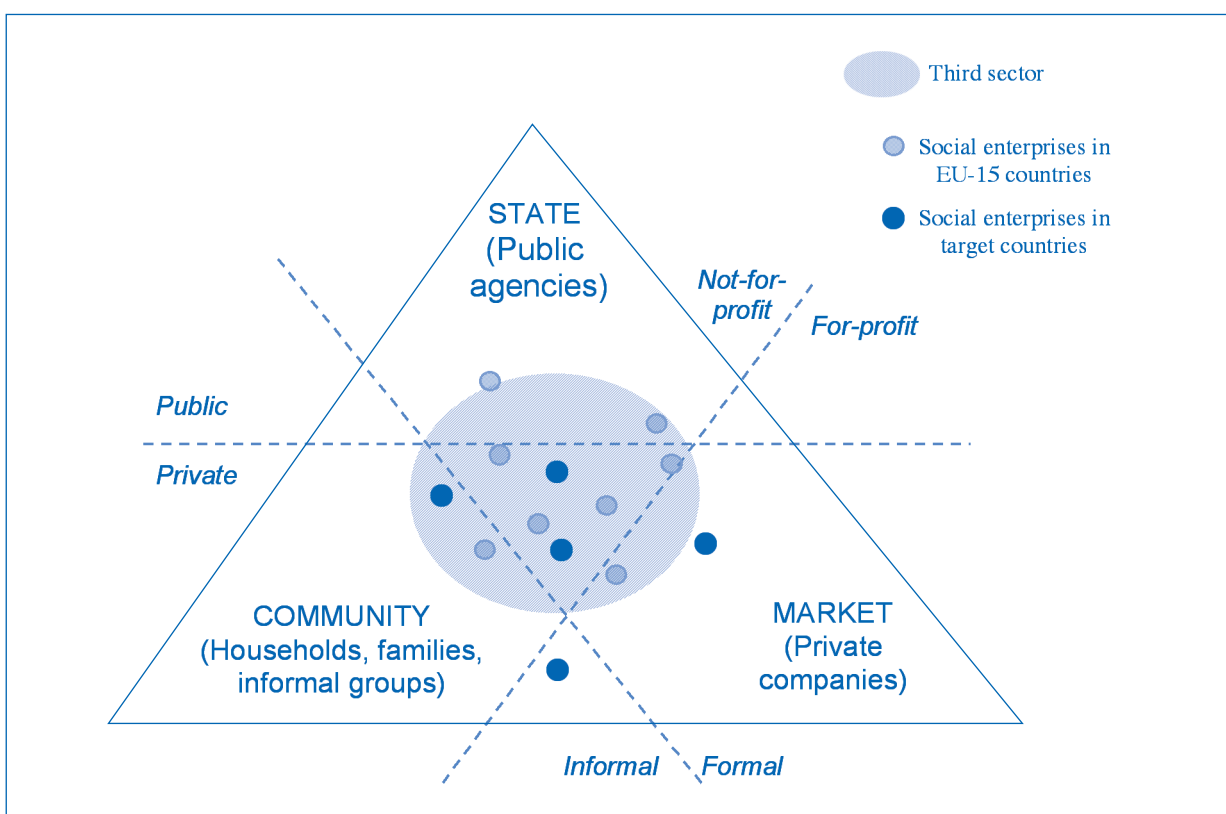
In the modern nation-state, social enterprises are located at the crossroads of the three main economic domains: the state, the market and the community. The latter is to be conceived of as a wide socioeconomic space where various actors (households, families, informal groups) perform their activities. The graph below illustrates the relative position of the three sectors in current economic systems. Their intersection gives ground to a unique space occupied by the third sector (see definition above). Within the third sector, social enterprises emerge as specific subtypes that are triggered by new dynamics, whether in existing organizational forms (associations, foundations, cooperatives) or in newly established organizations that manage to combine an economic dimension and a social one (e.g. community interest companies, public benefit companies).

The representation below does not aim to cover all social enterprises. Given the specificities of

social enterprises in terms of context, their location varies according to socioeconomic and historical factors and legal and political conditions, including the type of interaction established with public agencies.

The dots in the graph represent the most common position of social enterprises both in EU-15 (green dots) and CEE and CIS countries (blue dots). Various organizational trajectories can be pinpointed in the graph, which can be ascribed to various factors (political and economic institutions, degree of formalization of the economy, level of economic development, existing public policies, etc.). In general, under socialism and communism, the economies of the countries from the region were dominated by the upper area (the state), although elements of market always existed to various degrees (including the 'black market', which can be identified in the graph by the area mixing 'informal' and 'market' characters). The graph above allows one to take into account the informal sector, which represents a key space for private and community-based initiatives in countries from the region, including a black or grey market.

Figure 1 - The Position of Social Enterprises in the Economy



Source: Adapted from V. Pestoff (page 17) in 'The third sector in Europe' (2004).

Nowadays, many social enterprise-like initiatives may still arise in the informal space, become more formal after a certain time, and operate either in the market or in conjunction with public policies (or both), once they are politically and legally recognized. By contrast, other social enterprise initiatives may be prevented from moving towards the formal economy as a result of an inappropriate legal, financial and fiscal system. As a result, a 'forced flexibility' may push some social enterprises to continue to perform in the informal economy, offering low-quality jobs and failing to declare their incomes.

Other trajectories exist in more developed economic systems where formal interaction between social enterprises and public bodies are institutionalized. This is the case of public policies (the upper area) which try to promote social enterprises through a 'top-down' process (sheltered workshops, for example, might be considered as being closer to that upper area).

One development path characterizing social enterprises in some countries of the region implies the creation of subsidiary commercial enterprises - set up and owned by associations and foundations - that are specifically aimed at gaining income to support the social activities of their founding entities. The economic activities are normally not consistent with the social goal pursued by the founding associations and foundations. This trend involves both countries where the economic activities of third sector organizations are limited by legal inconsistencies (Bulgaria and Ukraine) and countries where social enterprises are strictly outlawed (Macedonia and Belarus).

1.4. Trends in social enterprise development across Europe

Legal forms of social enterprises

Social enterprises are a widespread and rising phenomenon all over Europe; they have undergone a gradual institutionalization and political

recognition, *inter alia* through the introduction of specific legal frameworks. For the purpose of this study, attention is paid to institutionalized entities that show certain features, and not to single acts of entrepreneurship that are characterized by a social goal.

It can be said that the majority of social enterprises in Europe are still operating in a traditional third-sector legal environment. They are usually established as associations in those countries where the legal form of association allows a certain degree of freedom in selling goods and services on the open market. In countries where associations are more limited in this regard, such as the Nordic countries, social enterprises are more often created under the legal form of cooperatives. But besides these traditional legal forms, a number of countries have created new legal forms specifically designed for social enterprises. These new legal forms comply to varying extents with our definition, and they have so far had differing degrees of success.

In Italy, a new cooperative legal form - that of 'social cooperative' (*cooperativa sociale*) - was introduced in 1991 with the purpose of recognizing and providing a legal framework for specific social entrepreneurial activities, namely the provision of social services and the employment of disadvantaged people.²⁵ Social cooperatives have so far represented the main type of social enterprise in Italy. Since the adoption of the law creating this legal form (Law 381/1991), these organizations have registered an annual growth rate ranging from 15 to 30 percent. In 2003, there were about 6,500 - 7,000 social cooperatives in the country, employing some 200,000 workers (i.e. more than 1 percent of total employment) and benefitting 1.5 million people.

Other countries followed the Italian example. Portugal, for example, created the 'social solidarity cooperatives' (*cooperativas de solidariedade social*). These organizations are designed to support vulnerable groups and socially disadvantaged communities, with a view to achieving their economic integration.²⁶ However, unlike Italian social cooperatives, Portuguese social solidarity cooperatives

²⁵ Law 381/91.

²⁶ Law on Social Solidarity Cooperatives of 1998.

²⁷ Perista and Nogueira, 2004.

are only weakly embedded in the social fabric; this can be accounted for by the top-down nature of the process that has led to their creation.²⁷

An example of social enterprises that are supposed to be the result of local dynamics is provided by the French 'cooperative society of collective interest' (*société coopérative d'intérêt collectif*, or SCIC), which was introduced in 2001. The French law prescribes the existence of at least three categories of members, each having a different relationship with the activity carried out; workers and users must be represented. The strict conditions relating to the opening of the social base to different stakeholder categories, on the one hand, and the strength of traditional associations, on the other hand, seem to have so far slowed down the creation of new SCICs; only 97 SCICs had been established as of August 2007.²⁸

Another trend has been gaining speed more recently: that of introducing more general legal frameworks for social enterprises. This trend first appeared in Belgium, where the 'social purpose company' (*société à finalité sociale* in French, *venootschap met sociaal oogmerk* in Dutch) was introduced in 1995. This legal framework can be used by any commercial company, including cooperative societies and private limited companies, provided they meet a series of requirements. However, this legal status has so far met with only limited success, owing to the considerable number of requirements which add to those imposed on traditional companies; the 'social purpose company' label has been adopted by very few organizations so far and the previous associative model continues to prevail.²⁹

More recently, Italy and the United Kingdom have followed a similar path. This trend parallels the expansion of the set of activities carried out by social enterprises, which are increasingly committed to supplying general interest services other than welfare provisions, including cultural and recreational services; activities aimed at protecting and regenerating the environment; and services aimed at supporting the economic development of specific communities.

In Italy, the recently-enacted law on social enterprise widens the types of general interest services that can be supplied and makes a wider range of legal forms eligible for classification as social enterprises. According to the law, a social enterprise is defined as a non-profit private organization, which permanently and principally carries out an economic activity aimed at the production and distribution of goods and services of social benefit, and pursues general interest goals. Nevertheless, this legal framework has not proved to be very attractive so far for Italian organizations, which mainly continue to use the social cooperative form. This can be accounted for by the fact that the law is still incomplete, lacking fiscal and support policies, and by the fact that weak interest has been shown by the representative organizations of the third sector, especially by the well-established social cooperative movement.

The 'community interest company' (CIC) is a new type of company that has been devised in the United Kingdom for enterprises that want to use their profits and assets for social benefit. CICs are designed to complement government services at the community level in areas such as childcare provision, social housing, community transport or leisure. This framework is intended to be used by enterprises generating benefits for the community. The CIC law does not provide for any fiscal advantages; it simply provides a flexible legal structure and a lighter regulation, by comparison with that of charities.³⁰ However, the lack of any fiscal advantage is compensated for by the possibility to partially redistribute profits. CICs are also endowed with the ability to issue shares, which can contribute to both raising finance for community endeavour and supporting local enterprise for local people.³¹ Interestingly, a considerable number of very diverse CICs – from village shops to large companies – have been established so far:³² Since the legislation came into force regulating the creation and operation of community-interest companies, 1,176 CICs have been set up. They are engaged in a number of diverse fields, including the provision of social and personal services, real estate, education,

²⁸ See www.scic.coop.

²⁹ Defourny, 2001.

³⁰ Regulator, 2007.

³¹ Regulator, 2007.

³² Court, 2006.

Table 1 - Laws regulating social enterprise in Italy and the UK and EMES definition

	Italy	United Kingdom	EMES definition
Legal Act	Legislative Decree 155/2006	Companies Act of 2004 Community Interest Company Regulations of 2005	
Legal forms admitted	Associations, foundations, cooperatives and for-profit enterprises	All enterprises regulated by the Companies Act of 1985	All legal forms
Entrepreneurial model	Collective	Collective and individual	Collective
Definition of social aim	The law enumerates the activities which are considered of social utility	The definition of the social aim is assessed by the Regulator via a community interest test	Explicit social aim
Profit distribution	Direct and indirect distribution of profits prohibited	Partial distribution of profits allowed	Partial distribution of profits allowed
Governance	Participatory nature	Participatory nature	Participatory model
Fiscal advantages	Not foreseen yet	Not foreseen	

health and social work. Other sectors witnessing an increasing involvement of social enterprises include wholesale, retail and repair, financial intermediation, manufacturing and hotels and restaurants.³³

Unlike in the United Kingdom, the new legal frameworks designed for social enterprises in Belgium, France, Italy and Portugal appear to remain underused. For new laws to be appealing to existing organizations, they should crowd out previous laws and provide for advantages linked to the use of the new legal form. Other factors can also play a role: for example, the newly recognized social enterprises have so far met with a certain

opposition in Italy and the United Kingdom, owing to their productive nature. In order to support their development, adequate fiscal and support policies that take into account the merit character of the activity carried out should be introduced, and fiscal advantages should not be limited to non-profit organizations only – as is the case in several EU countries. However, the lesson of the UK – where no fiscal advantages are provided to CICs – shows that the development of social enterprises can be independent from the introduction of fiscal advantages.

³³ Regulator, 2007.

Social enterprises and employment creation

Social enterprises contribute to national growth and income and, consequently, to jobs generation in various ways. In general, social enterprises develop new activities and contribute to create new employment in the sectors wherein they specifically operate, that is to say, in the social and community-care sectors that show a high employment potential owing to their labour-intensiveness. Moreover, social enterprises allow for the employment of unoccupied workers, for instance women with children, who seek flexible work opportunities such as part-time jobs.

Some social enterprises are specifically aimed at integrating disadvantaged workers into work. This goal is pursued by work integration social enterprises (WISEs) that are specifically designed to employ workers with minimal chances of finding a job in traditional enterprises. They are autonomous economic entities whose main objective is explicitly the integration – in the WISE itself or in mainstream enterprises – of people experiencing serious difficulties finding work. This integration is achieved through productive activity and tailored support, or through training to develop the qualifications of the workers.

WISEs have increasingly been a tool for implementing active labour-market policies – in other words, they have constituted a 'conveyor belt' of active labour-market policies. Indeed, they were pioneers in promoting the integration of excluded persons through a productive activity. It could even be said that the first WISEs actually implemented active labour market policies before the latter came into institutional existence. This recognition by public authorities of the mission of integration through work performed by social enterprises allows, in most cases, a more stable access to public subsidies but in a limited way. Usually only temporary subsidies are granted to start the initiative and to compensate for the workers' 'temporary inability to be employed', i.e. the difficulty they face in obtaining employment due to the deterioration of their skills following their extended absence from the labour market. The objective of this kind of measure is

to facilitate the transition between unemployment and the 'first' labour market. Let us emphasise that in some cases (like the Social Enterprise Act in Finland), these social enterprises are eligible to benefit from these active labour programmes on the same terms as any other type of enterprise that employs people with the required profiles.

Public schemes to support social enterprises

Besides the creation of new legal forms, the 1990s saw the development in many countries of specific public programmes targeting social enterprise, most of them in the field of work integration.³⁴ Examples of public programmes on the national level include *empresas de inserção* in Portugal, *enterprises d'insertion* and *associations intermédiaires* in France, the social economy programme in Ireland, and social enterprises in Finland. On the regional level there have been public programmes such as *enterprises d'insertion*, *enterprises de formation par le travail* and *sociale werkplaatsen* in Belgium and *empresas de inserción* in Spain. For example, in France in 2004 there were 2,300 registered bodies providing work-integration services (work-integration enterprises, temporary work-integration enterprises, intermediary associations, etc.) and employing some 220,000 salaried workers.

Public bodies recognize and support the actions of WISEs – and at the same time, they also influence their objectives. The philosophy of the innovative social enterprise that emerged in the 1980s clearly resided in the empowerment and integration of excluded groups, through participation in WISEs whose aim was to offer disadvantaged workers a chance to reassess the role of work in their lives by supporting them while they gained control over their own personal affairs. This conception implies not only giving a job to these persons but also developing specific values, for example through democratic management structures in which the disadvantaged workers are given a role, and through the production of goods and services generating collective benefits (such as social services or services linked to the environ-

³⁴ Let us note that sometimes these public programmes require that organizations adopt a specific legal form, such as a legal form created for social enterprises.

ment) for the territory in which the WISEs are embedded. Getting workers back into the 'first' labour market was thus not the priority of these pioneering WISEs. But the progressive institutionalization and professionalization of the field over the years, through public schemes increasingly linked to active labour market policies, has generated a clear pressure to make the social mission instrumental to the integration of disadvantaged workers into the first labour market. This explains why some pioneering initiatives chose not to use WISE-specific public schemes. This is for example the case of the 'local development' initiatives in Ireland, which did not adopt the 'social economy' framework.³⁵ It should be noted too that while public schemes have encouraged some initiatives, they have excluded others.

The UK experience provides a good example of public policies supporting social enterprises: In 2002 the Blair government launched the 'Social Enterprise Coalition' and created a 'Social Enterprise Unit' aimed at promoting social enterprises throughout the country. The new government, unlike the previous administration, which considered the market and the third sector as alternatives to the state, considered partnership

and the development of social enterprises³⁶ as fundamental tools for the development of social services which may be 'unattractive or inappropriate for the private sector, or cannot be delivered effectively by the public sector'.³⁷ According to a poll recently carried out in the UK, nearly two thirds of the British public would prefer their local services to be delivered by social enterprises.³⁸ This is a good example of enabling policies that acknowledge the complementary role of social enterprises in new welfare systems. As such, social enterprises are conceived of as a means whereby to ensure the compliance with the principles of non-discrimination, equity and solidarity associated with the supply of social services in an inclusive welfare system. Accordingly, social enterprises are not expected to replace the welfare state but to complement government efforts in areas where public agencies are not best placed to fulfil the needs of citizens, owing to their inability to grasp new needs that arise in society.

Activities carried out by social enterprises

As already stressed, social enterprises appear to be engaged in a wide array of social activities.

Box 3. Social Enterprises Supplying Social Services

Austria	Children's groups: childcare services supported by a high level of parental involvement.
France	Parent-led childcare organizations: childcare services partly led and managed by parents. These organizations formed a national network (ACCEP).
Denmark	Social residences: residential institutions designed as an alternative to conventional institutions for children and adolescents with difficulties. They focus on training and care services.
United Kingdom	Home care cooperatives: cooperatives employing their members, mainly women with dependents at home, on a part-time basis.
Italy	Type A social cooperatives: cooperatives active in the fields of health, training or personal services, and operating within the legal framework adopted by Italy's national Parliament in 1991.
Portugal	Cooperatives for the training and rehabilitation of disabled children; they merged into a national federation in 1985.

³⁵ O'Hara and O'Shaughnessy, 2004.

³⁶ Taylor, M. in Evers and Laville (2004).

³⁷ HM Treasury 1999, p. 14.

³⁸ Out of a representative sample of 2,287 adults, 64 percent said they would choose a "business that reinvests its profits for the benefit of the community" to run their local healthcare, rubbish collection, and transport services as efficiently as possible, assuming the cost would remain unchanged. Paul Jump, Third Sector online, 15 November 2007. www.thirdsector.co.uk, January 21, 2008.

Indeed, social enterprises are likely to work in any field of activity, with any type of workers. However, for the sake of clarity, two main groups can be distinguished. They correspond to the two main fields of activity traditionally carried out by social enterprises, namely the provision of social services and work integration. It should also be noted that more recently, social enterprises have expanded in other fields of interest.

1. Social enterprises providing social services. A significant number of social enterprises have been established to provide new services or to respond to groups of people whose needs were not met by public authorities or who were excluded from public benefits. Social enterprises of this kind are the most developed. They have become more prevalent, owing to the strong

links established with public agencies and thanks to the public funding from which they have benefited. Their development has been strong in all EU-15 countries. Box 3 provides some examples of social enterprises of this type.

2. Work integration social enterprises (WISEs). The main objective of these social enterprises is the work integration of people experiencing serious difficulties in the labour market or at risk of exclusion from the labour market and from society.³⁹

WISEs are found in all countries of the EU-15. The four main modes of integration used by EU-15 WISEs are:

Box 4. Examples of Work Integration Social Enterprises (WISEs) Classified According to the Type of Integration They Provide

Transitional employment	<ul style="list-style-type: none"> - Portugal and Belgium: on-the-job training enterprises offer their trainees the possibility to improve their personal, social and professional competencies. - Italy: type B social cooperatives are active in the field of work-integration of individuals in precarious situations (1991 legal framework).
Creation of permanent self-financed jobs	<ul style="list-style-type: none"> - France: long-term work integration social enterprises offer unemployed workers a long-term job in order to allow them to acquire social and professional autonomy and to thrive as 'economic actors' within an open management structure.
Professional integration with permanent subsidies	<ul style="list-style-type: none"> - Portugal, Sweden and Ireland: sheltered workshops. - Belgium: adapted work enterprises offer various productive activities to physically or mentally disabled people.
Socialisation through a productive activity	<ul style="list-style-type: none"> - France: centres for adaptation to working life do not aim to achieve a defined level of productivity, but to achieve the 're-socialization through work' of people with psychological and social problems. - Belgium: work integration social enterprises recruit people with serious social problems, with the aim of giving them a certain level of social and professional autonomy. One area of activity is that of salvaging and recycling waste. - Spain: occupational centres offer occupational therapy to people with a serious disability who, owing to this disadvantage, cannot find work in the open labour market.

³⁹ There are two main definitions of disadvantaged workers. The first is more specific and depends upon the socio-economic context. The second is more general; it refers to any person belonging to a category that has difficulty in entering the labour market without assistance. For more details, see the entry 'disadvantaged worker' in the Glossary (Appendix 1).

2.a. Transitional employment

The aim of WISEs implementing this mode of integration is to give their target group work experience (transitional employment) or on-the-job training, with a view to achieving the integration of disadvantaged workers in the open labour market.

2.b. Creation of permanent self-financed jobs

These WISEs aim to create jobs which are stable and economically sustainable in the medium term for people who are disadvantaged in the labour market. In the initial stage, public subsidies are granted to make up for the lack of productivity of the target group. These subsidies are often temporary, and they taper off until the workers become competitive in the mainstream labour market.

2.c. Professional integration with permanent subsidies

For the most disadvantaged groups, for whom integration in the open labour market would be difficult in the medium term, stable jobs that are permanently subsidized by public authorities are offered, in some cases in enterprises that are 'sheltered' from the open market. These WISEs employ mainly disabled workers, but also people with a severe 'social disadvantage'.

2.d. Socialization through a productive activity

The aim of the WISEs in this last category is not the professional integration of their workers in the open labour market (even though this possibility is not excluded) but rather the (re)socialization of the target groups through social contact, respect for rules, a more 'structured' lifestyle etc. The activity is thus 'semi-formal' in the sense that it is not governed by a real legal status or work contract. These WISEs mainly work with people with serious social problems (alcoholics, drug addicts, former convicts etc.) and people with a severe physical or mental disability.

It should be underlined that whereas the distinction between social enterprises providing social services and those active in the field of work integration is clear in most of the EU-15 countries (such as Italy, Spain and Portugal), in a number of countries, social enterprises can operate simultaneously in both fields. For example, French neighbourhood enterprises (*régies de quartier*) provide social services to the local community while integrating minimally qualified workers. It

is noteworthy that the overlapping of both activities represents an additional level of complexity in the supply of services.

3. *Social enterprises supplying goods and services with a high public value:* social enterprises have recently expanded in new fields of interest for the community. Moreover, the progressive conceptualization of social enterprises by academics has gone beyond welfare services by considering as socially entrepreneurial other services with a high public interest. Services supplied by social enterprises in this area include community and general interest services, such as transport, micro-credit, water supply, cultural development, recreation, urban regeneration, fair trade, management of protected sites and environmental activities. This development trend has been incorporated by UK and Italian legislation.

These initiatives are developing for instance in the United Kingdom, where Community Interest Companies can engage in any lawful trade, activity or enterprise, provided that profits and assets are used for the public good. Examples of activities in this field include social housing, community transport and leisure. In Ireland local development enterprises with various legal statuses provide a variety of services – transport, social housing, training and capacity building, environmental projects, culture and heritage activities – by relying on a high degree of voluntarism.⁴⁰

This latter sector of activity – goods and services with a high public value – appears to be of great interest for the target countries, especially as regards the provision of economic general interest services.

Social enterprise interaction with public agencies, for-profit enterprises and third sector organizations

Social enterprises are not isolated; they often have relationships with public agencies, for-profit enterprises and third sector organizations in a more or less stable way.

⁴⁰ O'Hara, 2001, p. 148.

As already discussed, many social enterprises were started independently by groups of citizens, with little or no public support. However, after some years of unregulated activity, given the quasi-public nature of the services they supplied, social enterprises were acknowledged to be of public interest. Nowadays, the state or local authorities often finance the activity of social enterprises; the subsidies granted often depend on the level of disadvantage of the beneficiaries. In some other cases, the development of social enterprises was prompted from the start by public policies.

Generally speaking, the development of social enterprises has stimulated the use of contracting-out procedures and has oriented public intervention towards the satisfaction of unmet needs, thus helping to reduce poverty and inequality. In the model now emerging in Western Europe, public administrations tend to assume a new role as regulators rather than providers, while social enterprises perform an increasingly important role in both the restructuring of welfare systems and the reform of labour markets. In parallel, social enterprises are also expanding into an increasing number of new fields.

Given their explicit social goals, social enterprises should be considered as welfare actors, and they should work in close contact with public agencies, with the ultimate goal of jointly developing social and development policies suited to the local context. Public policies should acknowledge this specific role of social enterprises and envisage adequate support measures, while avoiding opportunistic behaviours on the part of false social enterprises.

The relationship of social enterprises with the for-profit sector is increasingly important, although so far it has remained less developed. On the one hand, a large number of for-profit enterprises has turned into partial imitators of social enterprises and has begun to embrace the broader objective of maximizing the common welfare through the inclusion of distributive issues in their production activities. The adoption of corporate social responsibility criteria,

while implying an increase in costs, also favours a transfer of assets from shareholders to other stakeholders, such as workers, suppliers and the local community.⁴¹ As concerns small for-profit enterprises, their traditional ways of supporting the local community are now becoming more institutionalized and they are increasingly directing them toward social enterprise activities. On the other hand, as a growing number of social enterprises secure the necessary public resources for providing a service by participating in calls for tenders, they end up competing with for-profit enterprises.

Regarding the relations established by social enterprises with traditional third sector organizations, the most frequent type of relation is that linking a social enterprise with the third sector organization by which it has been set up. Strong mutual relations can also be noticed among social enterprises, for example within consortia and between consortia and other third sector organizations.

All forms of partnerships are increasingly important as a way to enhance social responsibility at the local level and contribute to channelling human, monetary, and non-monetary resources towards the pursuit of goals valued by the community.

The impact of social enterprise on social and economic development

The historical experience of advanced economies provides evidence of social enterprise's great potential to support economic development, both in general and at the local level. Social enterprises have been making an important contribution to economic dynamism and growth from various perspectives.

In environments characterized by poorly-functioning markets, they contribute to reducing market failures and to improving the welfare of people and communities,⁴² thus supporting economic development in general. Social entrepreneurial organizations are in fact designed to

⁴¹ Becchetti, 2005.

⁴² Hansmann, 1996.

manage transactions that are not efficiently managed by markets, be it from an economic or a social point of view.

Social enterprises also complement the supply of general interest services when public funding is lacking or not available, as they succeed in collecting additional resources – including voluntary work and donations – that would not otherwise be allocated to social and development issues. In short, social enterprises contribute to stronger social equity, to the advantage of the weakest stakeholders.

Social enterprises play, in various ways, a crucial role in generating jobs. In general, social enterprises develop new activities and create new employment in the sectors in which they often operate, i.e. social and community services that show a high employment potential. Moreover, they allow the employment of unoccupied workers, for instance women with children, who seek flexible jobs (part-time jobs, for example). Finally, work-integration social enterprises, as already mentioned, aim to integrate into the workforce disadvantaged workers with minimal chances of finding a job in traditional enterprises.

Beside contributing to national growth and income, social enterprises also have a direct influence on the management of local economic development, as they promote inclusive governance models that empower the local community in strategic decision-making.⁴³ Social enterprises backed by an enabling legal environment can contribute to taking economic activities with a social goal out of the informal economy. Finally, they help to foster social cohesion, enhance the level of trust within society and the economy, and contribute to the accumulation of social capital, which is embedded in a community. All these aspects are especially important for the target countries and confirm the importance of social enterprises as innovative agents of economic development.

1.5. Understanding the emergence of social enterprises

Despite country specifics, social enterprises represent a rising field of practice at the international level; however, this field remains understudied. A growing body of literature increasingly pictures social enterprises as a new form of entrepreneurship that can contribute to a new enterprise culture, but research on the role and rationale of social enterprises is still quite fragmented, with a great degree of confusion still existing between the concepts of social enterprise and social entrepreneurship (see the section on ‘Social entrepreneur, social entrepreneurship, social enterprise’ above).

From a demand perspective, social enterprises have been described as organizations capable of meeting an increasing and diversified demand for social and general interest services that neither public providers nor for-profit enterprises are able to provide. Theories on the demand side have mainly focused on a number of difficulties – such as information asymmetry problems⁴⁴ and government failure⁴⁵ – that can be more successfully addressed by non-profit organizations. A simple characterization of non-profit organizations has prevailed, which has conceptualized them as a marginal and deviant form of for-profit firms or public agencies, doomed to disappear as a result of technological progress and market competition.⁴⁶ Furthermore, this approach has not questioned the main assumptions of mainstream economics, including the existence of self-seeking agents, thus preventing a full explanation of the phenomenon on the supply side.

From a supply side, the emergence of social enterprises has been ascribed to a specific entrepreneurial behaviour. A more limited traditional approach pictures social enterprises as the output of religious groups, which can in this way advance their own beliefs.⁴⁷ But this approach only allows for the understanding of specific social enterprises – namely those that rely heavily on a strong religious background. In a wider

⁴³ Sugden and Wilson, 2000.

⁴⁴ Hansmann, 1996.

⁴⁵ Weisbrod, 1998.

⁴⁶ Hansmann, 1996.

⁴⁷ James, 1989.

perspective, social enterprises can be seen as resulting from the action of altruistic and ideological entrepreneurs.⁴⁸

Demand- and supply-side models have contributed to explaining the upsurge of certain typologies of non-profit organizations, but they have only partially explained the development of entrepreneurial organizations explicitly devoted to social goals. This limitation can be overcome in two ways.

The first approach to overcoming the limitations of demand-side and supply-side models draws on recent developments in economic analysis, which show that the premises of traditional economic theory are too restrictive; the second approach bridges the various theories so far developed on both the demand and supply sides, in order to conceive social enterprises as institutions characterized by specific features on both the demand and supply sides, which ultimately explain, under certain circumstances, their advantage over alternative architectures. Thus, in addition to social enterprise's correcting devices on the demand side, one should consider also some general aspects on the supply side. In this perspective, an initial step for the development of a theory explaining the existence of social enterprises is the consideration of a plurality of organizational objectives and actors' motivations. Accordingly, two main traditional assumptions of mainstream economic analysis ought to be challenged.

The first one is the assumption that all individuals are self-seeking. The assumption that behaviour is based on pure self-interest is challenged by a new and more complex conception, which also considers the existence of non self-interested motivations. Alternative theoretical approaches supported by recent experiments and a growing body of empirical evidence have demonstrated that assuming that individuals are self-seeking is not realistic.⁴⁹ Of particular interest are the findings of studies on the attitudes of entrepreneurs and workers employed in social enterprises, which demonstrate that worker satisfaction is also influenced by elements other than monetary rewards. Hence the crucial importance of the

motivational factor in defining the relation between the agent and the organization. Agents who are more highly motivated at the intrinsic and relational levels tend to be more satisfied.⁵⁰

The second traditional assumption that is challenged is the conception of the firm solely as a production function or as a cost-minimizing device. Recently the enterprise is increasingly being seen as a problem-solving device that is able to adapt to local conditions, given its embedded nature. In this respect, social enterprises are expected to show several comparative advantages over traditional enterprises, thanks to their natural capacity to re-embed the social dimension into the economic sphere, enhance relations and solidarity behaviours at the local level, and adapt values and operations to suit new demands.

The integration of different theoretical streams can contribute to the development of a more comprehensive theory of the enterprise, which can be especially useful in order to grasp the added value of social enterprises as compared with alternative institutional architectures, namely public agencies and for-profit enterprises, in the production of certain goods and services.

This aspect appears to be all the more important for countries that are characterized by pockets of poverty, rising unemployment rates among certain segments of society, and severe gaps in the delivery of general interest services. In such contexts, social enterprises emerge as new economic actors that can contribute to social and economic development at the local level.

To conclude, social enterprises, owing to their institutional features on both the supply and demand side of the provision of general interest services, allow for the overcoming of a number of obstacles that public agencies and for-profit providers fail to deal with, such as the inability of users to pay for services, and problems stemming from the asymmetry of information. Hence, under such circumstances, they turn out to be more efficient than for-profit and public organizations. In this light, public authorities are expected to compensate social enterprises, since

⁴⁸ Young, 1983; Rose-Ackerman, 1987.

⁴⁹ Fehr and Gächter, 2000; Fehr and Schmidt, 2001.

⁵⁰ Borzaga, 2000.

they internalize many externalities. There are two major arguments that justify the granting of fiscal advantages to social enterprises. First, unlike what is the case in traditional for-profit enterprises, social enterprises deserve financial compensation for working with disadvantaged groups, dealing with public service delivery, and generating new forms of employment. Secondly, advantages should be granted to social enterprises when they generate collective externalities. In both cases, social enterprises should benefit from fiscal exemptions on the non-distributed profits (this is a means to sustain social enterprise capitalization); and additional advantages should be granted and fiscal measures adopted with a view to reducing the cost of the activities supported.

1.6. Toward a working definition to map social enterprises in CEE and CIS countries

Since 1996 the EMES European Research Network has devoted itself to the definition of criteria to identify organizations likely to be called 'social enterprises' in each of the 15 countries that then formed the European Union. A set of criteria – both economic and social – have been identified to describe an 'ideal type' of social enterprise, i.e. a theoretical concept that does not necessarily correspond to concrete organizations but allows them to be analysed.

For the purpose of the present study, the original EMES definition was reshaped and a simplified theoretical definition was produced, which allows us to better grasp the internal dynamics of third sector organizations in the countries from the region and to analyse a variety of entrepreneurial organizations that pursue a social goal, including embryonic initiatives that are expected to evolve into social enterprises. The definition proposed is meant to encompass a number of institutionalised entities that deliver not only welfare services, but also services that satisfy the general interest, including *inter alia* water supply, public transport and electricity. Indeed, welfare and local development-related services are particularly important in the CEE and CIS countries, given the weakness of the role played by public

authorities, the strict budget constraints that the latter are facing, and the severe shortcomings that characterize public-service delivery.

1.6a A simplified definition of social enterprise

The simplified definition includes three economic and three social criteria, which are explained below.

Economic criteria:

An economic activity producing goods and/or selling services

Social enterprises are not engaged in advocacy work or in the redistribution of financial flows as a major goal. They are involved or tend to be involved in the production of goods or the provision of services on a continuous basis.

A degree of autonomy

People normally create social enterprises and govern them in the framework of an autonomous project. Accordingly, they may depend on public subsidies, when the services provided are in the interest of public authorities, but are normally not managed, directly or indirectly, by these public authorities or other organizations (federations, private firms etc.). Their owners have the rights of both 'voice' and 'exit' (the right to take their own positions and to terminate their activity).

A trend towards paid work

The activity can be carried out only by volunteers and it does not necessarily require the involvement of paid workers, provided that there is an organizational commitment to job creation. Organizations sharing most of the characteristics specified, albeit relying on voluntary work, are indeed considered as social enterprises in their initial stage of development.

Social criteria:

An explicit aim to benefit the community or a specific group of people

One of the main goals of social enterprises must be to serve the community or a specific group of people sharing needs that are recognized as being in the *public* interest, not that of certain individuals.

Decision-making power not based on capital ownership

Power is not exercised according to the number of capital shares one has. Decisions in governing bodies are shared, and a high degree of stakeholder participation is favoured. Customer and stakeholder interests are accounted for in decisions, and the management style is democratic.

Exclusion of profit-maximizing organizations

Social enterprises include not only organizations that refrain from distributing any profits, but also organizations that may distribute some portion of their profits.

Rather than constituting prescriptive criteria, the indicators above describe a 'virtual social enterprise' that enables researchers to position entities within the 'galaxy' of social enterprises. Without any normative perspective, they constitute a tool, somewhat analogous to a compass, that can help researchers locate the position of certain entities relative to one another, and which may enable researchers to establish the boundaries for organizations that they will consider to be social enterprises.

1.6b Using the concept of social enterprises in CEE and CIS countries

The EMES approach includes two additional elements, the first of which has been underlined above. These economic and social indicators can not only allow one to identify new social enterprises, but also classify older organizations that have been reshaped by new internal dynamics.

A second consideration is even more crucial: the indicators that have been just described do not suggest a set of conditions that an organization must meet to qualify as a social enterprise. Rather than constituting prescriptive criteria, these indicators describe an 'ideal-type' in Weber's terms, i.e. an abstract construction based on all major characteristics that may be found in social enterprises, although most social enterprises do not possess all these characteristics at the same time.

Such an ideal type enables researchers to position themselves within the 'galaxy' of social enterprises. It constitutes a tool, somewhat analogous to a compass⁵¹, which can help researchers locate the position of observed entities relative to one another and maybe establish the boundaries that define social enterprises.⁵² Given the goal of this study – to map social enterprises in CEE and CIS countries – attention is paid here to organizations that might have (to varying degrees) several characteristics in common with social enterprises, keeping in mind that, in many countries under study, the notion of social enterprise may not be used or even exist.

The term social enterprise encompasses the multiplicity of organizations that have an entrepreneurial orientation without pursuing profit for the owners as the ultimate goal. This definition embraces cooperatives, credit unions, and mutual-aid societies, which form an important part of the European legacy, including in the Central Eastern European countries that saw an important development of these organizations in the pre-communist time. Hence the key criteria for identifying social entrepreneurial organizations are the specific goals pursued and the assignment of ownership rights and control, rather than the 'non-distribution constraint'.⁵³

For illustrative purposes, a few examples of such categories of organizations are listed here:

⁵¹ Heading northeast or northwest is not better or worse than heading north.

⁵² For example, in the first identification phase of the research project called EMES, the members of the EMES European Research Network differentiated between a 'central' group of social enterprises and a more 'peripheral' group, around this ideal-type. For more information on this project, visit www.emes.net.

⁵³ The strict limits on the appropriation of the organization's surplus in the form of monetary gain by those who run and control it is still the profit distribution constraint. This is considered the principal characteristic that distinguishes non-profit organizations by a large part of the literature. Helmut Anheier and Avner Ben-Ner, *The Study of The Nonprofit Enterprise, Theories and Approaches*, Dordrecht: Kluwer, 2003, 5.

1. Voluntary organizations (linked to religious groups or not) that supply services (not necessarily on a continuous basis);
2. (Unregistered) citizen self-help groups that experiment with new, innovative modes of work and social integration, adapted to local potential and resources;
3. Public social entities (incubators) that experiment with new integration and local development strategies and that have become, or are considering evolving into social enterprises;
4. Cooperative organizations acting as community enterprises, locally embedded and devoted to the promotion of the interests of specific target groups or the community as a whole;
5. Other new forms of not-for-profit organizations engaged in public service provision and pursuing commercial activities in order to raise funds for those services;
6. Charities, foundations, open foundations or centres;
7. Associations or foundations that establish owned and controlled subsidiary commercial entities whose goal is to raise revenue for public benefit.

2. Social enterprise in CEE and CIS countries

2.1. Overview of the third sector in CEE and CIS countries

The third sector before socialism

Foundations, associations and cooperatives have a long-established history in Central, Eastern and Southeast Europe. They are not a 'product' of the regime transformations of 1989.⁵⁴ Mutual support within a wide range of activities, including production, consumption, credit and trade, developed in different spheres of public life long before the end of the 1980s. Their roots can be traced back to the Middle Ages. Voluntary and service organizations thrived throughout pre-World War II Europe, and have a rich and diverse history in all the countries of the region.⁵⁵ In Ukraine, for instance, the first recorded information about associations – the so-called *brotherhoods* – can be found in chronicles of 1134 and 1159, although their activity only became more visible in the 14th to 18th centuries, when brotherhoods were born and began to play an important role in the political and socio-cultural life of society.

At the end of the 19th century the system of cooperative societies spawned mass social movements, as it represented an effective mechanism to enhance the competitiveness of farmers, workers and craftsmen. Cooperatives performed an important role as economic and social institutions and were committed to dealing with the various social problems affecting local communities. The Czech Republic, for example, has had a sturdy voluntary and cooperative sector since the late 19th century, when it was still part of the Austro-Hungarian empire: cooperatives started emerging in the 1860s, especially after the enactment of the first cooperative law in 1873. The sector flowered during the 20 years of independence, between 1918 and 1938; it included farm-

ers' marketing cooperatives, consumer cooperatives, food processing cooperatives and many other types of cooperatives, including credit cooperatives, which were the most numerous. Czech credit cooperatives, based on the *Raiffeisen* model, numbered 7,500 in 1937 and were an important source of support to small farmers.

In pre-World War II Poland, foundations, associations and cooperatives augmented the government's provision of social, educational, and health services. In 1934, Poland had 22,700 cooperatives (savings and credit, consumer, housing and worker cooperatives).

In Bulgaria, after the establishment of the nation-state in 1878 and until the end of World War II, the most widespread forms of cooperation were: cooperatives in the agricultural sector; credit cooperatives; production cooperatives; consumer cooperatives;⁵⁶ *chitalishte* (a specific form of cultural association, which supported educational and cultural activities in local communities); foundations and associations (among these, women's associations became rather popular). Similarly, Slovenian society has a long and extensive tradition of associations, self-organized by different groups of people according to their respective interests.

In Serbia, cooperatives centred on collective farms and credit unions spread from the end of the 19th century. At that time, 995 cooperatives were members of regional associations. They engaged in organizing the production activity of farmers (both members and non-members), supplying tools and equipment, processing agricultural products, and selling them to domestic and foreign markets. The majority of agricultural cooperatives were organized in the form of credit and purchasing cooperatives. Nevertheless, specialized production cooperatives were also established to produce grain, dairy products, wine, fruit and apicultural products. These entities performed an important role in the processing and marketing of products, as well as in the purchase of agricultural equipment and supplies, while also dealing with a number of problems affecting the local communities at large. As

⁵⁴ Leś and Jeliaskova, 2005.

⁵⁵ Davis, 2004.

⁵⁶ Numbering 4,476 in 1941.

for philanthropic activities, they culminated in this country at the beginning of the 20th century.

Charitable organizations, voluntary associations of citizens aimed at meeting their various needs and interests, and cooperatives also flourished in Belarus, Russia and Ukraine, before the establishment of the USSR in 1917. It is noteworthy that in Russia religious organizations were a part of the state machine. The Russian Church was entitled to perform some public duties, such as civil registrations. In Ukraine, by the end of 1916, the number of associations reached 2,643. Associations built roads, schools and shelters, organized scientific research expeditions, published scientific books, established social funds for voluntary people, and operated kindergartens.

Tribal support and charity rendered by 'rulers' (*khans*) and wealthy people have deep historical roots in Kazakhstan; they date back to the 17th century. Many such 'community-based' groups provided social support to vulnerable groups (the elderly, the poor, etc.). The first cooperative initiatives appeared as fishing cartels in the 19th century, mainly in the Western part of Kazakhstan (on the Caspian Sea). As a part of the Russian empire, Kazakhstan also boasted several people who patronized the arts and pursued philanthropy.

The rich traditions of charity, cooperation and the solidarity principles of the pre-revolutionary period certainly represented a positive socio-cultural stimulus, which contributed to the renaissance of the third sector after the collapse of the communist regimes.

2.1a The third sector under socialism

The Soviet and post-World War II periods were very unfavourable for those institutions that had been founded on the principles of autonomy, solidarity, participation and mutuality. During these years, economic activity was characterized by varying degrees of informality.

Cooperatives became an instrument for transforming private property into socialist property

through the promotion of both a socialist consciousness and a socialist education. They became an integral part of the political system and the planned economy;⁵⁷ consequently, they were considered public enterprises. However, it should be noted that there were considerable differences from one country to another in terms of the extent of the communist interference. Foundations in Central and Eastern Europe were incorporated into the public infrastructure, while cooperatives and associations became part of the nationalized economy and were forced to play the role of quasi-public agencies. In this role, associations had to deliver a narrow range of services and cooperatives had to produce goods and services within the nationalized economy. In the late 1940s and early 1950s, third sector organizations were under strict political and administrative control. To a great extent, the functions of third sector organizations were taken over by the public sector and the majority of citizen organizations were dissolved. In Poland, credit unions and mutual aid societies disappeared during communist rule. Foundations were banned in 1952 and their assets confiscated and taken over by the state, and strict limitations were also imposed on associations. Those organizations that were allowed to exist and enjoy state support had a monopolistic position in the field.⁵⁸

After the communist takeover in 1948, all Czech voluntary and non-profit organizations were subsumed under an umbrella group called the National Front, which was controlled by the Communist Party and funded by the state. It is noteworthy, however, that control was never absolute and that some organizations actually managed to protect activities not altogether approved by the government. As for cooperatives, farmers were forced to join the unified agricultural producer cooperatives, and credit, insurance and urban consumer cooperatives were nationalized or abolished. Producer cooperatives, housing cooperatives and some of the rural consumer cooperatives lost their autonomy and became quasi-state-owned enterprises.

Southeast European countries also witnessed the nationalization or transformation of the third sector into quasi-state organizations, although the

⁵⁷ Münkner, 1998.

⁵⁸ Leś, 1994.

former Yugoslav communist regime did not go as far in this direction as those of most other East European countries, especially as concerns recreational activities and activities aiming to supplement state programmes. It is also noteworthy that in Slovenia the rise in the number of third sector organizations was most intense in the period between 1975 and 1985, and not in the 1990s, after the fall of communism. This demonstrates that, as early as the 1970s and 1980s, Slovenia had experienced some democratic changes with consequent changes of state policies towards third sector organizations. In Bulgaria, under the conditions of accelerated and forced industrialization and urbanization which characterized the country during the communist era, cooperatives became the main organizational structures for the development of agriculture. It can be said that in Bulgaria the communist regime preserved and enhanced the existing tradition to associate and cooperate, adjusting the various organizations to its own needs, while also keeping them under strict control.

In the Soviet Union, the Communist Party became the core of the political and state system. The USSR Constitution, defined the activities of all state and voluntary organizations (even religious ones, although those were separated from the state). Youth and children's organizations (*Komsomol* organizations, Pioneer organizations, *oktyabryata*) became the cradle for future communists, as they were specifically aimed at popularizing the communist ideology. Thus, the system of civic institutions – including trade unions, *komsomol* (youth organizations), cooperatives (collective farms, consumer societies, housing cooperatives) and scientific, cultural and educational institutions – was established and governed by the state.

Tendencies towards greater autonomy became stronger at the beginning of the 1980s in the whole region, including former Soviet Union countries, where informal associations were formed. In Belarus, for instance, the first true civil initiatives began to spring up in the late 1980s. They mainly aimed to regenerate a national consciousness by reviving the Belarusian language and culture. These new groups mainly advocated for the recognition of fundamental rights, which had been ignored by the Soviet regime.

2.1b The impact of early transition reforms on the third sector

The fall of communism and the subsequent political and economic transition have opened up unprecedented space for citizen action and new opportunities for third sector organizations. The development of the latter in transition countries can be considered a *renaissance* of diverse forms of citizen organizations.

However, at the outset of the transformation, mainstream policies resulted in most countries in a lack of political interest towards certain organizational models, in particular cooperative organizations, which had not received official recognition until then. Such a deficit in political attention resulted in the lack of a favourable legal framework, which in turn hampered the development of third sector organizations.

Despite this overall unfavourable legal environment, the growth of organizations such as associations has been impressive in the aftermath of communist rule. This can be attributed to the attention paid by donors and national governments to the relevant contribution that these organizations can make to the construction and the strengthening of democracy. By contrast, little regard has been given to the potential of productive third sector organizations as vehicles for economic development, be it at the local or national level. It is noteworthy that after the revolution of 1989, the discrediting of state and cooperative ownership contributed to the widely held belief that there was no alternative to privatization *via* traditional for-profit enterprises. As a result, an argument for privatization gained ground, causing the cooperative sector to undergo a decline in several countries (Czech Republic, Poland). This hostility towards cooperatives can also be traced back to the ambiguous role they played in the years between the establishment of the Soviet system and the first transition phase, when the first private profit-oriented enterprises were allowed under the 1988 cooperative law enacted in the Soviet Union. An additional factor that contributed to the bad reputation of cooperatives is the monopolistic position that cooperatives enjoyed under communism in some areas of the national economy.⁵⁹

The underestimation of the importance of organizations other than investor-owned ones was consistent with the mainstream thinking that portrayed the market and for-profit enterprises as the sole actors capable of rapidly filling the gap left by the withdrawal of direct state involvement in the economy.⁶⁰ In Poland, for example, the economic institutions of advanced capitalism (e.g. liberalization of the Polish currency and de-industrialisation policy) were introduced right at the beginning of the transformation.

However, capitalist institutions proved ill-adapted to the local economy⁶¹ and most transition countries were hit by a recession of unprecedented severity; these factors contributed to a change in orientation that reinforced the institutionalist perspective⁶² and paved the way for an increasing openness to solutions other than the state and the market. Interest in these issues has also increased recently within international institutions. In this regard, it is worth mentioning the recent EU communication *On the promotion of cooperative societies in Europe*, that recommends a greater focus on the new member states and candidate countries, where (despite extensive reforms) the instrument of cooperatives has not been fully exploited yet.⁶³

2.1c Political and legal recognition of the third sector in CEE and CIS countries

The degree of recognition and governmental commitment to support the development of the third sector and more specifically of social enterprises varies across the region.

New EU member states (Bulgaria, Czech Republic, Estonia, Lithuania, Poland and Slovenia)

It is worth noting that in the new EU member countries, third sector organizations have been legally and financially recognized. Some countries have enacted new laws well suited to legitimize social enterprises and third sector organizations. The development of the third sector in

Bulgaria, the Czech Republic, Estonia, Lithuania, Poland and Slovenia has been spurred both by grassroots activities and political pressures to conform with the basic standards of contemporary parliamentary democracy, as well as by institutional innovation undertaken by the communist regimes prior to the transformation process in non former Soviet Union countries. For example, Poland re-established foundations in 1984 – five years before the fall of communism.

The accession of these countries to the EU and the wider distribution of structural funds have contributed to the political recognition, upgrading and institutionalization of the third sector. A positive impact of EU accession on cooperative development can be seen in Slovenia for instance in the agricultural sector, where new small cooperatives have recently been set up. Nevertheless, as reported in the Czech case, the potential positive impact of EU structural funds on the third sector is limited because small locally rooted organizations are often discriminated against in public procurement procedures. The EU banking directive is an example of how EU policies often have ambiguous impacts. On the one hand, the EU banking directive has helped consolidate these countries' banking systems, allowing them to recover from the financial collapses of the late socialist/early transition period. On the other hand, the same directive is blamed for the destruction of a whole promising cooperative sector – credit unions – in the Czech Republic, owing to the unrealistic basic capital requirements.

The main legal forms to be found in the new member states are associations, foundations and cooperatives, plus a number of additional income-generating not-for-profit forms of organizations, which are not yet fully exploited. Associations and foundations are the most widespread forms of organization. Most of the countries under study also explicitly guarantee the right to form unregistered associations, consistently with the requirements of international law. Looking more specifically at different country experiences, in Bulgaria, the third sector has been legally and financially recognized, in a for-

⁵⁹ Leś and Jeliaskova, 2005.

⁶⁰ Smyth, 1998.

⁶¹ Leś and Jeliaskova, 2005.

⁶² Murrell, 2005.

⁶³ EU Commission, 2004.

mal way, to a degree similar to other sectors. Legal opportunities for the development of third sector organizations were available from the very beginning of transition. The institutional recognition under which third sector organizations are established evolved from the Law for Persons and Families to the more specialized legislation introduced by the Law on Legal Persons with Non-profit Purposes, introduced in 2003. The new law distinguishes public-benefit organizations from private-benefit organizations and introduces some requirements for public-benefit non-profit organizations (for example, registration and audit). The third sector as a whole is composed of non-governmental organizations (which include foundations, associations, religious organizations and *chitalishte*), cooperatives and informal self-help and neighbourhood groups. Recent legal reforms in the provision of social services (Social Assistance Act of 2003) have provided room for new partnerships to be established among state and local authorities and third sector organizations. The law on *chitalishte* from 1996 provided opportunities for tax exemptions for their main activity. Cooperatives are established under the Law on Cooperatives of 1996, whose framework is considered inadequate. Informally, there is pressure for some changes in the law for NGOs to increase their economic freedom. However, due to the underdeveloped networking capacity of these organizations, such attempts have only been supported by small groups of organizations.

The organizations that make up the third sector in the Czech Republic are associations, cooperatives, public benefit companies and grant-making foundations. This country underwent an idealistic period right after the revolution. In 1997, the total number of associations was 33,566, with 23,811 local or regional branches and groups. In 2003, this had grown to 43,804, with 30,878 local groups.⁶⁴ The creation of associations (*občanské sdružení*) and foundations (*nadace*) was stimulated by the law on citizens' associations (Law 83/1990), which replaced the previous law, in force before the transition. As a unique case among the post-communist countries, in this period an advisory government body was also founded to coordinate policies towards the country's

third sector (*Rada pro nadace*) and a Foundation Investment Fund was created (*Nadacni investicni fond*), which later channelled a fraction of the government's earnings from the privatization of public assets into Czech foundations.

The main organizations in Estonia and Lithuania are associations and societal organizations, charities and foundations, and cooperatives. In Lithuania the third sector has been legally recognized, but improvements have to be made from a financial perspective, as the third sector continues to be financially deprived. Furthermore, complicated by-law regulations prevent third sector organizations from enhancing their entrepreneurial orientation and sustainability. It is also noteworthy that the law on social enterprise which was approved recently contemplates the transformation of workshops for disabled people from the Soviet era into social enterprises. This is a restrictive interpretation of social enterprises if compared to the concept of social enterprise recently developed in Western Europe.

Estonia's parliament approved the 'Concept of Development of Estonian Civil Society' (EKAK), which defines the complementary roles of public authorities and civil initiatives, the principles of their cooperation and the mechanisms and priorities for cooperation in shaping and implementing public policies and promoting civil society. Housing cooperatives constitute one of the main institutional forms of the Estonian third sector: An impressive 60 percent of the population live in cooperative housing.

In Poland, the third sector consists of a multiplicity of organizations, including foundations and associations, social cooperatives, vocational enterprises for disabled people, social integration centres and clubs. The development of third sector organizations has been made possible by domestic factors, including a conducive political environment; freedom of association and expression; basic legislation on foundations and associations and on social employment; legislation on social rehabilitation, employment of disabled people, employment promotion and labour-market institutions; and external factors (the introduction of a culture of 'associative life'; profes-

⁶⁴ It should be noted, though, that these figures might overestimate the reality, as associations are not required to inform the registry when they disband. Moreover, these figures include trade unions.

sionalization; financial support; local, national and European financial incentives; and sponsored development of citizen organizations).

Even though cooperatives are legally sanctioned, private institutes, funds and associations still constitute the bulk of third sector organizations in Slovenia. As already noted, the rise in the number of third sector organizations in this country was most pronounced in the period between 1975 and 1985, and not in the 1990s, after the change of the political system. This increase was due to the fact that the only way to establish a private company prior to 1990 was to found a third-sector entity. In contrast to other transition countries, the achievement of independence in 1991 did not bring about a mass emergence of new third sector organizations in Slovenia. The new Constitution and new Societies Act of 1974 marked the beginning of a new era in the development of the third sector in that country. However, third sector organizations remained small and restricted in their numbers, owing to a lack of financial support from the state. In that same period, self-support groups, groups for mutual help and alternative groups developed in those areas where the state was not present. Characteristically, new social movements in Slovenia were not mass-based.

The Balkan countries (Macedonia and Serbia)

In the two Balkan countries under study – Macedonia and Serbia – the third sector first developed within the legal frameworks inherited from communism, which have remained in force until recently. A major contribution to the sector's emergence was provided by international actors. In Macedonia, the expansion of citizens' associations started in the early 1990s. The movement experienced a second wave of development as a result of the refugee crisis of 1999. Owing to the high rate of unemployment (37 percent), the creation of employment opportunities ranks high on the agenda of third sector organizations, whose activities focus on programmes for business start-ups and vocational training particularly addressed to disadvantaged groups. Macedonian third-sector development was spurred by international donors and continues to be for the most part foreign-funded.

Box 5. Macedonia: Humanitarian and Philanthropic Association of Roma (Mesecina)

Mesecina is one of the oldest organizations in the country; it has been operating in the city of Gostivar (upper Polog region, in the western part of the country) for more than a decade. Most of its work focuses on the improvement of the socio-economic status of the marginalized Roma community and its better integration. From 2000 to 2003, Mesecina has been running the project 'We are for Education too'. The project is supported by a local donor, the Macedonian Centre for International Cooperation (MCIC), through cooperation with Danish Church Aid. It operates in two strands for two distinct target groups: children and young adults. Its goals are to facilitate the inclusion of Roma children in primary schools, and to provide vocational training opportunities to Roma youth. Both strands are run through close cooperation with local stakeholders, i.e. schools, local government, business and parents. In particular, linkages between the school and the teacher, on the one side, and the parents, on the other side, are fostered and representatives of the Roma community are appointed to the school board. About 100 Roma children took part in the project during its three-year duration and 30 young Roma without any formal qualifications were offered vocational opportunities either with local industries, or with artisans and service providers.

Overall, the third sector in Macedonia is under-regulated; the normative frame consists of one single piece of legislation, namely the Law on Citizens' Associations and Foundations of June 1998,⁶⁵ which replaced the previous law on social organizations and associations of citizens, which dated back to the communist period. The law is currently up for amendment, with the aim of establishing a clearer distinction between public benefit and mutual benefit as a prerequisite for obtaining government funding. In 2002, a Law on Cooperatives was also enacted in order to create better conditions for organizations of people

⁶⁵ Three forms of associations can be registered: associations of citizens; associations of foreign citizens (who have permanent residence or temporary residence of over one year in the country), with prior consent of the Foreign Ministry; and branches of foreign organizations, with prior consent of the Foreign Ministry.

associating with one another for economic purposes. Apart from about 20 to 30 big local organizations, the third sector is primarily composed of small organizations, which usually do not have the capacity to go beyond the local level and rarely have more than a few paid staff. Most of the active organizations are professional groups, which compete for donor funding and do not have a membership base.

As for Serbia, despite the lack of a democratic environment and favourable legal conditions, a great number of third sector organizations emerged, thanks to US and EU donors. This newly emerging sector created the foundations for social change and contributed to the political changes of October 2000. In the absence of reliable statistics about third sector organizations, two segments of social organizations can be identified: self-help groups (refugee groups, women's self-help groups, minority self-help groups) and religious groups, on the one hand, and cooperatives (farmers' cooperatives, ecological cooperatives, women's cooperatives and minority-group cooperatives), on the other hand. Besides playing an advocacy role, the third sector also provides services to the most vulnerable and at-risk groups. In both Bulgaria and Serbia, religion appears to be an important driving force for the development of those third sector organizations that are mainly engaged in social service delivery.

Former Soviet Union countries (Belarus, Kazakhstan, Russia and Ukraine)

Legislation on social and voluntary organizations in the CIS was introduced soon after the collapse of the USSR. Nearly all governments in this sub-region passed their own, albeit similar, laws on public association. In Ukraine the Law on Unions of Citizens came into force right after the country proclaimed independence in 1991. In Belarus, the Law on Public Associations was enacted in 1994 and in Russia, in 1995. However, a low degree of independence from the state can still be observed. In particular, despite the rapid growth of the third sector, government mistrust of citizens' action and a lack of government transparency still persist in the CIS.

Belarus provides the most negative example of governmental mistrust towards third sector organizations. Third-sector numerical growth accelerated after the introduction of the new law on associations in 1994: the total number of registered organizations increased during this year to 784 and peaked at 2,433 before mandatory re-registration was announced in early 1999.⁶⁶ Nevertheless, this trend was followed by stagnation and decline; this decline was accelerated by government intervention and public control over the third sector, which is increasing over time and evolving towards the limitation and even suppression of the third sector. Among the legal pressures on the third sector, one should mention the ban on the operation of public associations without state registration; the permission-based procedure for receiving and using foreign financial aid (although the procedure is referred to as 'registration of a grant'), the complicated, resource-consuming (in terms of time, effort and money) procedure of registration and the control over activities of any public association. As a result of all these legal and political restrictions, the development of third sector organizations in Belarus has so far been modest compared to other neighbouring countries. Interestingly, a new type of not-for-profit organization has recently been introduced in Belarus: the 'republican governmental public association', which may be considered as an attempt to control the activity of citizens' organizations and limit their autonomy. Not surprisingly, this type of organization (whose tasks are defined by the state) enjoys favourable treatment, in terms of administrative and financial support, from the government.

In Kazakhstan, following the legal recognition of citizens' associations, third sector organizations have been growing rapidly. In 1989, the Kazakhstan Supreme Soviet issued a decree 'On the Formation Procedure and Operations of Public Associations', and in 1991 the Law 'On Public Associations in the Kazakh SSR' was promulgated. In the first period of development (from the end of the 1980s until 1994), 400 organizations (mainly engaged in human rights protection) were established, according to national and international experts. The second period (from

⁶⁶ Kuzmenkova et al., 2004, p. 56.

1994 to 1997) was one of qualitative and quantitative growth of third sector organizations (the number of NGOs increased fourfold), mainly as a result of major financial support by international donor organizations in the form of grants. The third period (from 1998 up to now) is a qualitatively new stage, in which interaction mechanisms between the government and third sector organizations have become a subject of serious discussion.

Following the enactment in Russia of the Federal Law 'On Non-profit Organizations' in 1995, the third sector has increased its presence in the social, political and economic spheres of the country. However, unfavourable conditions for the development of civil society and several restrictions still continue to jeopardize the development of the third sector and the full exploitation of its potential. In particular, recent legal changes aimed at increasing transparency introduced demanding and time-consuming reporting requirements that result in new forms of governmental control on the activity carried out by third sector organizations. According to the Russian Federation's Civil Code, non-commercial organizations can be created in the form of consumer cooperatives, public and religious organizations, foundations, establishments and associations of legal persons.⁶⁷

A similar classification has been introduced by the Belarusian Civil Code. Worth emphasizing is the explicit reference made by the Russian and Belarusian legislation to religious organizations, whose number is increasing and whose prestige and influence on Russian and Belarusian societies is growing.

The number of third sector organizations is also growing in Ukraine, where 4,000 to 5,000 new associations (voluntary associations) of citizens are registered annually. Nevertheless, it has to be underlined that most of them are created with the hope of obtaining funding for their activities through grants or charitable donations from foreign sources. An example of the discrimination against not-for-profit organizations in Ukraine is provided by the registration process required for the 'unions of citizens', which is more regulated

and time-consuming than the registration prescribed for for-profit enterprises. However, it should be underlined that the process of registration of organizations in Ukraine has recently been simplified by the New Law on State Registration of Legal Entities and Individual Entrepreneurs (2003). After the Orange Revolution, the third sector started enjoying more freedom and facing less harassment and limitations on its activity.

2.1d Size of the third sector in CEE and CIS countries

John Hopkins University and CIVICUS made some progress in assessing the true size of the social enterprise sector, but this is a very difficult task, for a number of reasons, namely:

Time-consuming and complex registration procedures encourage many organizations to operate without registering. This is the case in the CIS countries, where a considerable number of grassroots organizations operate informally. In the case of Belarus, according to expert opinion, the number of unregistered organizations is equal to that of registered ones;

Difficulties in closing an organization, which in a number of countries is far more complicated than registering one. In Macedonia, out of the 5,500 organizations registered, approximately 5 percent are thought to be active. In Ukraine, once an organization is registered, its dissolution is next to impossible, leading to an ever-increasing number of registered organizations that are inactive. Out of the 28,703 third sector organizations registered in this country, it is estimated that only 10 to 15 percent actually operate. In the case of the Czech Republic, associations are not required to inform the authorities when they disband. All this inevitably leads to an overestimation of the size of the sector;

The lack of data regarding the third sector's share of GDP, the number of workers and volunteers employed in such organizations;

⁶⁷ Civil Code RF, Part I, Sec. I, Sub-sec. 2, Ch. 4, paragraph 5.

Table 2 - Size of the Third Sector in New EU Member States ⁶⁸

Country	Types of organization	Number of organizations
Bulgaria	Foundations and associations	22,000
	Cooperatives	7,000
	Total	29,000
Czech Republic	Associations	54,964
	Cooperatives	1,831 ⁶⁹
	Public Benefit Companies	1,158
	Total	56,852
Estonia	Associations and societal organizations	12,000
	Consumer/agricultural cooperatives	200
	Housing cooperatives/associations	8,000
	Total	20,200
Poland	Associations and foundations	78,228
	Cooperatives	10,585
	Social integration centres and clubs	135
	Social cooperatives	107
	Cooperatives for disabled people	350
	Vocational centres for disabled people	30
	Total	83,465
Slovenia	Non-profit societies and associations	20,000
	Companies for disabled people	150
	Cooperatives	988
	Private not-for-profit institutes	534
	Total	21,672

Table 3 - Size of the Third Sector in Balkan Countries

Country	Types of organization	Number of organizations
Macedonia	Associations and foundations	5,500
	Cooperatives	N/A
	Total	5,500
Serbia	Social and citizens' organizations ⁷⁰ (of which: NGOs: 3,000; self-help and religious groups: 300 to 400)	24,000
	Cooperatives ⁷¹	2,800
	Total	26,800

⁶⁸ Statistics on the size of the Third Sector in Lithuania are unavailable.

⁶⁹ Of which: 755 housing cooperatives; 62 consumer cooperatives; 303 producer cooperatives; 33 credit cooperatives; 678 agricultural cooperatives (Czech Cooperative Association, 2004).

⁷⁰ Official statistics identify about 24,000 social and citizen organizations, of which the majority are sports clubs, cultural and artistic organizations, humanitarian and charity associations, and professional organizations.

⁷¹ There are over 2,800 cooperatives in Serbia registered at the Agency for Business Registers. About 600 of them are estimated to still exist.

Table 4 - Size of the Third Sector in the CIS

Country	Types of organization	Number of organizations
Belarus	Local public associations	1,245
	Nationwide and international associations	969
	Cooperatives	N/A
	Total	2,214
Kazakhstan	Self-help groups (unregistered)	NA
	Active NGOs ⁷²	2,000
	Cooperatives ⁷³	7,491
	Vocational enterprises for disabled people	NA
Total	9,491	
Russia	Public organizations	80,494
	Religious organizations	21,664
	Cooperatives	N/A
	Total	102,158
Ukraine ⁷⁴	Unions of citizens	21,276
	Charity organizations	7,427
	Cooperatives	N/A
	Total	28,703

The *unavailability of reliable statistical data or complete statistics*, especially in the CIS countries and Balkans (owing to still unreformed social statistics), but also in the new EU member countries. In numerous cases, statistics on third sector organizations also include trade unions (this is for example the case in the Czech Republic) and/or are very incomplete (as in Slovenia).

2.1e Description of the structure and dynamics of unemployment in the region

From 1945 to 1989 unemployment was an unknown phenomenon in the region.⁷⁵ Registered unemployment did not exist and most analysts pointed instead to a shortage of labour. But since the transition, the labour market has undergone

many dramatic changes. In transition countries the processes of privatization, economic recession, restructuring of national economies and rapid deindustrialization, coupled with changes in agriculture triggered a decline in the number of employees in the national economy. During the transformation period, unemployment became a recognized phenomenon in the region; it now stands at a very high rate in most of the countries under consideration, even though it must be stressed that, in many transition countries, the registered unemployment rates still understate the real, actual level of joblessness. Indeed, in some countries of the region, such as Poland and Serbia, there is a significant level of hidden unemployment and quite a large informal sector.

In recent years, the common characteristics of the labour markets in CEE, SEE and the CIS have included:

⁷² Some 32 percent of registered NGOs are located in Almaty, the ex-capital city.

⁷³ Including agricultural cooperatives, water-users' societies, apartment owners' societies and consumer cooperatives.

⁷⁴ As of 1 January 2006.

⁷⁵ This does not include the former Yugoslavia, where high unemployment has caused numerous Yugoslavs to emigrate, particularly from the poorest regions (Macedonia, South Serbia, Kosovo, Sanjak).

Table 5 - Unemployment Rates in Bulgaria, the Czech Republic, Poland and Serbia (1995-2004)

	1995	2000	2002	2004
Bulgaria	15.7	16.4	18.1	12
Czech Republic	4.1	8.7	7.3	8.3
Poland	14.9	15.1	20.0	18.8
Serbia	10.7	9.5	11.1	N/A

1. an increase in unemployment to levels now exceeding those in EU and OECD countries;
2. a high level of long-term unemployment;
3. a high incidence of youth unemployment and low levels of youth participation;
4. high unemployment among poorly educated people (i.e. those with at most primary or secondary education);
5. growing regional disparities in unemployment.

The resumption of economic growth in some of the countries of the region has not generated employment. In some countries employment started to grow only in 2003, and moreover this growth has been slow. In other countries of the region, such as Poland, joblessness is still increasing.

The Czech Republic ranks among advanced transition economies with a low level of unemployment, while Poland's and Macedonia's unemployment rates are much above the average for transition economies.

In Bulgaria, after 2003, numerous employment generation measures were implemented, and the unemployment rate decreased from 18 percent in 2002 to 10.1 percent in 2005. This is close to the EU average of 8.7 percent, but long-term unemployment remains a major problem, as it accounts for more than half (55.9 percent) of total

unemployment. The incidence of long-term unemployment is particularly high among poorly educated and poorly qualified people. Another problem in Bulgaria is the very low wage levels and salaries that accompany this decrease of unemployment and economic growth.

To generate new employment in transition economies, the development of labour-intensive activities is needed. third sector organizations and social enterprises, in particular, have a role to play in promoting new employment in the fields where they have a comparative advantage. third sector organizations and social enterprises perform significant functions in the labour market, activating the unemployed and reintegrating low-skilled groups by:

- reducing the duration of unemployment through the generation of new temporary and permanent jobs within social enterprises
- expanding the share of social-enterprise activities
- sustaining the level of employment in social enterprises
- addressing the specific problems of youth, women and poorly educated people

Box 6. The evolution of unemployment: The case of Poland

During the period 1990-2002, the Polish labour market was characterized by a high level of unemployment and low outflows from work inactivity, except during the years 1994-1997. The following reasons account for the massive upsurge of unemployment in Poland:

- Decreasing economic growth rates that constricted the numbers of new job openings;
- An over-supply of labour due to an influx of school graduates;
- Rigid labour laws impeding negotiations between employers and employees;
- A decreasing number of government labour-market programmes, due to cuts in the public budget and the Labour Fund.

Since 2005, the Polish labour market has seen employment increase and unemployment decrease. The unemployment rate dropped from over 18 percent in 2003 to 13 percent in 2007. The reasons are threefold:

- 1) The opening of some European labour markets, which has given the opportunity to 1 million people to find a job abroad;
- 2) The generation of over 1 million new jobs in Poland;
- 3) The increase in financial support for active labour market policies (ALMPs), whose potential beneficiaries make up some 20 percent of the unemployed (over 250,000 unemployed persons found employment in 2005 and 2006).

Nevertheless, in some regions, the unemployment rate still reaches 40 percent and, according to some research (U. Sztanderska, 2007), there are high discrepancies between labour skill endowments and the needs of the market. Among the unemployed, only 15 percent remain entitled to retain the right to unemployment benefits. The Polish unemployed fall into two main categories:

- a) Long-term unemployed;
- b) Unemployed with a long record of unstable employment.

Among those particularly hit by unemployment are young women (over 700,000 women have negligible work experience or less) and people over 50 years of age, whose labour activity rate is among the lowest in the whole EU (it stands at 25 percent). According to some Polish analysts, the implementation of the European Social Fund (2004-2006) has not yet yielded significant results (J. Tyrowicz, P. Wojcik, 2007). However, local labour markets still have untapped potential, embodied in the high number of young people ready to pursue further education and accept flexible working hours. Furthermore increased tourism represents a great employment opportunity for many in some areas.

Still, the rate of employment and the proportion of unemployment (11 percent in 2007), including long-term unemployment, are much higher in Poland than in most OECD countries. According to experts, unemployment in Poland has the following three features:

- Unemployment rates vary greatly depending on location: By the end of 2004, the total unemployment rate ranged from 15 percent in Mazovian voivodship (former Warsaw region) to 28.7 percent in the Mazury and Warmia regions;
- A high share of young people amongst the unemployed: 26 percent of unemployed people are under 24;
- A high rate of long-unemployed people: more than half of all those without work are long-term unemployed. Indeed, among the unemployed, 51.2 percent have had no job for more than 12 months.

Also worth noting is that a substantial part of Polish unemployment is located in rural areas: almost 42 percent of unemployed people live in rural areas. Another feature of Polish unemployment is the prevalence of women among the jobless: As of 2003, 51.5 percent of the unemployed were women. Finally, another alarming phenomenon is the extremely high level of redundant workers between the ages of 55 and 64. This is particularly true for women.

2.1f The integration of disadvantaged workers: the legacy of communism

Communism has left a contradictory legacy as concerns third sector organizations and social enterprises. Mistrust of cooperatives and networks, coupled with suspicion towards the volunteer ethos, are certainly negative legacies. But one should not overlook the ideal of equity and solidarity in rural areas and the survival of companies for the disabled. This constitutes a positive legacy from Soviet times. Companies for the disabled were indeed the organizations closest to the concept of social enterprise before the beginning of the transition period. During the Communist time, they were an important mechanism for integrating the disabled population into work and society. They provided sheltered labour for disabled people in specific subsidized factories (for example, in the suitcase industry, tailoring and shoemaking). They benefited from a state-guaranteed market – based on a monopoly of production – and from the relative autonomy they enjoyed in their economic activities. Different groups of disabled people had different specializations and monopolies in the production of different goods. (For example, in Bulgaria the cooperatives of the Union of the Deaf specialized in the production of goods for the healthcare field, while those of the Union of the Blind were active in the plug industry). In nationalized economies, cooperatives for the disabled were an integral part of the planned economic system.

These organizations continue to operate in all the countries under study. Compared to other third sector organizations, they are subject to fewer limits on the development of productive activities.

In Poland, between 1945 and 1989, the cooperatives for the disabled and, since the 1970s, cooperative sheltered enterprises (*spółdzielcze chronione zakłady pracy*), have been the main mechanism for the rehabilitation and integration of the disabled population into the workforce and society (this has been called ‘the Polish model of rehabilitation of the disabled’). Cooperatives for the disabled have employed specific disability

groups that are incapable of performing their previous employment (including blind and deaf people) and other categories of the disabled that are unable to hold regular employment owing to permanent or protracted health problems. Under the nationalized economy, cooperatives for the disabled were an integral part of the planned economy and were incorporated into national economic policies. Their economic activity was subjected to central and regional economic plans.

As a result, during the 1940s and 1950s, cooperatives were heavily taxed and subjected to economic plans imposed from above. In the 1970s, the economic and fiscal policies regulating the activity of cooperatives for the disabled were liberalized and the cooperatives obtained several privileges, such as tax exemptions on turnover tax and property tax, while still benefiting from monopolies in some branches/niches of production. In the 1970s, out of a total of 800,000 disabled persons employed in various forms of employment, over 200,000 were employed in the cooperatives for the disabled. The remaining 600,000 worked in regular establishments or performed cottage work⁷⁶ if they were unable to undertake any outside employment. The number of disabled employees in cooperatives for the disabled decreased in the 1980s to some 160,000.

Currently in Poland efforts to boost the employment of the disabled are based on two pillars: 1) supporting employment of the disabled on the open labour market by setting up *de facto* sheltered employment in regular enterprises; 2) developing various forms of sheltered employment, both transitional (vocational enterprises for the disabled, workshop therapy) and permanent (sheltered employment in regular enterprises and cooperatives for the disabled). In 2001, one quarter of sheltered enterprises were cooperatives for the disabled; the rest were different types of for-profit companies. Between 1989 and 2005, the number of cooperatives for the disabled declined from some 550 to 350 and the number of employees from 160,000 to 30,000. The funding policy is based on direct (subsidies and donations) and indirect public support (tax deductions and exemptions from corporate

⁷⁶ A cottage industry is an industry in which the production of goods takes place at the home of the producer.

income tax). Sheltered enterprises transfer 10 percent of the obligatory taxes to the 'Public Fund for the Rehabilitation of the Handicapped', while the remaining 90 percent finances the enterprise rehabilitation fund. Since 2004 the system based on deductions and exemptions has become one based on a subsidy for each disabled person employed. The Public Fund for the Rehabilitation of the Handicapped, which provides support in the form of subventions and donations, is the main source of public funding of sheltered enterprises in their various forms. The extent of support available depends on the kind of sheltered enterprise: vocational enterprises for the disabled are exempted from most taxes, including property taxes, while cooperatives for the disabled are reimbursed for social security payments and the wages of the disabled employees are co-financed by the Public Fund for Rehabilitation of the Handicapped.

In Slovenia the so-called companies for the disabled are regulated by the Law on Employment Rehabilitation and Employment of the Disabled. These organizations aim to create new jobs for people with disabilities. They were first developed before 1976, as workshops for people with disabilities. In 1988 they were transformed into companies for the disabled. Today there are over 150 companies for the disabled in Slovenia, evenly distributed throughout the country, and they employ some 13,000 people, of whom about half (6,200) are invalids. These organizations operate on the open market and perform productive and service activities. The companies for the disabled are exempt from paying taxes on salaries, and they also get monthly subsidies for the salary of each disabled person employed. They are nevertheless mostly funded through their business activity.

It is worth noting that in the Czech Republic several producer cooperatives have started to employ disabled people. They call themselves social cooperatives (*socialni druzstva*), as they have a specific ethical clause in their memoranda of association specifying that they aim to integrate disabled people.

In Serbia, a well-organized segment of self-help organizations, focused on the integration of disabled people, was established in the 1970s under socialism. During the transition, many of these organizations started to upgrade their internal

capabilities and provide more extensive services, such as self-employment programmes designed to strengthen entrepreneurial activities and other programmes aiming to integrate people with mental or social problems into active life. Foreign donors and, more generally, the international community have been the main promoters and financial supporters of a new emerging system in which public institutions, professional bodies and self-help groups of disabled people have started to cooperate in joint programmes. For instance, Handicap International cooperated with the government (in particular with the Ministry of Labour, Employment and Social Affairs) and other donors to develop the necessary conditions – policies, laws, capacities, programmes, infrastructures, institutions – for contributing to the work-integration of disadvantaged people. However, crucial problems remain: financial shortages of governmental bodies, misunderstandings, confusion and a lack of confidence in the professional competence of self-help groups.

Labour niches for the unemployed and poor people are also provided by the remaining Bulgarian cooperatives for the disabled. The insufficient support provided by the state in the first decade of transition has weakened these organizations, although it is worth noting that they are currently undergoing some kind of stabilization. Specialized enterprises for the disabled can be established in Bulgaria under various organizational forms – companies, NGOs, cooperatives, municipal enterprises etc. – and they are allowed to produce for the market. According to the Law for the Integration of People with Injuries, which does not differentiate among different organizational forms, exemption from the profits tax can be granted, depending on the share of disabled workers among the employees. A more favourable regime for such enterprises is provided by the Law for Public Orders, as well as tax concessions for disabled individuals. The different unions of the disabled have established various enterprises and cooperatives.

A core of several strong and very active organizations of disabled people are also present in Macedonia, where they strenuously advocate the inclusion of disabled people in all spheres of public life.

The most influential national associations of disabled people that existed under the Soviet

regime are still active in Ukraine and have a number of branches throughout the country. Their subsidiary enterprises have a special legal and tax status and continue to receive regular funding from the government for the professional and social rehabilitation of the disabled.

In Belarus, most public associations for the disabled (for example the Belarusian Society of Disabled People, the Belarusian Society of the Deaf, the Belarusian Society of the Disabled by Sight) were created during Soviet times and continue to receive governmental support. However, if the activity of associations of disabled people goes beyond the scope of the politically approved activity and support of the disabled, it is subjected to the same sanctions applied to any other public association.

The largest associations of disabled people manage their own manufacturing firms and can provide jobs, training and re-training to the disabled. Over 150 firms of this kind provide over 8,000 jobs for disabled people with mobility, sight or hearing disabilities. The public associations which own such firms receive tax benefits. A fraction of tax revenue is allocated to the development and strengthening of the material and technical resource base of these organizations as well as to meeting the social needs of the disabled. The outputs of the manufacturing firms of the disabled are sold as consumer products.

In Kazakhstan vocational enterprises for the disabled (VEHs) are still the only job providers for disabled people. VEHs mainly carry out productive activities, such as manufacturing work clothes or simple domestic electrical appliances. They are considered as ordinary business structures, enjoy very modest tax privileges and have seen a substantial decline in governmental support since independence.

In most countries of the region, it is worth noticing that work integration by the social enterprises inherited from Communist times is very narrowly defined. Work integration is in most cases confined to sheltered employment and tends to ignore the three other goals pursued by work integration social enterprises in the EU-15 – namely transitional occupation, creation of permanent self-financed jobs, and socialization through productive activities. In addition, work integration social enterprises operating in most

CEE and CIS countries tend to use an extremely narrow definition of disadvantaged workers, which is confined to disabled workers.

2.2. Review of the social enterprise phenomenon in CEE and CIS countries

Permissibility of economic activity for associations, foundations and other non-profit organizations in CEE and CIS countries

The degree of permissibility of economic activity by non-profit organizations is of utmost importance for the development of social enterprises.

In Poland associations and foundations are allowed to conduct economic activity provided that the income generated by this economic activity is used entirely to perform the organization's mission; it cannot be divided among members or founders. Thus, in the case of associations and foundations, economic activity is perceived as additional to the institutional activity, which means that the economic activity cannot be the purpose motivating the creation of a voluntary organization; it can only serve to generate income for the organization's mission. In the case of social cooperatives, at least 40 percent of any surplus has to be allocated to the common fund. In the case of vocational enterprises for the disabled, profit from economic activity is transferred to the enterprise's activity fund. The existing taxation system does not provide any tax incentives based on the legal form of association or foundation, except for public-benefit organizations. Tax incentives are related to the activities carried out (including charitable work and education) rather than to the legal form of the organization. Associations and foundations mainly rely on public resources; their second most important source of income is market resources, and the third one is corporate giving.

In the Czech Republic, whereas it is strictly prohibited for foundations to engage in business activities,⁷⁷ associations are allowed to carry out economic activities, according to their statutes,

but they normally do not produce goods and services for the market. If they do, they tend to offer services free or for a very modest charge. More specifically, associations and public benefit companies (PBCs) are allowed to conduct economic activities if these are named in their statutes (articles of association). These activities are expected to be 'of public benefit' and thus theoretically qualifying for a tax rebate. Typical services carried out by Czech associations are for instance shelters for the homeless and drop-in centres for young people, which are mainly funded through public resources.⁷⁸ It is worth noting that Czech law fails to define the activities that associations are allowed to engage in, thus leading to a lack of transparency. Moreover, the absence of an overarching definition of 'activities of public benefit' has contributed to a lack of clarity on the tax rules to be applied. Tax rules define the activities that are eligible for tax exemptions, but they fail to take notice of whether the said activity is practiced on a for-profit or a not-for-profit basis – hence the uncertainty experienced by third sector organizations regarding their tax liabilities and rights. There is a struggle going on at the moment in the legislative sphere: a revision of the civil code may lead to new paragraphs specifying details on legal forms, or it may lead to a clear definition of 'non-profit' and 'public benefit', with organizations seeking tax exemption needing to go through a well-defined and transparent screening process.

In Lithuania, following the approval of the Law on Social Services in 1996, it became possible to contract out the supply of social services to associations and societal organizations. Nevertheless, this possibility has not been exploited so far, as specific regulations for licensing the provision of social services by associations and societal organizations have not yet been enacted.

Slovenian legislation allows organizations of the third sector to acquire the necessary financial resources to achieve their main goal by performing additional economic activities. Accordingly, associations, not-for-profit institutes and similar organizations of the third sector can act in the market of goods and services like commercial

companies, the only difference being that in the case of third sector organizations, the profit so generated should aim at the realization and development of the organization's basic activity. Beside public financial resources (from the state at both the national and local levels), the most important financial resource for not-for-profit societies and associations of people is membership fees. The third source of income is represented by donations, and an increasingly important share is generated by commercial activity.

However, while legal barriers to the work of third sector organizations were removed with the changes of the relevant laws after 1990, stimuli which would have promoted a more rapid development (e.g. tax exemptions, support system, public compensation for the services delivered) were insufficiently developed. Whereas tax regulations are more favourable for not-for-profit societies and associations of people than for for-profit enterprises, legal regulations regarding the implementation of market activities and access to funding are more rigorous for not-for-profit societies and associations of people. Thus, the laws are not mutually consistent and legal regulations are often not implemented in practice.

The general trend towards restricting third sector organizations from engaging directly in economic activities is exacerbated in a number of Balkan and CIS countries. In Macedonia, organizations wishing to conduct economic activities need to do it through a separate joint-stock or limited-liability company.⁷⁹ The subsidiary company set up must pay the single profit tax of 15 percent. Not-for-profit organizations are subject to all fiscal regulations applied to legal persons in Macedonia, but they are exempted from paying taxes on grants and donations, which adds some legal certainty to the financial affairs of not-for-profit organizations, given the prevalence of grant funding (90% of not-for-profit organizations' resources). Overall, tax regulation of the not-for-profit sector is relatively limited and it does not provide real incentives for companies or for individuals interested in supporting the development of third sector organizations.

⁷⁷ They are regulated as grant-making organizations.

⁷⁸ In 2003, Czech NPOs received a total of €180 million from the central government.

⁷⁹ With a consequent increase in transaction costs.

Box 7. Serbia: *Lastavica* Association and *Lastavica* Cooperative

Lastavica was set up in 1996, within the framework of the Law on Associations, as a response to the extremely difficult situation faced by many single women refugees in Serbia. The association started as a project jointly promoted by the Women's Centre from Belgrade and the British humanitarian organization Oxfam. The main goal was to provide shelter, psycho-social support, education and economic empowerment for this vulnerable segment of Serbian society. *Lastavica's* activities today involve multiple objectives, focusing not only on refugees but also on local marginalized inhabitants. Among the activities carried out, are computer courses, English language learning, sewing, weaving, and communication skills. Special programmes are addressed to elderly people and consist of psycho-social support, work therapy, recreation and health programmes and humanitarian support. During its 10 years of existence, *Lastavica* has helped several thousand beneficiaries.

The catering service has turned into the most successful among the economic reinforcement programmes implemented. Since current law does not allow non-profit organizations to carry out economic activities, this women's association decided to establish *Lastavica-catering* as a cooperative, whose institutional characteristics are those typical of enterprises with a social goal, including its democratic character and the prevalence of solidarity and mutuality over capital. The first step *Lastavica* took was to organize a three-month training course for the group of 13 interested women, who perfected their culinary skills with the help of a professional caterer.

The company is located in the heart of the city, in an adequately furnished office, and a staff of nine people is involved. *Lastavica* is now a small firm specializing in preparing, distributing, and arranging food for cocktails, receptions, banquets, birthdays and other celebrations. Its specialties are home-made cakes, various pies, strudel and other homemade products.

The right to make a profit is not envisaged for Bulgarian NGOs either. Thus, if they produce market goods and services, they have to establish a company within the NGO and the taxation system for this company is the same as for any for-profit company. The tax exemptions implemented at the beginning of transition have been withdrawn, owing to widespread corrupt practices. Self-help and neighbourhood groups, since they are not legally recognized organizations, are not allowed to produce services.

In Serbia, religious groups and self-help groups are both involved in the provision of innovative services and in the production of goods in a more or less stable and continuous way. However, the lack of an adequate legal base hampers the promotion of social enterprises. More than 300 self-help groups and some 20 to 30 religious groups are reported to perform socially entrepreneurial activities and, as such, can be considered as social enterprises in their initial stage of development. Most of these entities are organized according to the Law on Associations of 1989. They do not represent a large part of the third sector, and owing to legal restrictions on economic activity within

voluntary groups, they are often forced to initiate cooperatives. Moreover, their reliance on donations and charitable giving may hamper their development as full-blown social enterprises.

Accounting and bookkeeping rules for not-for-profit organizations are the same as for for-profit enterprises, and the tax regime is the same as for small- and medium-sized enterprises. Exceptions are envisaged in the case of imported equipment within humanitarian assistance programmes and when it is intended for disabled people. In both these cases, third sector organizations benefit from a preferential import tax. Moreover, in some rare cases (for instance in case of money transfers and donations from international organizations), local third sector organizations are exempted from added-value payments. A new law is supposed to improve administrative practices for third-sector organizations; it should *inter alia* include the introduction of a low-threshold registration process and tax deductions aimed at fostering corporate and charitable giving. As for cooperatives, the tax regime under which they operate is currently similar to that applied to for-profit enterprises.

Developments in the legal framework regulating entrepreneurial activities of Ukrainian third-sector organizations show some promising trends. Nevertheless, the Ukrainian Law concerning the Purchase of Goods, Works and Services from State Funds, issued in February 2000, practically prevents third sector organizations from bidding for procurement contracts. Moreover, the Law on Social Services, while acknowledging the existence of the third sector and the supply of social services by the latter, contains a number of provisions that may be viewed as discriminatory against the third sector. Specifically, the law requires that 'statutes of bodies that provide social services must contain a list of social services, categories of recipients, and terms and procedures for the provision of such services.' The services supplied range from educational, training and environmental services to job training and health services. The types of services offered are still partially dependent upon what donors are willing to fund. Although this trend is changing, the services supplied are increasingly based on the constituents' needs. Concerning the taxation system, unions of citizens as well as charity organizations have to register their non-profit status in the State Tax Administration Registry. Charitable donations and grants are exempted from taxation.

Generating an income through the sale of services and goods not listed in the organization's statutes is allowed, but the organization is then supposed to pay taxes on this income just as for-profit enterprises, and this may cause the exclusion of the organization from the State Tax Administration Registry. Indeed, a serious confusion concerning the 'related' and 'unrelated' incomes prevails. In general, since June-July 2000, having business activities is not a legal reason for exclusion from the register of tax-exempt organizations. However, if the taxable income from unrelated business activities (i.e. activities not listed in the organization's statutes and thus subject to taxation) exceeds a third sector organization's income from tax-exempt sources, this organization will be taxable as a business company. Thus, the only way whereby unions of citizens can generate incomes through economic activity without losing their non-profit status is through commercial firms.

Before 2005, Belarusian public associations were allowed to run entrepreneurial activities, provided the profits generated were used to achieve the goals defined in their statutes, but organizations involved in economic activities were quite few in number. The 2005 revision of the law on public associations (article 20) outlawed social enterprises, unless their economic activities are carried out within a specifically established profit-making organization; the latter is subject to the rules and norms (including those of taxation) of the for-profit sector. Similarly, public associations' activities are taxed in the same way as those of for-profit organizations.⁸⁰ The current taxation system for public associations does not depend on the character of their activities, if one excludes the associations of disabled people and some sport and creative organizations.

As for Russia, the carrying out of economic activities by third sector organizations is regulated in a less restrictive way. A non-profit organization may conduct business activity so far as this serves the achievement of the objectives for which it has been created. Such activity shall be deemed to be a profitable production of goods and services corresponding to the objectives which motivated the creation of the non-profit organization. Public and religious associations carry out a wide spectrum of activities for disadvantaged people: creation of new jobs; assistance in entering the labour market; additional education; training and retraining; and social, labour and medical rehabilitation. However, two major obstacles hamper the carrying out of economic activities by third sector organizations. The first obstacle is of a fiscal nature: the income generated by the carrying out of economic activities is fully taxed. No fiscal advantages are allowed to non-profit organizations in this case, notwithstanding the eventual externalities produced for society at large and the social commitment taken on. Secondly, one should mention the attitude of international donors, who tend to consider with suspicion those third sector organizations that are engaged in economic activities.

Just as in Russia, the carrying out of economic activities by all third sector organizations is permitted in Kazakhstan, but when carrying out eco-

⁸⁰ Exemptions are envisaged for: entrance, share, and membership fees in amounts stipulated in their statutes; property and finances received for free from legal entities and individuals of the Republic of Belarus, and directed at the stated purposes; and profit (interest) from keeping the above-mentioned finances in checking, savings and other bank accounts.

Box 8. Ukraine: Association *Peace. Beauty. Culture.*

The association *Peace. Beauty. Culture.* was registered as a non-governmental organization in 1996. Its main goal is to strengthen civil society through the provision of information and consultancy services and to implement educational and cultural programmes aimed at individuals' development and empowerment. Beneficiaries are orphan children, children from poor and vulnerable families and women. In 1998, the association received its first grant from international donors and in 2000 it became a participant of the Counterpart Alliance for Partnership (CAP) programme, which focuses on the support to and development of social enterprises in Ukraine. CAP provided participants of the social enterprise project with intensive training and technical support in business management and business idea development, legal education, marketing tools development etc. At the same time, Counterpart provided *Peace. Beauty. Culture.* with an initial start-up grant for social enterprise development. The association was able to expand its presence to 12 *oblasts* of Ukraine and make money from a wide range of activities such as the production of garments and furniture, the running of a design and fashion school, computer courses etc.

The association did not establish a business enterprise but channels its revenue in the form of charitable donations and private entrepreneurial initiatives. The association's main programmes are informational-coaching services for citizens of Kherson (12,000 people per year receive various services); computer courses for children (during the last four years, 1,000 children took part in these courses, which were free for children from poor and vulnerable families); a scientific-methodological centre for school self-government (some 1,480 school children each year from seven schools take part annually in different seminars and workshops, gaining knowledge and practical skills in self-governance; an additional 1,080 children sharpen and apply the acquired knowledge and skills in summer camps); a support and development centre for creative initiatives and thinking, where personnel of the association help people to realize their potential and make the best use of their talents and skills (10 people per month receive this kind of support); annual cultural exhibitions and festivals, involving up to 30,000 people. The association also helped 30 orphans to get into university. The association uses creative approaches and marketing tools; its story and its work are amazing but, unfortunately, rare in Ukraine.

nomic activities, these organizations are treated as ordinary business structures. Accordingly, no tax privileges are granted to third sector organizations that are engaged in economic activities. Interestingly, some third sector organizations still prefer to set up subsidiary for-profit companies in order to simplify their tax accounts. Worth noticing is the recent governmental initiative aiming to promote the social business corporation model. This initiative was officially announced and initiated after the President's annual message in 2006.

2.2a Specific legal frameworks for social enterprises: the cases of Poland, the Czech Republic, Slovenia and Lithuania

As underlined in the previous section, the introduction of specific legal frameworks is perceived as a necessary step if the development of social enterprises (both in the form of work-integration social enterprises and social enterprises providing social services) is to be sustained.

Whereas in some countries the development of social enterprises is outlawed or heavily restricted (especially in the CIS and Balkan countries, including Belarus, Ukraine and Macedonia) and third-sector organizations are discriminated against compared to for-profit organizations, in CEE countries the legal environment appears to be significantly more favourable. In a number of new EU member countries, specific legal frameworks

Box 9. Poland: Social Cooperative *ACTUS*

The social cooperative *ACTUS* is an interesting initiative promoted by the target group itself – namely the physically disabled – and organized within the framework of the Association for the Vocational and Social Reintegration of the Disabled. The association, located in Wrocław, is made up of disabled people looking for a job who have not been formally unemployed and have lived on the disability pensions. They set up an informal group, *WWW Promotion*, focusing on information technologies. In May 2005, the group established the Social Cooperative *WWW Promotion*. The cooperative explicitly aims to promote the interests of the disabled group itself (mutual-interest orientation). The products supplied are: web positioning, web designing, web mastering and web hosting. The services are sold in the market. The founding sources are seed money (approximately €4,000) from the Regional Fund for the Social Economy, set up in 2005 by the Ministry of Social Policy, and the revenues generated by the sale of products.

for social enterprises have even been introduced recently.

Institutional and legal recognition of social enterprises initiated by low-income groups was attained in 2003 and 2004 in Poland, following the enactment of two specific acts: the Act on Social Employment and the Act on Employment Promotion and Institutions of the Labour Market. The latter introduced social cooperatives as para-worker cooperatives. The law on social cooperatives was introduced in April 2006. Social cooperatives aim to integrate the homeless, drug and alcohol addicts, the mentally ill, ex-prisoners, refugees and the long-term unemployed. These groups alone have the right to be the founding members and the ordinary members of a social cooperative. In 2007, a new legal initiative aiming to change the Law on Social Cooperatives was taken by a group of members of parliament, politicians and researchers.⁸¹ The initiative was based on the experience accumulated during the two years of existence of the law and its goal is to strengthen social cooperatives as a work and community integration mechanism for those people who are outside of the mainstream labour market. The most crucial arguments and proposals are:

1. To modify the structure of the workforce: The existing regulation, which provides that at least 80 percent of the workers in a social cooperative must be disadvantaged workers, has proved to be counter-effective and has so far hampered

the development of cooperatives of this type. The legal initiative advocates an increase in the percentage of 'ordinary' (non-disadvantaged) workers allowed to at least 50 percent of the total workforce and it proposes to introduce the option for the local authority to be a founder or co-founder member of a social cooperative.

2. To change the regulations concerning the distribution of the surplus of social cooperatives, allowing the allocation of up to 80 percent of the profits to the investment and stabilization fund while reducing the share of the profits to be allocated to the obligatory reintegration fund from 40 percent to 15 percent.
3. To contribute to a more enabling environment for social cooperatives through an increase in the subventions available to founding and ordinary members, from the current amount of three average monthly wages up to five average monthly wages (over €3,000 and €2,000 respectively).
4. To prolong the reimbursement of social security liabilities from 12 months to 36 months. During the first 24 months social cooperatives enjoy 100 percent reimbursement and during the third year 50 percent.
5. To make access to public procurement markets possible through the acknowledgment of the social commitment taken on by social cooperatives employing disadvantaged workers.

⁸¹ This initiative sprang from the EQUAL project 'We have Jobs' in which researchers from the Warsaw University Institute of Social Policy participated.

Box 10. Poland: Support Centres for Social Cooperatives

In 2004 the Polish government introduced a pilot project aiming to provide training services and organizational and financial support to promote work integration social cooperatives. At the beginning, there were five Regional Funds for the Social Economy, which provided support for the setting up of social cooperatives (€3,500 for each cooperative). In 2006 the Fund was transformed into a new mechanism: Support Centres for Social Cooperatives. There are 10 such centres in Poland, providing services to social cooperatives located in all 16 regions of Poland. Each work-integration cooperative may obtain a subvention of up to €3,500 for setting up a social firm and/or for small investments (adaptation of facilities, purchase of appliances, tools, machines). The Polish government has recently adopted some strategies to develop more fully work integration cooperatives and other social enterprises' social and economic contributions. Polish social enterprises – in the form of social cooperatives, foundations and associations – have been mentioned in several policy documents and measures. This new, more enabling environment should increase their access to both financial and business support. In the new programming period Polish social enterprises will be entitled to financial support up to €30,000.

Box 11. Czech Republic: Rural Social Cooperative *Hostetin Apple-Juice Plant*

The *Hostetin Apple-Juice Plant* is situated in the White Carpathians, a region that suffers from relatively high unemployment caused by a decline in demand for its traditional agricultural products (wool, meat, fruits). The project has been able to build on decades of grassroots efforts by local inhabitants in the field of nature protection and has grown out of a tradition of informal cooperation and know-how, enhanced by the city-based Veronica Foundation, which was able to channel the much-needed seed funding for the project.

A primary mission of the organization is to encourage local growers to care for their rare apple trees by providing a market for them. Other associated goals include the production of healthy and environment-friendly products and support to local employment. Profits go to the owner, a non-profit association bringing together environmental charities, local councils, businesses and individuals, which use them to preserve local natural and cultural diversity (two aspects that the organization views as interlinked). The organization can thus be seen as benefiting the local community as well as the local landscape, tradition, and the interests of future generations. An important player, from the beginning, was the village of Hostetin (240 residents), which has supported the project and is itself a member of the organization White Carpathian Traditions. A key factor in the success of this project was the fact that it was able to access a start-up grant from government and loans from ethical institutions (a Luxembourg ethical bank and a local foundation). The prices of the products are competitive on the market, and the organization does not need funding for its operation. It is financially sustainable, having paid off the loan, and even generates a profit.

The Act on Social Employment also stimulated the creation of Social Integration Centres and Clubs, which are committed to reintegrate the long-term unemployed and economically inactive population by means of social re-adaptation. Both types of organizations must create job opportunities for disadvantaged workers.

The Czech Republic also has a specific legal framework for social enterprises: that of the Public Benefit Company, which is committed to supplying services of public benefit. The law establishing this legal form has two main shortcomings, which prevent the full exploitation of this organizational form. First, it stipulates unnecessary details on the board structure. Secondly, it fails to clearly define the public ben-

Box 12. Czech Republic: *Zahradky Arts and Crafts Workshop*

The *Zahradky Arts and Crafts Workshop* is situated in a relatively remote rural area in the south of the country that has suffered from unemployment and population decline in the period following 1989. The organization has a triple mission: 1. to support traditional arts and crafts in the area; 2. to sustain local employment and new uses for under-used buildings; 3. to demonstrate that locals can opt for strategies other than the conventional ones to make a living, such as self-employed craftwork. A hostel with 40-odd beds, meant primarily for visitors to the workshop, opened at the same time. The workshop, launched in 1999, has hosted numerous week-long and weekend courses of basket weaving, embroidery, woodcutting, flower-arranging, candle-making etc. Two-thirds of the tutors are from within the local area, and participants come from all over the country, although the primary target group is the local community and special emphasis is laid on the participation of the locals (local children receive a subsidy from the council covering 50 percent of their subscription). The workshop and hostel combined have created two full-time and one part-time job in the village. Both projects are financially self-sustaining and the hostel has shown a profit, which has been re-invested in the upgrading of the premises.

In its start-up stage, the project was funded through several sources, including a grant from a state programme and international foundations. The local council, local small businesses, and the village councillors also chipped in, the latter making most of the money donated by selling *Raiffeisen* bank insurance. The village councillors also contributed in kind: they personally took part in some of the work involved in the building preparations.

The *Zahradky Arts and Crafts Workshop* and village hostel are organizationally part of the village municipality and are governed by the elected village council and mayor, although they have a separate budget and produce an annual report. The problem with this is a lack of stability and continuity: a new village council, headed by a different mayor, may choose to discontinue the project. Besides, as a municipal project the workshop is not eligible for ongoing financial support, and lacks a supervisory board. A change of the legal structure into a public benefit company would be desirable.

efit goals of the organization, thus leaving a large loophole for swindlers.

A specific law on social enterprise was enacted in Lithuania in 2004. However, the enforcement of the law has proved to be complicated, owing to the lack of by-law provisions. Up to now, about 30 companies for the disabled, inherited from Communist times, have been transformed into social enterprises and continue to receive governmental subsidies (70 percent of the total salaries of the disadvantaged workers are supported by the state). The law is criticized by some for having been designed to rescue the companies for the disabled, inherited from the Communist era, which cannot be funded anymore by the state, due to the country's joining the EU. In particular, the law makes it very difficult for third sector organizations to obtain the status of social enterprise, as they need to demonstrate a turnover similar to that of an SME.

In Slovenia a specific form of income-generating non-profit organization has been introduced: the Private Not-for-Profit Institute. This is a legal entity that can be founded by one or more individuals or firms to perform activities in the field of education, science, culture, sports, health or social affairs. Noteworthy is the fact that the state and municipalities support the work of not-for-profit institutes primarily by annual subventions or through the financing of individual projects, but very rarely on the basis of long-term financial arrangements, such as concession contracts. The most important source of income of not-for-profit institutes is represented by commercial activity in the market. So far, this legal form has not yet been exploited fully. There are indeed only 250 Private Not-for-Profit Institutes, out of a total of some 21,000 third sector organizations.

Box 13. Slovenia: ŠENT – Slovenian Association for Mental Health

ŠENT is a non-profit voluntary organization, founded in 1993 and registered as an association, which brings together individuals with mental health problems, their families, field experts and everyone interested in mental health issues. Its mission is to favour the psycho-social rehabilitation of people with mental health problems and to create new employment possibilities for hard-to-employ people. ŠENT carries out various activities, including educational activities, vocational training for hard-to-employ people, consultancy, and providing information to the general public. It manages a day-care centre that aims to tackle social exclusion through the organization of a range of workshops, courses and other activities that promote group as well as individual work. ŠENT also cooperates with other similar organizations in Slovenia and all over the world, in order to attain its goals not just at the local and regional levels, but at the international level as well. The association relies on diverse sources of funding: the Ministry of Labour, Family and Social Affairs, the foundation that funds organizations for the disabled and humanitarian organizations (FIHO), the Employment Service of Slovenia, and sponsors and international donors (in particular European funds).

ŠENT also helps its beneficiaries to find jobs through employment rehabilitation, work qualification, work inclusion programmes and a range of active employment policy programmes. It provides users with the necessary work experience and skills required to find a suitable job. The programmes carried out include:

- the active employment policy, which is a governmental programme funded by the Employment Service of Slovenia aiming to employ people who have difficulties in finding a job and who have been unemployed for a long period of time;
- Dobrovita plus d.o.o. (a type of social enterprise), which employs 40 % of disabled workers. It was set up by Šent, but now works independently. Dobrovita takes care of green areas in Ljubljana and its surroundings and also of private properties;
- the Razori estate, which is located near Ljubljana, in a small village called Podlipoglav. Users can work as farmers, fruit-growers, gardeners or foresters. They have a greenhouse and they rear a special kind of goat;
- employment that offers the users and their employers all the necessary support, including psycho-social counselling;
- work inclusion, which is intended for users who are unable to work in the traditional labour market. At the day centre they can be employed as porters or cleaners, they can help with administration work and they can be included in creative activities.

2.2b Functions and effects of third sector organizations and social enterprises in transforming the economies and societies of CEE and CIS countries

The main functions performed by third sector organizations and social enterprises are those of advocacy and service provision, albeit mostly not for the market. The services supplied include services for various vulnerable segments of the

population, such as the elderly, who have been marginalized during the transition process.

It can be said that third sector organizations contributed significantly to political and social change at the beginning of transition. However, they currently fulfil only a minor political function in most of the countries of the region, if one includes those with more controlling regimes. Indeed, third sector organizations and social enterprises are partially engaged in the imple-

mentation of strategies to reduce poverty engage people in welfare-to-work programmes, but they rarely participate in policy formulation and local decision-making.

In some countries the third sector promotes specific programmes aiming to support and stimulate business activities, and other productive initiatives for the social inclusion of vulnerable segments of the population. Minority self-help groups and Roma associations are active in job creation initiatives and credit unions in a number of countries. Thus, they encourage social and economic development through employability programmes in which alternative employment is one of the core elements.

The potential role of third sector organizations in the social systems and economies of the countries from the region is still widely overlooked, as these organizations are not recognized as long-term welfare and economic partners. They are rather considered as *ad hoc*, short-term, 'gap-filling' agents and as a shunting yard for the problems generated by the transformation processes. This weak recognition is often combined with the view that third sector organizations are financially vulnerable, economically unsustainable and therefore not able to produce goods and deliver services on a long-term basis and generate employment.

Nevertheless, there are emerging examples of third sector organizations performing a productive function and being innovative agents in local economies: helping excluded workers (re)join the labour market; creating new jobs; providing additional education, training and retraining, and medical, social and vocational rehabilitation. Ecological farms promoting environmentally safe agriculture (as in the case of the Rural Social Cooperative *Hostetin Apple-Juice Plant* in the Czech Republic – see Box 11, page 54) provide a good example of this.

third sector organizations also provide the basis for other related activities, such as tourism, industry, education, science and crafts. They support indigenous grassroots initiatives that have grown out of a tradition of informal cooperation through preserving traditional modes of production in various fields by channelling seed-funding for the projects, paving the way for other sources of support (including public funding), providing a market for

their products and thus contributing to their economic sustainability as well as to the preservation of the cultural heritage of local territories.

The 'soft' contributions of third-sector/social enterprises to the economy include shaping a common identity and developing trust, mutual and solidarity-based relationships among different stakeholders in communities – be they school teachers, parents, local government representatives, local entrepreneurs, local media, or organized or unorganized civil society initiatives – thus preparing the ground for economic initiatives. The role of third-sector/social enterprises include both producing innovative goods/services for the communities and preserving the local heritage and local traditions. In this context, third-sector/social enterprises play a role of bridging the gap between the past and the future. Gradually third sector organizations are also beginning to be seen as potential employers.

Keeping in mind the preliminary nature of the data gathered, a couple of initial remarks emerge on the effects displayed by social enterprises in transforming the economies and societies of the countries of the region:

- They represent a modest, albeit increasing economic force in these countries (small workforce);
- Their social impact is substantial, but they represent a relatively small share in the core welfare areas. This is to a great extent due to the way the socialist welfare state has adapted to the transition. Third-sector actors are not perceived to be part of the options; what prevails is a bi-polar model (state and for-profit private enterprises). Thus, activities carried out by third sector organizations are mostly financed on a project basis, dependent on specific financial streams;
- They are increasingly engaged in the production of local goods and regular and innovative services, which are increasingly supplied by grassroots groups;
- They increasingly introduce new institutional models that can solve socio-economic problems and meet basic needs in the transitional countries, such as social and territorial inclusion initiatives or small schools in rural areas, which otherwise would have been closed down by public authorities;

- They contribute to developing new models of public-service delivery based on the co-production and co-financing of local services;
- They play a growing role in rediscovering local areas as independent and significant players in socio-economic development. They do so by advocating and implementing the integration of various local stakeholders around an innovative diagnosis of local potential and strengths and by building socially and economically responsible areas via partnerships, pacts and consortia;
- They tap the local indigenous cultures of survival and development, local economic potential and local social capital – both organized and informal – that have been overlooked as agents of change in the majority of transition countries;
- The potential values and contributions of social enterprises are increasingly recognized by governments – both at the central and local levels.

2.2c The impact of foreign donors and the emergence of domestic donors

Foreign donors have spurred the development of third sector organizations in all the countries of the region, most notably in Serbia and Macedonia, where they stepped in to deal with emergency situations. In these two countries, as well as in Ukraine,⁸² foreign donors continue to be the main source of funding for non-profit organizations. In the new member states of the European Union, foreign donors are currently withdrawing, as EU support is replacing funding from the donor community.

The impact of foreign aid has been controversial so far. Critics emphasize the prevalence of donor-driven projects that strengthen the dependency of beneficiary organizations upon Western partners and which disregard the local context. Additional problems reported are the lack of transparency – in Bulgaria, for example, not all funds reach the beneficiaries. In countries such as Macedonia, a lack of government coordination exists, worsened by a

high degree of administrative centralization, which leads to increased corruption. In some cases, local organizations that benefit from foreign funding have a bad reputation. This is true for Russia and Serbia, where funded organizations 'are accused of espionage, of being secretive, manipulative, nepotistic, and of being run by a social elite who are rewarded with high salaries, travel, computers and other benefits' (Serbia).⁸³

In several cases, funding programmes appear to remain behind the trends. For example, EU programmes specifically designed to assist the Roma minority flourished in Bulgaria as a result of the country's accession to the EU. But then the internationally sponsored organizations devoted to Roma issues became more numerous than the Roma organizations themselves. Paradoxically, despite the large funds allocated to sustain the Roma, this minority group has grown increasingly impoverished. Moreover, as has been reported in the Polish case, the majority of donors' resources tend to benefit a small group of organizations, giving rise to a sort of 'oligarchization' of citizen organizations.

Donors played a most valuable role in supporting the emergence of the third sector, both financially and in terms of other forms of support, including training and stays (traineeships) abroad, at a time when no other financial support was forthcoming, but donors' intervention has been incapable of boosting local development processes. Indeed, the efforts made to build democracy by creating a thriving third sector across Central and Eastern Europe seem to have ignored the specificities of the social and cultural contexts of individual countries.⁸⁴ In other words, in their attempt to create distance from the former regimes, donors overlooked both cooperatives and state-sponsored associations that were undergoing a transformation process. In so doing, they underestimated the role of grassroots initiatives in re-awakening, strengthening and legitimizing local social capital.

Donor programmes have in general ignored cooperative organizations and mass organizations that existed during the Communist time, while fostering a high dependency on the part of the beneficiary organizations involved in advocacy activities.

⁸² Where 30 percent of an organization's income on average comes from international grants.

⁸³ Kolin 2005, p. 148.

⁸⁴ Carmin and Jehlička, 2005.

Box 14. Bulgaria: Recent Developments

The accession of Bulgaria to the EU (on 1 January 2007) has reinforced the role of third sector organizations in the social and economic development of the country. The strategic vision and role of the third sector are outlined in all the basic national documents prepared to follow the EU guidelines, such as the National Development Plan 2007-2013, the National Strategic Reference Framework 2007-2013, the National Reform Programme 2006-2009 etc.

Capacity building and enhancement of the effectiveness of the third sector are envisaged in many different spheres, including the social protection system, tourism, services for businesses, educational services, deinstitutionalization, healthcare, childcare etc. All the Operational Programmes foster interaction between the state and third sector organizations, and highlight their intervention capacity and public-private partnerships. Third sector organizations are identified as key beneficiaries of a number of EU-funded actions.

The 'Administrative Capacity' Operational Programme has already started to finance proposals aiming to develop civil society structures, helping them establish better partnerships with the administration, increasing their effectiveness and sustainability, and improving the skills and qualifications of their staff and members.

The 'Human Resource Development' Operational Programme identifies third sector organizations as beneficiaries under all its priorities (more concretely with regard to the integration of vulnerable groups in the labour market; improvement of working conditions at workplaces; access of vulnerable groups to education and training; youth in education and society; further development of lifelong learning systems; social services for the provision of employment; development and modernization of the labour market system). The social services budget for the activities delegated by the state increased by 18.5 percent in 2006. The number of private social service providers has increased to 631 (as of 30 April 2006). Enhanced measures are put in place to encourage third sector organizations to participate in the direct provision of services to disadvantaged people, to vulnerable ethnic minorities and to the mentally disabled. Social inclusion and enhancement of social enterprises are identified as special priorities by the European Anti-Poverty Network Bulgaria. 'The main objective of this operation is to raise the level of social capital... The operation includes two main groups of activities, the first one being targeted at directly supporting enterprises operating in the so-called social economy and the second one related to creating conditions for triggering community, volunteer and partnership initiatives, which help to raise the level of social capital as an innovative factor of production.'

Thus in 2007 the potential opportunities for third sector organizations seem quite promising. However, there is a severe need for social impact assessment and independent monitoring and evaluation in order to assess how the strategic political intentions are implemented in practice.

Project-based funding has also hampered the sustainability of third sector organizations.

One specific category that has to be taken into account is that of voluntary workers, who provide specific skills to social enterprises. This precious resource has not been fully exploited in CEE and CIS countries. This is due to the legacy of coercive volunteerism present during Communist times and the low income level in some countries of the region (more specifically, the Balkan and CIS

countries). An exception is provided by the new EU member countries, where volunteers represent an increasing share of employment. In Slovenia about 90 percent of not-for-profit societies and associations of people rely solely on volunteers. In Poland, associations and foundations rely mainly on voluntary work; only about 33 percent employ personnel. Volunteers perform all kinds of tasks, including service delivery, paperwork and organizational tasks.

3. Appendices

3.1. Overview of the Third Sector (TS) and Social Enterprise (SE) Phenomena in CEE and CIS Countries

1. CZECH REPUBLIC

Historical overview	A strong voluntary and cooperative sector has existed since the late 19 th century. Cooperatives – which included farmers’ marketing cooperatives, consumer cooperatives, food-processing cooperatives, and credit cooperatives (the most numerous ones) – started to emerge in the 1860s and the movement grew after the enactment of the first law in 1873. After the communist take-over in 1948, all organizations were subsumed under an umbrella group – the National Front – controlled by the Communist Party and funded by the State. However, control was never absolute and some organizations managed to shield activities that were not sanctioned by the government (e.g. a semi-independent environmental organization in Prague). Farmers were forced to enter unified agricultural-producer cooperatives. Credit and insurance cooperatives were nationalized or abolished, as were all other cooperatives with the exception of producer coops and a part of consumer coops, which approximated state-owned enterprises.		
Legacy of communism	Mistrust of umbrella groupings and networking has remained to some extent. The voluntary ethos has been lost in some fields, but it remains strong in others. The term cooperative has been hijacked; it has for most people a communist connotation.		
Legal evolution	Excessively vague and incomplete legislation initially enabled many non-profit organizations to blossom, but many people misused the legal forms of association, foundation, and credit union. More recently, laws have been consolidated and legal forms are more precise. However, excessive regulation ⁸⁵ has contributed to the semi-demise of the credit union sector and has made the setting up of new associations more difficult.		
Legal frameworks apt to fit SE	Typology of organization	Activities carried out ⁸⁶	# ⁸⁷
	Associations They are supposed to exist for the benefit of the public and they do not produce goods/ services for the market They include: self-help groups; advocacy groups, etc.	Their activities span culture, the social sphere, health, sport, education, social inclusion, environment etc.	48,804 (of which 30,878 local groups)
	Public Benefit Companies They are expected to provide services for the benefit of the public.	Activities are carried out in a number of areas including culture, health and social welfare, etc.	1,158
	TOTAL		49,962
Permissibility of economic activity for third sector organizations and tax exemptions	Foundations are not allowed to engage in economic activity. Associations and PBCs are allowed to conduct economic activities if these are named in their statutes. Associations do not normally produce goods/services for the market. Economic activities have to benefit the public and thus are subject to a tax rebate. The lack of an overarching definition of ‘non-profit’ and ‘public benefit’ in Czech law has led to a lack of clarity of tax rules.		

⁸⁵ Reference is made to the EU banking directive.

⁸⁶ A major shortcoming of NGO service delivery is the lack of capacity of organizations to deliver services over a sustained period of time.

⁸⁷ Number of registered organizations is not reliable. According to the USAID NGO Sustainability Index for 2004 (*The 2004 NGO Sustainability Index for Central and Eastern Europe and Eurasia*, USAID, Washington DC, 2005) out of the 5,500 registered organizations, 5 percent are thought to be active.

2. ESTONIA

Historical overview	<p>At the beginning of the 20th century, Estonia had a very large and well-developed third sector. Under communism only some third sector organizations were allowed to exist (choirs; folk dance clubs, etc.). They were subjected to very strict control by the state and the Communist Party. The right of association was re-introduced during Perestroika. The law on associations of citizens was introduced in 1989. It was revolutionary because it released associations from communist control. Only after independence in 1991 was a new law introduced that provided a general framework for the regulation of non-profit associations. Estonia boasts an enormous number of registered non-profit organizations, including about 8,000 housing associations, where 60 percent of the population live.</p>			
Legacy of communism	<p>Soviet ideology did not support independent thinking. After Estonia's re-independence people were not used to being active citizens, to organizing themselves and to defending their collective interests.</p>			
Legal evolution	<p>The Law on Foundations and the Law on Non-Profit Associations were both adopted in 1996. Additionally some NGOs are regulated in specific fields. Activities of cooperatives are regulated by the Act on Profit- Making Cooperatives.</p>			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	#	Funding sources
	Associations and societal organizations	Sport, culture, art. Mainly advocacy organizations.	12,000	Variety of sources: membership fees; public sector appropriations; grants from local and international foundations.
	Cooperatives	Agricultural, consumer, credit, etc.	200	
	Housing associations		8,000	
	TOTAL			
Permissibility of economic activity for third sector organizations and tax exemptions	<p>Third sector organizations are allowed to conduct economic activities, provided that the profit gained is not distributed among members. According to the Estonian Income Tax Act, associations and social organizations do not pay taxes on their income. Corporate bodies and individuals can make tax-exempted gifts and donation to public interest organizations listed by the Ministry of Finance (1,200 organizations are marked in that list.) Individual donors can give up to US\$ 5,900 tax free to these organizations.</p>			

3. LITHUANIA

Historical overview	The Lithuanian third sector has experienced an interrupted development, as people's movements and gatherings during the Soviet time were strictly controlled by the authorities and the state security organization, the KGB. Some social organizations that were approved by the Communist Party were used by Lithuanians as a way for fulfilling some needs not met by the regime. After the Soviet regime collapsed, new laws for associations and societal organization, charities and foundations, and cooperatives were introduced. Moreover, two other laws were approved by parliament: the law on 'Public Establishment' and the law regulating 'Credit Unions'.			
Legacy of communism	Fifty years of Soviet occupation and social restrictions contributed to a strong sense of citizenship among Lithuanians. The term 'cooperative' is reminiscent of 'Kolkhozen', which explains the slow development of cooperatives in Lithuania.			
Legal evolution	From a legal perspective, the recognition of the third sector is in place. The main problem is financial sustainability that hampers the development of the third sector. In May 2004 the Law on Social Enterprises was enacted. Owing to the rigidity of the law, no new social enterprise has been established according to its guidelines.			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	# ⁸⁸	Funding sources
	Societal Organizations and Associations	Social services, training, advocacy activities, leisure and sport, culture, environmental issues.	NA	Donations. Still lacking the mechanism of public procurement in the field of social/community services
	Companies for disabled		NA	Public subsidies
	Cooperatives	Consumer, agricultural, credit.	NA	Commercial activity
	TOTAL			NA
Permissibility of economic activity for third sector organizations and tax exemptions	The Law on Social Services (1996) allows for social services to be contracted out to associations and societal organizations. Associations and societal organizations are allowed to conduct business activity, but productive activities are still underdeveloped.			

⁸⁸ Only 5-10 percent are estimated to be active organizations. Indeed, the procedure for terminating an organization is far more complicated than the procedure for registering one.

4. POLAND

<p>Historical overview</p>	<p>Modern coops, associations, foundations, mutual-aid societies, and credit coops date back to the 19th century. In the pre-World-War II period, foundations and associations complemented the government by supplying social, educational, and health services. In 1934 there were 22,700 coops with over 2.6 million members. After World War II, coops turned into quasi-state agencies and produced goods and services within the nationalized economy. Credit unions and mutual aid societies were dissolved; foundations were incorporated into the public infrastructure; associations started to deliver a narrow range of services. The last 16 years of the Polish transition have seen an upsurge of various organizations, including foundations; associations, and credit-savings cooperatives (SKOS). At the same time, the years 1989-2005 saw a shift from mechanical participation - with often coerced membership - in officially sanctioned organizations to multidimensional participation not limited to membership.</p>
<p>Legacy of communism</p>	<p>Communism helped to weaken the material infrastructure of voluntary organizations. Coops are still perceived as a relic of the communist regime. Such distrust has resulted in a decrease in the number of cooperatives, following the dissolution of cooperative federations.</p>
<p>Legal evolution</p>	<p>Legal acts regulating associations and foundations were promptly introduced, while other third sector organizations were recognized later. Further legal recognition occurred in 2003 and 2004 (The Law on Social Employment and on Employment Promotion and Institutions of the Labour Market).</p>
<p>Permissibility of economic activity for third sector organizations and tax exemptions</p>	<p>Associations and foundations are allowed to conduct economic activity, provided that the income generated from the activity is used entirely to further the organization's mission and cannot be distributed among members. In the case of social coops, not less than 40 percent of the surplus has to be dedicated to the common fund. In the case of vocational enterprises for the handicapped, profit from economic activity is transferred to the enterprise's activity fund. No tax incentives based on the legal form (Act on Public Benefit and Volunteerism). Public benefit organizations subject to tax exemptions.</p>

Legal frameworks apt to fit SE	Typology of organization	Activities carried out	#	Funding sources
	Associations Foundations	About 20,000 organizations operate in the field of social welfare, health care, education and local development (socio-educational programmes; training programmes; assistance to employment programs)	52,000 (45,000 assoc. and 7,000 found.)	Public sources: 30% Earned income: 20% Corporate giving: 7%
	Cooperatives	Various	10,585	Income from selling of goods/services
	Social Integration Centres and Clubs Goal: reintegrate the long-term unemployed and economically inactive populations via social reintegration	Various types of therapy (individual, group, family), self-help groups, social education and vocational integration (vocational training, workshops and internships)	175	Public sources (central/regional/local governments)
	Social Coops Goal: work integration of long-term unemployed, and economically inactive groups	Elderly home-care services, cleaning services for households, building/repair services, growing plants and maintenance of public green areas, recycling services	30	No data on income structure
	Vocational enterprises for handicapped Coops for handicapped	Provide transitional (vocational enterprises) and permanent employment for disabled people	25	The founding policy is based on direct (grants and donations) and indirect public support in the form of tax deductions and exemptions.
	TOTAL		62,815	

5. SLOVENIA

Historical overview	Slovenian society has a long and rich tradition of association. The Catholic Church played an important role in creating and supporting various kinds of organizations. With the arrival of the socialist system the functions previously displayed by the third sector were taken over by the public sector. However, the rise in number of third sector organizations was the most intense in the period between 1975 and 1985, and not in the 1990's after the collapse of communism. In contrast with other transitional countries, Slovenia did not experience a mass emergence of new third sector organizations after independence in 1991, except in some fields (sports; culture; social welfare). The role of the third sector, albeit politically recognized and financially supported, is still limited to filling the gaps left by the public sector.			
Legacy of communism	Slovenia has a long tradition in the development and realization of vocational trainings and employment programmes for people with disabilities that have been partially inherited from communist time.			
Legal evolution⁸⁹	Third sector organizations are regulated by several legal acts; each organizational form is covered by one act. A broader definition of the Non-Profit sector is given by the 'Corporate Profit Tax Act' by establishing that associations, religious communities, private funds and other organizations and institutes, created for ecological, humanitarian, charity and other non-profit purposes do not have to pay tax.			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	#	Funding sources
	Non-profit societies and associations	Advocacy or productive activities (sport, culture, welfare)	20,000	Public financial support Membership fee donations commercial activities
	Foundations, religious and other humanitarian organizations		255	
	Private Not-for-Profit Institutes	Education, science, culture, sports, health, social affairs and others	250	
	Cooperatives	Housing; manufacturing; construction/building; other)	534	
	Companies for the disabled	Work on the open market	150	
	TOTAL		21,189	
Permissibility of economic activity for third sector organizations and tax exemptions	The Slovenian legislation envisages the possibility for third sector organizations to acquire necessary income by performing additional activities that are economic in nature. Therefore a non-profit organization can act like a private company; the only difference being that the profit created should further the development of its basic activities. The existing tax system in Slovenia envisages some form of tax relief for third sector organizations, which are relatively low. However, the tax and other regulatory systems have not been conducive for the development of social entrepreneurship in Slovenia. The laws are inconsistent and law regulations are not often practiced.			

⁸⁹ Non-profit organizations can be created in the form of consumer cooperatives, public and religious organizations (associations), foundations, establishments, corporations of legal persons (associations and unions) (the CCRF, Part I, Sec. 1, Sub-sec.2, Ch.4, paragraph 5). ¹⁰ It is noteworthy that about 10 Russian organizations carrying out advocacy activities have been recently accused by the Russian Federal Security Service of having been funded by representatives of the British Intelligence Service in Moscow. www.hro.org.

6. BULGARIA

<p>Historical overview</p>	<p>After the establishment of Bulgaria, three basic forms of cooperation for mutual support were quite popular:</p> <ul style="list-style-type: none"> • various forms of cooperatives-credit, producer, consumer coops mainly developed in the agricultural sector; • a specific form of cultural association – chitalishte – that supported educational and cultural activities at the local level; • urban voluntary civil sector composed of foundations and associations. <p>During the communist period, cooperatives turned into main organizational structures for the development of agriculture. Many consumers, housing and cultural cooperatives existed and the cooperatives for disabled came into being. State support was guaranteed by the constitution. Third sector organizations resembled quasi-state agencies. The first decade of transition witnessed an underestimation of third sector organizations. Currently, the attitude of the state towards the third-sector has changed: from negative to neutral with regards to cooperatives and from neutral to positive with regards to NGOs.</p>			
<p>Legacy of communism</p>	<p>The legacy of the past has had strong and contradictory influences on the development of different forms of social economy. The lack of developed civil society, the low level of citizenship and the missing civil society 'spirit' have led to hardships for the successful development of the third sector.</p>			
<p>Legal evolution</p>	<p>From 1990 until 2003, NGOs were established according to the Law on Persons and Families, 1949. More specialized NGOs legislation was approved in 2001 (Law on Firms with non-profit purposes) and effectively introduced in 2003. Simultaneously, the legislation on the provision of social services, the Social assistance Act/2003 and the regulations for its implementation have provided room for NGO involvement in the provision of social services. The new legislative framework enforced partnerships among state and local authorities and NGOs and made it possible for the state and local authorities to finance NGOs. The cooperatives are established under the Law for Cooperatives, 1996.</p>			
<p>Legal frameworks apt to fit SE</p>	<p>Typology of organization</p>	<p>Activities carried out⁹⁰</p>	<p>#⁹¹</p>	<p>Funding sources</p>
	<p>NGOs (foundations, associations, local branches of national organizations, religious organizations...)</p>	<p>The main fields of activities of these organizations include active measures on the labour market, integration of minorities (Roma), local development, ecology, poverty alleviation, etc.</p>	<p>10,000 (Foundations: 1,200; Assocs.: 4,500; Religious: 100; Chitalishte: 4,200)</p>	<p>Foreign donors, public support, donation.</p>
	<p>Cooperatives</p>	<p>Consumer, agricultural, credit, housing. Production of goods and services for the market and/or for their members.</p>	<p>7,000 (agricultural 3,000)</p>	<p>Income from their production on the market.</p>
	<p>Cooperatives for disabled</p>	<p>They were engaged in specific production before transition.</p>	<p>NA</p>	<p>Public support was the main source before the transition.</p>
	<p>TOTAL</p>		<p>17,000</p>	
<p>Permissibility of economic activity for third sector organizations and tax exemptions</p>	<p>According to Bulgarian legislation, NGOs can engage in additional economic activities if they are related to their main registered activity and follow the rules and conditions determined by the laws regulating the respective type of economic activity. However, to operate on the market of goods and services, NGOs have to establish a company. For NGOs, different tax exemptions were available from the beginning of the transition, although some of them were cancelled later on. For the Cooperatives there are some tax exemptions as well.</p>			

⁹⁰ A major shortcoming of NGO service delivery is the lack of capacity of organizations to deliver services over a sustained period of time.

⁹¹ The number of registered organizations is not reliable. According to the USAID NGO Sustainability Index for 2004 (*The 2004 NGO Sustainability Index for Central and Eastern Europe and Eurasia*, USAID, Washington DC, 2005) out of the 5,500 registered organizations, 5 percent are thought to be active.

7. MACEDONIA

<p>Historical overview</p>	<p>The following institutions all predated communism in Yugoslavia (1945-1991) and remained prevalent during the communist years: Rural traditions of mutual aid in times of enhanced agricultural activity, burial groups, other forms of reciprocal solidarity; urban craftsmen or trade guilds; workers' associations, local choral societies and sports clubs. During communism freedom of association was limited to the forms that were approved and encouraged by the ruling ideology. Traditional groups, which served membership interests, continued to exist (sports and other leisure activity groups). Another dimension of civic organizations were the large membership-based organizations – such as Youth Organization, Women's Organization, Organization of Pensioners, etc. The early years after independence witnessed the spread of such organizations and the widening of issues that civil society represented.</p> <p>Three stages were particularly important in terms of the growth of the civil sector:</p> <ul style="list-style-type: none"> • The independence of the country in 1991 and its opening to foreign aid and interest of foreign donors and organizations; • The Kosovo refugee crisis of 1999 which brought in a tremendous number of foreign actors; • The Macedonian crisis of 2001 which led to a second flow of foreign emergency relief groups. <p>Worth noticing is that the third sector is currently quite divided along ethnic lines.</p>			
<p>Legacy of communism</p>	<p>Limited freedom of association; lack of tradition and experience in independent civil organizations.</p> <p>Negative impact of previous over-reliance of the citizenry on the state for delivery of public services: lack of individual and collective civic responsibility over management of collective affairs.</p>			
<p>Legal evolution</p>	<p>In the first eight years of independence the third sector was regulated by the communist-era Law on Social Organizations and Associations of Citizens. In June 1998 it was replaced by the Law on Citizens' Associations and Foundations. One major difference between the old and the new piece of legislation is the government body in charge of the registry process. Before it was the Ministry of Interior and under the new law it is the local courts. The Law is currently up for amendment, with the aim to make a clearer distinction between public benefit and private benefit groups, as a prerequisite for obtaining government funding.</p>			
<p>Legal frameworks apt to fit SE</p>	<p>Typology of organization</p>	<p>Activities carried out⁹²</p>	<p>#⁹³</p>	<p>Funding sources</p>
	<p>Associations (associations of citizens, associations of foreign citizens, branches of foreign organizations) and foundations (both advocacy and service, but not economic activity)</p>	<p>Variety of services to different target groups; education, counselling, psychosocial support, legal and social support services; services tailored to the particular needs of specific target groups such as the disabled, vulnerable women, Roma, etc.</p>	<p>5,289 registered of which 1,512 active</p>	<p>Mainly funded by foreign donors</p>
	<p>TOTAL</p>	<p>5,289 (1,512)</p>		
<p>Permissibility of economic activity for third sector organizations and tax exemptions</p>	<p>Organizations wishing to conduct economic activities need to do it through a separate joint-stock or limited-liability company.</p> <p>Not-for-profit organizations are subject to all fiscal regulations applied to legal persons, but are exempted from paying taxes on grants and donations.</p>			

⁹² A major shortcoming of NGO service delivering is the lack of capacity of the organizations to deliver services over a sustained period of time.

⁹³ The number of registered organizations is not reliable. According to the USAID NGO Sustainability Index for 2004 (*The 2004 NGO Sustainability Index for Central and Eastern Europe and Eurasia*, USAID, Washington DC, 2005) out of the 5,500 registered organizations, 5 percent are thought to be active.

8. SERBIA

Historical overview	<p>Philanthropic activities culminated in the 20th century. In addition, Serbia has a long tradition of cooperatives comprising agricultural collective farms (specialized in grain; dairy products; wine etc.) and credit unions that developed at the end of the 19th century. After World War II the evolution of cooperatives was strongly influenced by the communist idea to collectivize the agricultural sector. Cooperatives became an integral part of the political system and planned economy. If compared to other Eastern European countries prior to 1989, the Yugoslav communist regime was more liberal and tolerated a certain degree of self-initiative at a local level.</p> <p>Despite the lack a democratic environment and favourable legal conditions, a great number of civil society organizations emerged in the past decade. The newly emerging third-sector has created the foundations for social change and contributed to the end of the Milosevic regime in 2000. Besides its political role, the third-sector also provides welfare services to the most vulnerable and at-risk groups and contributes to job creation.</p>			
Legacy of communism	<p>Communism strongly influenced the structure and functioning of the organizations established during communist rule, which continue to operate today.</p>			
Legal evolution	<p>The legal environment is not adequate and does not contribute to the sustainability of third sector organizations. In addition, current regulations addressing religious groups, which are an important component of the Serbian third sector, are more rigorous if compared to the regulations envisaged for for-profit enterprises and for the other third sector organizations. Noteworthy is that the law in force originates from the communist period.</p>			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	# ⁹⁴	Funding sources
	Associations (of which: self-help – 300/400 - and religious groups about 30/50)	Citizens' self-help groups and religious groups ⁹⁵ specialized in welfare and social protection of the most vulnerable people	3,000	The majority of religious and self-help groups are heavily dependent on resources provided by international organizations. As for religious groups, some organizations depend on religious network (Caritas; Serbian-Orthodox Church) ⁹⁶
	Cooperatives	Consumer, credit, agriculture	2,800	Commercial sources; fees; no governmental support
TOTAL			5,800	
Permissibility of economic activity for third sector organizations and tax exemptions	<p>Owing to legal restrictions on profit-seeking activity by voluntary groups, self-help groups are often forced to initiate cooperatives. Accounting and bookkeeping rules for not-for-profit organizations are the same as for for-profit enterprises. The tax regime is the same as for small- and medium-sized enterprises. Exceptions are envisaged for equipment imported under humanitarian assistance programmes or when it is meant for disabled people. Similarly the tax regime envisaged for cooperatives is currently similar to that applied to for-profit enterprises.</p>			

⁹⁴ Due to unreliable official statistics, it is almost impossible to obtain numbers and typologies of Serbian organizations. According to the Centre for Non-Profit Sector Development (CRNPS), there are more than 3,000 autonomous NGOs registered under the Law on Associations of 1989. According to a recently published research paper by Civil Initiatives, in 2005 there were about 900 active organizations.

⁹⁵ *Citizens self-help groups* are mainly grass-root organizations experimenting with new social services and job-creation activities in the embryonic phase. The main sub-categories are: women's groups; refugee groups; associations for disabled people; other marginalized self-help groups (such as the Roma) that provide innovative services and are experimenting with job creation activities at an embryonic phase.

⁹⁶ The existing law, inherited from communism, prevents religious institutions from raising public funds.

9. BELARUS

Historical overview	<p>Before the 1917 communist revolution, Belarus was home to numerous third sector organizations, including charitable organizations, literary societies, consumer cooperatives, and women's unions.</p> <p>From 1917 until 1986 there were no real third sector organizations. All Soviet associations were tailored and controlled by the state to serve the Communist ideology. Belarusian third sector organizations – representing true civic interests – began to appear in the late 1980s. Third sector organizations flourished during the years 1990 until 1996.</p>			
Legacy of communism	<p>Low stocks of social capital and mistrust of cooperative organizations</p>			
Legal evolution	<p>In 1991 the first legal acts were adopted to regulate third-sector activities. The 1996 Constitutional revision strengthened executive power and resulted in an increasing authoritarianism and pressure on civil society and its institutions. The procedural framework of third sector organizations became more complicated, efforts to provide financial aid encountered obstacles, and all aspects of third-sector activity became subject to licensing. As a result, the third-sector became more politicized. The State has strongly promoted the advancement of governmental NGOs and thus has created an illusory civil society. Severe external conditions reinforce authoritarian leadership styles within third sector organization. Since 2003, legislation permits the establishment of republican governmental public associations (GoNGOs), which are designed to accomplish those tasks that are incumbent on the State. GoNGOs may be founded by, and made up of, individuals and legal entities, as well as the Republic of Belarus represented by an authorized governmental body or other legal entity.</p>			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	#	Funding sources
	Public associations	Training, workshops, camps, international exchange, round tables, conferences, open discussions, Internet forums.	1,245	Membership fees represent the prevalent source of revenue, followed by international governmental funding and international non-governmental funding; fundraising activities; entrepreneurial activities and finally governmental funding
	Republican governmental association	Accomplish tasks defined by the state and enjoy favourable conditions	969	
	TOTAL		2,214	
Permissibility of economic activity for third sector organizations and tax exemptions	<p>Following the 2005 revision of the Law on Public Associations (article 20), public associations and their unions (associations) can carry out entrepreneurial activity only within a specially established profit-making organization. They can thus perform their activity only as equals of profit-maximizing organizations and are subject to the rules and norms of the traditional market, including those of taxation. In addition, public associations are allowed to sell products/services of their chartered activity (publishing, conferences, exhibitions, sports events etc.) provided that the fees charged for these products/ services are equal to the costs spent on their production.</p>			

10. KAZAKHSTAN

Historical overview	The first cooperatives appeared in Kazakhstan in the 19th century, mainly in the Western part (Caspian Sea), as fishing cartels. As a part of the Russian Empire, Kazakhstan boasted several organizations that patronized the arts and pursued philanthropy. In the communist period grassroots initiatives were replaced by top-down initiatives. After mass collectivization, only consumer groups remained active. The development of real third-sector groups started after independence in 1991. In the first period of development (the end of 1980s until 1994) ⁹⁷ 400 NGOs ⁹⁸ were established, being generally involved in human rights protection. Period 2 (1994-1997) was one of qualitative and quantitative growth of third sector organizations (NGOs alone grew by a factor of four), mainly as a result of major financial support by international donor organizations in the form of grants. Period 3 (1998 up to now) is a qualitatively new stage, when the issue of interaction mechanisms between government and third sector organizations has become a subject of serious discussion.			
Legacy of communism	--			
Legal evolution	In 1985, following a Resolution on 'Amateur Associations and Interest Clubs', a great number of organizations appeared. In 1989, the decree 'On the Formation Procedure and Operations of Public Associations' was issued by the Supreme Soviet in 1991 and the Law 'On Public Associations in the Kazakh SSR' was promulgated. There are several laws regulating the activity of social enterprises (the Law on Public Associations', 1996; the law 'On Housing Relations', 1997; the law 'On Agricultural Associations and Their Alliances', 2000; the law 'On Consumers' Cooperative' dated 2001, with improvements made in 2003; the law 'On Non-commercial Organizations', 2001; the law 'On State Social Order', 2005). These laws regulate single activities of different types of social enterprises, and there are some overlaps and contradictions. There is no unified law on social enterprise as such yet.			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	# ⁹⁹	Funding sources
	Self-help groups	Unregistered community-based grass-roots groups uniting rural, vulnerable populations or nationalities living side by side.	NA	--
	NGOs (active foundations and associations)	Producing goods or providing services, mainly registered in different legal forms	2,000	--
	Cooperatives	Agricultural cooperatives; water-users societies; real estate administration and apartment owners' societies; consumer	7,491	--
	Vocational enterprises for the handicapped		NA	
	TOTAL		9,491	
Permissibility of economic activity for third sector organizations and tax exemptions	The social business corporation (SEC) model was presented in the Yearly President's Message (2006) as a stable business structure, receiving profit from production or service provision, but reinvesting the profit in the realization of social, economic and cultural goals of the community (region) turning thus into regional 'development locomotives'.			

⁹⁷ 'Non-Governmental Organizations of Kazakhstan: Past, Present, Future', UNDP Kazakhstan Report, Almaty 2002.

⁹⁸ The term NGOs means not-for-profit organizations, excluding trade unions, political parties, religious confession and government institutions.

⁹⁹ Only 5-10 percent of organizations are estimated to be active. Indeed, the procedure for terminating an organization is far more complicated than the procedure for registering one.

11. RUSSIA

Historical overview	<p>In pre-Soviet Russia there were many voluntary associations of citizens aimed at meeting various needs and interests (such as cooperatives, and societies for sport, culture, engineering, knowledge promotion). Religious organizations were a part of the state machine and the Russian Church performed some public duties such as civil registration.</p> <p>According to the Soviet constitution, the Communist Party of the USSR defined activities of all state and voluntary organizations (even religious ones in spite of their separation from the State). However, many organizations existing under communism had a social-orientation in spite of their dependence on the State.</p> <p>The post-Soviet period has been characterized by the development of diverse forms of voluntary associations and non-profit organizations that have not yet been fully recognized.¹⁰⁰</p>			
Legacy of communism	<p>The implementation of the new legislative system has led to the enactment of a number of new laws in a short period of time. In addition, the new laws have required numerous supplements and amendments, which have hampered the development of the third sector.</p>			
Legal evolution ¹⁰¹	<p>The Federal Law 'On non-profit organizations' was adopted by the State Duma on 8 December 1995. Non-profit organizations may be created in the form of social or religious organizations (associations), non-profit partnerships, establishments, autonomous non-profit organizations, social, charitable and any other foundations, associations and unions, and also in other forms stipulated by the Federal laws.</p>			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	#	Funding sources
	Public associations ¹⁰²	Public associations carry out a wide spectrum of activities supporting disadvantaged people: creating new jobs, assisting people with entering the labour market, conducting additional education, training and re-training, social, labour and medical rehabilitation.	64,850	Structure not known
	Autonomous non-profit organizations (non-membership organization)	Services in the sphere of education, health protection, culture, science, law, physical education and sports	NA	Structure not known
	Consumer cooperatives	Trade, storage, production and other activities aimed at meeting the material and other needs of members	NA	Incomes from business activity
	TOTAL		64,850	
Permissibility of economic activity for third sector organizations and tax exemptions	<p>Owing to legal restrictions on profit-seeking activity by voluntary groups, self-help groups are often forced to initiate cooperatives. Accounting and bookkeeping rules for not-for-profit organizations are the same as for for-profit enterprises. The tax regime is the same as for small- and medium-sized enterprises. Exceptions are envisaged for equipment imported under humanitarian assistance programmes or when it is meant for disabled people. Similarly the tax regime envisaged for cooperatives is currently similar to that applied to for-profit enterprises.</p>			

¹⁰⁰ It is noteworthy that about 10 Russian organizations carrying out advocacy activities have been recently accused by the Russian Federal Security Service of having been funded by representatives of the British Intelligence Service in Moscow (www.hro.org).

¹⁰¹ Non-profit organizations can be created in the form of consumer cooperatives, public and religious organizations (associations), foundations, establishments, corporations of legal persons (associations and unions) (the CCRF, Part I, Sec. I, Sub-sec.2, Ch.4, paragraph 5).

¹⁰² Public associations include: public organizations, public movements, public foundations, public establishments, independent bodies, political parties.

12. UKRAINE

Historical overview	Civic associations were first formed in the first part of the nineteenth century, when their number reached 2,643. These associations built schools, roads, shelters, organized research expeditions, published scientific books, conducted charity lotteries, and organized kindergartens. After the Bolshevik revolution of 1917, civic organizations were suppressed or transformed into public-led organizations. In the former Soviet Union the state not only established a system of civic institutions, but also governed them. By the end of the 1980s civic activity began to grow and especially many informal youth associations were formed.			
Legacy of communism	Leaders of the third sector are in many cases products of the old communist system. The legacies of the communist approach to third sector organizations, as the offshoots of the authoritarian or paternalistic government, are still extensive in Ukrainian policies and the legal framework.			
Legal evolution	After Ukraine proclaimed its independence in 1991, the Supreme Council adopted a new law on the Union of Citizens, requiring that the establishment of associations comply with democratic principles. The number of organizations grew rapidly. Every year 4,000-5,000 new unions of citizens and charities have been registered. Private foundations are still uncommon, because the omnibus law on registration of legal entities became effective only in mid 2004. A new Law on the State Registration of Legal Entities and Individual Entrepreneurs, adopted in spring 2003, simplifies registration procedures for unions of citizens and creates an automated public single national register of such organizations.			
Legal frameworks apt to fit SE	Typology of organization	Activities carried out	# ¹⁰³	Funding sources
	Unions of citizens (limited provision of services)	Most organizations work with children and youth. The most common activity is advocacy and lobbying, followed by training and consultative support, dissemination of information and educational activities. It should be noted that the number of organizations dealing with social issues has increased in recent years.	42,000	Foreign donations
	Charities		9,000	
Permissibility of economic activity for third sector organizations and tax exemptions	Delivery of public services by third sector organizations is allowed by law, but practically impossible owing to legal inconsistencies.			
	According to law 2460/92 non-profit associations can run business activities through their subsidiary enterprises. Quite promising improvements introduced by the 2004 Civil Code, according to which non-business corporations and institutions shall have the right to run business activity, within their statutory activities and in compliance with their statutory goals. Moreover, the law on social services 966/03 allows third sector organizations to receive compensation for social services. But practically the only way whereby unions of citizens can generate incomes through economic activity is through commercial firms. The tax code restricts tax privileges to grants and donations. In addition, revenues accumulated have to be spent within the following tax year.			

¹⁰³ Only 5-10 percent are estimated to be active organizations. Indeed, the procedure for terminating an organization is far more complicated than for registering one.

¹⁰⁴ Of which: 95 percent local organizations; 4 percent national; 1 percent international. Organizations most developed are in the urban areas (Kyiv; Lviv; Kharkiv; Donetsk).

3.2. Methodological Note

This study consists of three stages:

STAGE 1:

The first stage was devoted to adapting the wide concept of the Social Enterprise worked out by the EMES European Research Network to the specific context of CEE and CIS countries (See section 3.3). Accordingly, the broad definition was refined on the basis of the work carried out by the EMES research group during the last 10 years across the original 15 Member States of the European Union. In parallel, National Contacts were identified and contacted in 12 countries of the region included in this research. The selected researchers are committed to the study of the third sector in their countries and are included in the table below:

STAGE 2:

The first step of the second stage was aimed at identifying categories of organizations that might be considered as having several characteristics in common (to varying extents) with social enterprises as defined by the EMES Network. Thus, National Contacts were asked to:

- a) Provide a country analysis aimed at identifying the categories of third sector organizations that may fall under the revised Social Enterprise definition;
- b) On the basis of the information previously submitted, complete a questionnaire designed for each category of Social Enterprise identified;
- c) Provide a final country report on the social enterprise phenomenon at a national level.

Country	Researcher	Affiliation
1. Czech Republic	Nadia Johanisova	Ostrolovsky Ujezd 14 37401 Trhove Sviny
2. Estonia	Marit Otsing	Estonian Union of Cooperative Association
3. Lithuania	Dziugas Dvarionas	Institute of Social Economy - Kaunas
4. Poland	Ewa Leś	Warsaw University – Institute of Social Policy
5. Slovenia	Matjaž Golob	Human Resources Development Fund
6. Bulgaria	Maria Jeliaskova	Institute of Sociology
7. Macedonia	Risto Karajkov	University of Bologna
8. Serbia	Maria Kolin	Institute for Social Science - Belgrade
9. Belarus	[The researchers have requested to keep their names confidential.]	
10. Kazakhstan	Tatiana Sedova	ARGO consultant
11. Russia	Vladimir Korolev	Moscow State University of Service, World Economy Department
12. Ukraine	Lyubov Palyvoda	Counterpart Creative Centre Charity Foundation (CCC)

The second step of stage 2 stemmed from the data gathered through which the development paths of social enterprises in the various countries under investigation were identified, with special regard to:

- The activities carried out;
- The institutional and legal recognition;
- Human resources;
- The typologies of relationships established with the public administration(s), for profit sector, and local communities;
- Funding resources;
- Public policies;
- Donors;
- Networking;
- Legal and fiscal framework for social enterprises.

One country visit was carried out to the Russian Federation on 23-25 March 2006. The goal of this visit was to meet and interview directly the Russian researcher appointed, Prof. Vladimir Korolev of the Moscow State University, with whom no previous contacts had been established before. The meeting allowed researchers to devote some time to share the social enterprise definition worked out by the EMES research group, to describe the main outcomes of the study carried out so far, and to assess with the help of the Russian expert the suitability of the social enterprise definition tailored for CEE and CIS countries to the Russian context. In addition, the study visit offered an opportunity to establish new contacts with a Russian legal expert, Daria Miloslavskaja, who provided an overview of the legal frameworks for third sector organizations and social enterprises in the Russian Federation. The information and data gathered helped researchers complete the study with respect to the case of the third sector and social enterprise phenomena in the Russian Federation.

3.3. Towards a Social Enterprise Approach Adapted to CEE and CIS Countries

i. The Conceptual Background

The wide spectrum of socio-economic institutions other than investor-owned (the for-profit sector) and public agencies (the state) has been termed in various ways depending on the specific tradition and definitions used, national context, and specific features emphasized. It may be said that two theoretical approaches to the third sector have gradually spread internationally, accompanied by statistical work aiming to quantify its economic importance:

The 'non-profit' approach

On the one hand, the 'non-profit school' approaches this sector via the statutory ban on the distribution of profits in these organizations. This 'non-profit-sector approach' has been developing since the second part of the 1970s to take into account the US situation. The term 'voluntary sector' mainly used in the UK also fits in that 'school'. These non-profit organizations fulfil a broad spectrum of societal and political tasks, among those are lobbying and interest representation, as well as service provision. This definition excludes cooperatives and mutual-aid societies on the grounds that they can distribute some of their profits to members. It can be said that the Comparative Non-profit Sector Project, coordinated by the Johns Hopkins University, relied on such an approach.

The 'social economy' approach

On the other hand, the concept of the 'social economy', that brings together cooperatives, mutual societies and associations (and, with increasing frequency, foundations), stresses the specificity of the mission of these organizations, namely their aim to benefit either their members or a larger collective rather than generating profits for investors. This approach also highlights the democratic character of the decision-making process within the organizations and the prevalence of people and labour over capital in the distribution of incomes.

The concept of social enterprise

The concept of social enterprise does not seek to supplant existing concepts of the third sector – such as the concepts of the social economy, the non-profit sector. Rather, it is intended to enhance third-sector concepts by shedding light on *particular dynamics within this sector: namely, entrepreneurial dynamics focused on social aims*. On the one hand, compared to traditional associations, social enterprises place a higher value on economic risk-taking related to an ongoing productive activity (in the world of non-profit organizations, production-oriented associations are certainly closer to social enterprises than are advocacy organizations and grant-making foundations). On the other hand, in contrast to many traditional cooperatives, social enterprises may be seen as more oriented to the whole community and putting more emphasis on the dimension of general interest. Moreover, social enterprises are said to combine different types of stakeholders in their membership, whereas traditional cooperatives have generally been set up as single-stakeholder organizations. These contrasting elements, however, should not be overestimated: while social enterprises are in some cases new organizations, which may be regarded as constituting a new sub-division of the third sector, in other cases, they result from a process at work in older experiences within the third sector. In other words, it can be said that the generic term 'social enterprise' does not represent a conceptual break with institutions of the third sector but, rather, a new dynamic within it – encompassing both newly-created organizations and older ones that have undergone an evolution. Whether these social enterprises choose a cooperative legal form or an associative legal form often depends primarily on the legal mechanisms provided by national legislations.

To summarize, social enterprises may be defined as organizations providing goods or services with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. Social enterprises also place a high value on their autonomy and on economic risk-taking related to ongoing socio-economic activity.

The EMES criteria of social enterprise

The broad definition may be refined, on the basis of the work carried out by the EMES European Research Network during the last 10 years across the then 15 Member States of the European Union. A set of nine criteria – both economic and social – were identified to describe an 'ideal type' of social enterprise, i.e. a theoretical definition which does not necessarily correspond to concrete organizations but allows researchers to analyse them. Thus, departing from the EMES social enterprise definition, researchers are provided with a working definition adapted to countries from the region that includes three economic and three social criteria (listed below).

Economic criteria:

Activity producing goods and/or selling services

Social enterprises are not engaged in advocacy activity or in the redistribution of financial flows as a major goal. They are involved in the production of goods or the provision of services on a continuous basis.

A degree of autonomy

Social enterprises are normally voluntarily created by a group of people and are governed by them in the framework of an autonomous project. Accordingly, they may depend on public subsidies but are normally not managed – directly or indirectly – by public authorities or other organizations (federations, private firms, etc.) and they have both the right of 'voice and exit' (the right to express their own opinions as well as to terminate their activity).

A trend toward paid work

The activity carried out does not necessarily require the involvement of paid workers, provided that there is an organizational commitment to job creation. Organizations sharing most of the characteristics specified, albeit relying on voluntary work, are considered as social enterprises in their initial stage of development.

Social criteria:

An explicit aim to benefit the community or a specific group of people

One of the main goals of social enterprises is to serve the community or a specific group of people, not single individuals.

A decision-making power not based on capital ownership

Voting power is not distributed according to capital shares on the governing body, which has ultimate decision-making rights. Decisions are shared and a high degree of stakeholder participation is favoured. Representation and participation of customers, stakeholder orientation and a democratic management style are important characteristics of social enterprises.

Exclusion of profit-maximizing organizations

Social enterprises include not only organizations that are characterized by a total non-distribution constraint, but also organizations that may distribute profits to a certain extent. Organizations which can distribute without constraints all or a high percentage of profits (at least 50 to 60 percent) can be included; the key-criterion is the exclusion of organizations with a profit-maximizing goal.

As already stressed, rather than constituting prescriptive criteria, the indicators listed above describe a 'virtual social enterprise' that enables researchers to position themselves within the 'galaxy' of social enterprises. Without any normative perspective, they constitute a tool, somewhat analogous to a compass, which can help the researchers locate the position of certain entities relative to one another, and which may enable researchers to establish the boundaries of the organizations that they will consider to be social enterprises.

ii. Towards an identification of social enterprises in targeted countries: major guidelines for Stage 1.

Mapping social enterprises

According to the above perspective, the first step is not to identify social enterprises in the countries of the area that would fulfil all EMES criteria. In many countries, the notion of social enterprise may not be used or exist. Rather, this research first aims at *identifying categories of organizations which might be considered as having several characters in common (to varying extents) with social enterprises as defined by the EMES Network.*

For illustrative purposes only, some examples of such categories are listed here:

1. Voluntary organizations (linked to religious groups or not) that supply services not necessarily on a continuous basis that can be considered social enterprises at an embryonic phase of development;
2. Citizen self-help groups (not registered) that experiment with new innovative modes of work and social integration adapted to local potential and resources;
3. Originally public social entities (incubators) that experiment with new integration and local-development strategies and that are in the process of transforming into a social enterprise;
4. Cooperative organizations acting as community enterprises, locally embedded and devoted to promoting the interests of specific target groups or the community as a whole;
5. New forms of not-for-profit organizations engaged in public-service delivery and pursuing commercial activities in order to raise funds for those services;
6. Service-providing associations, foundations, open foundations, or centres

PART II. PROMOTING THE ROLE OF SOCIAL ENTERPRISES IN THREE SELECTED COUNTRIES: POLAND, UKRAINE, AND SERBIA

The pattern of development of social enterprises – in terms of activities carried out and institutional assets developed – is extremely country-specific and reflects particular problems and challenges faced at the national and local level. Hence, the selection of three country studies from three different sub-regions – Poland, Serbia, and Ukraine. They are especially interesting in terms of bottom-up institutional responses to crucial economic and social problems that have come to pass during a transformation towards a democratic system and market economy.

Poland is a case in point of a post-communist country that has recently managed to recognize social enterprises both from a political and legal point of view. This process has paved the way for the recent introduction of a legal framework that has aimed to support the labour-market integration of disadvantaged workers, a group that has faced serious unemployment.

In Serbia social enterprises are non-integrated initiatives that address the problems of unemployment and social disintegration on a small scale.

In Ukraine the environment for social enterprises is not as promising as in Poland and Serbia. As a result, payments for the delivery of services are often received through a system of charitable contributions, through private entrepreneurs as well as through enterprises owned and managed by third sector organizations (e.g. unions of citizens and foundations) as the legitimate subject of trade.

As the three country studies show, social enterprises are fundamental by-products of third sector organizations, whose development and impact upon local communities depend upon the availability of supporting legal and institutional structures, as well as on the endowment of social capital at the community level.

1. Promoting the Role of Social Enterprises in Poland

1.1. The background for social enterprise in Poland

In the past few years, the concepts of social economy, social entrepreneurship and social enterprise have become more and more popular in Poland, for several reasons. Some of these reasons are of purely opportunistic nature – the idea has been widely promoted, mostly by the EQUAL Common Initiative projects, and thus attracted the attention of many actors in search of new funding opportunities or just of new ways to organize and carry out activities serving the public interest. Other reasons are more circumstantial. Among these, the most prominent one is the fact that the social economy concept creates a chance to look for new solutions to some old problems. Why is it so attractive? The essential, and at the same time most appealing, characteristic of social enterprises is that they are based on the notion of empowerment and self-reliance. **For individuals**, social enterprise may become a new mechanism of social inclusion, enabling people to quit their client role, where they are dependent on others' help, and to create a chance for themselves to attain independence. **For organizations**, social enterprise represents an opportunity to obtain the resources needed for their activities, to evolve from the position of asking for funds, and being dependent on public institutions, to becoming an independent entity, capable of taking action in the public sphere in accordance with its own mission and with the choices of its members and founders. **For communities**, social enterprise represents a chance to shape independent developmental strategies, based on their own resources, conducive to genuine self-government and communal well-being. And finally, **for the state** social enterprise constitutes a possible way out of the 'welfare trap' which is currently prevalent in many European countries.

1.1a The transformation of the welfare system and main features of the labour market

Specific situation on the labour market

The aforementioned hopes and motivations become clearer when the features of the labour market and economic transformation are taken into account. Almost from the very beginning of the Polish transformation process, the Polish labour market was characterized by an extremely low employment rate and very high unemployment. Structural reforms have resulted in many tensions on the labour market and growing social stratification. In recent years, the employment rate amounted to 52 percent (i.e. 11 percent below the EU average and 18 percent below the Lisbon Strategy benchmark), despite a quite high economic growth (estimated at 4.5-4.6 percent in 2006). This situation resulted in a very high unemployment rate. In 2003, it reached 20 percent – the highest level in all EU member countries, and twice as high as the EU average. The recent dynamic economic development is mainly due to productivity growth, and it has not (yet) brought about a significant increase in the number of jobs, although the unemployment rate dropped from 17.6 percent in 2005 to 11.6 percent (as of September 2007). This decline is partially due to the massive job-related migrations to countries like the UK, Ireland or Germany.

Also important for the third sector is that economic growth has reached quite elevated rates without being matched by enhancements in social capital. The level of mutual confidence (one of the dimensions of social capital) in Poland is extremely low (the lowest in Europe, according to all comparative research, including the European Social Survey or the Eurobarometer). Hence, we can say that economic development in Poland is 'highly individualistic' rather than cooperative in nature. The phenomenon has great bearing on the growth of the third sector as a whole and, more specifically, on the development of social enterprises which are, to a great extent, based on social capital and mutuality.

In the second quarter of 2007, the unemployment rate in Poland dipped to 11 percent, i.e. the lowest level since 2001. This represented a substantial decrease in relation to previous quarters

(in the first quarter of 2006, the unemployment rate was 17.9 percent, and in 2005, 17.7 percent). Despite this positive development, the situation in some of the niches of the Polish labour market still remains dramatic. The level of professional activation has not risen to the extent that the unemployment figures would suggest. The country struggles with a very high level of structural unemployment, estimated at 80 percent of the total number of unemployed. (People structurally unemployed are often low-qualified, immobile, un-entrepreneurial, and their unemployment tends to be a long-term one.) A high percentage of unemployed people are threatened by permanent exclusion from the labour market (and, more generally, by social exclusion). Groups particularly at risk include:

- Disabled people (14.3 percent of the Polish population): According to data from the Central Statistical Office of Poland (GUS), as much as 80 percent of disabled people in Poland remain outside the employment market – which is the highest level in the whole EU. A significant share of the substantial public resources that have been allocated to the integration of disabled workers, has not been adequately exploited. The system of protected workshops, in addition to proving ineffective, has often treated disabled workers in a perfunctory way, thus leading to the devaluation of their work culture.
- Young people (between 15 and 24 years of age) not attending regular schools: In the first quarter of 2005, the unemployment rate in this group reached 41 percent, and young people accounted for approximately 24 percent of total unemployment.
- Other groups, such as former prisoners, the mentally ill, the homeless, immigrants, national and ethnic minorities are also particularly at risk of exclusion from the labour market, in some cases as a result of their life situation, but in others as a result a low social acceptance.

In general, groups such as disabled people, ethnic minorities, women as a whole, and single mothers in particular, homeless people, former prisoners, chronically and mentally ill people, have very limited opportunities to find employment. Creating specially tailored jobs for these people, training and employing them in the long

run are not, in purely economical terms, reasonable actions, as they entail additional costs that traditional market enterprises are not willing to (and cannot) bear. Moreover, public authorities do not constitute an edifying example in this field: they have legally obliged private enterprises to employ disabled people, while not taking any action themselves in this regard.

The statistical picture of the labour market overlooks some important underlying systemic conditions. In 2006 Poland, together with Lithuania, was the poorest member of the EU-25 (in terms of per capita GDP). Moreover, regional disparities are huge in Poland, as measured for a given Polish region as the percentage of the average EU per capita GDP. They range from 70 percent to 31 percent. Every sixth employable person lives in a household where nobody works. In addition, to a much greater extent than in other EU countries, even in Poland having a job does not ensure protection against poverty. The so-called ‘working poor’ – people who, in spite of continuous employment, are still below the poverty threshold – amounts to 12 percent of people with a job. In the case of the self-employed, this indicator even reaches 21 percent. In statistical terms, the situation of other social groups not active in the labour market (e.g. pensioners) is much better: only 7 percent of them are threatened by poverty.

Welfare system / welfare dependency

All the above circumstances may make it very hard to include the concept of social economy in public policies, as this concept, in its classical form, evokes the idea of entrepreneurship, together with an inherent risk. In Poland, as well as in other countries of the former Soviet bloc, a peculiar model of the post-socialist welfare state is still deeply rooted, and quite often successfully exploited by different political parties in their struggle for votes. Thus, the model is perpetuated. As Professor Edmund Mokrzycki – a distinguished Polish sociologist – put it: ‘Poles still would like to live in socialism after it was overthrown by them’. Cobbling together an income from various social transfers, together with occasional work on the black market, becomes widespread and, for many, often constitutes the only way to make ends meet. This situation also entails a specific lifestyle, wherein it is really hard to promote, especially among excluded people, the attitudes of self-reliance and pro-activeness.

We should add that Poland is not the only country that has to cope with the problem of its citizens becoming, in growing numbers, the consumers of social transfers: it is an urgent problem in all (and not only) EU countries, no matter what model of social policy they adopted (residual, continental, social-democratic or so-called Mediterranean). Everywhere, the 'end of welfare as we know it' has become evident, which explains the widespread efforts to find some new model that would lead from a welfare state to a welfare society, or from welfare to workfare. Increasingly, a 'privatization of responsibility' is needed.

Poland, though somehow awkwardly, is trying to find such new social models – some of the efforts made in this sense are discussed below. What is lacking most acutely is an honest debate on social policy. The instruments used in public policy are often political 'gifts' to potential or actual voters. There is no sound intellectual and analytical background for, and more generally, no modern thinking on social policy as a whole. Instead of a broad vision, which is lacking, ever changing ideas and fashionable models are being implemented without proper preparation or reflection on their usefulness.

Access to EU funds

In connection with EU accession, a *Sectoral Operational Programme of Human Resources Development for 2004-2006* was prepared to develop a framework for the use of European Social Fund resources. The main purpose of the programme consists in 'building (...) an open, knowledge-based society by creating conditions for human resources development through education, training and work'. This aim is to be achieved through the implementation of activities within three priority areas: 1. Active employment market and occupational and social integration policy; 2. Development of a society based on knowledge; and 3. Technical assistance. Three quarters of the programme's funding were provided by the European Social Fund (ESF), while the rest of the resources come from domestic public sources. In total, the total budget for the programme's implementation amounted to almost 2 billion euros.

In the employment market policy perspective, the *Integrated Operational Programme for Regional Development* also plays an important role, and one of its priorities – enhancing human resources in regions – includes issues such as occupational re-orientation, skill improvement, and educational opportunities levelling. Over 4 billion euros were used for the implementation of the programme. Activities related to the employment market are also supported within the framework of the EQUAL Initiative (approximately 120 million euros from the ESF), which mainly focuses on testing and promoting innovative methods to fight discrimination and inequality on the employment market. The EQUAL Initiative is especially worth noting here, as one of its components (theme D) is dedicated to social-economy and third-sector enhancement. In Poland, 27 partnerships with such a purpose are operative (to a large extent, they focus on assistance to social cooperatives).

Territorial self-government (*inter alia*, local Employment Offices) has been the main beneficiary of EU Structural Funds. The basic framework of Polish employment services was shaped in the early 1990s (partly as a result of the assistance provided by many EU countries and the implementation of a World Bank project focused on the needs of employment offices). In the years 1993-1999, public employment services in Poland operated as special administration agencies, under the supervision of the Minister of Labour and Social Policy. A decisive change in their functioning came with the reform of the administration in Poland – employment policy was decentralized, which resulted in numerous problems, such as the inability to implement a coherent, comprehensive policy in the field or to use common standards of services. These problems were deepened by public employment services personnel problems, connected with high turnover rates and financial deficit.

According to data from 2005¹⁰⁵, public employment services include 350 offices, and employ approximately 18,000 people; their human resources capacities increased in comparison to 2003, but still seem to be insufficient to ensure an efficient and effective operation of public employment services (by the end of 2004, in Poland, every employment broker serviced on average

¹⁰⁵ Based on a diagnosis prepared for the purpose of the *National Employment Strategy for 2007–2013*.

approximately 1,850 unemployed people, against an average of 300 people in other EU countries). Public employment services personnel qualifications also remain unsatisfactory: less than 50 percent of them have a university degree. It should be noted that in 2007 the Foundation for Social Economic Initiatives organized (in cooperation with the Ministry of Labour) a national social economy training program for all Public Employment Agencies.

By mid-2006, the majority of financial resources from the Structural Funds for the years 2004-2006 had already been allocated. According to the diagnosis established for the purposes of the *National Cohesion Strategy (National Strategic Framework of Reference 2007-2013, supporting economic growth and employment)*, in the years 2004-2006, funds from the EU had been allocated mainly to infrastructural projects in the fields of transportation and environmental protection, and only to a smaller extent to activities supporting human resources development or the information society and research and development projects. Nevertheless, as shown in the aforementioned diagnosis, an increase in demand for occupational trainings has been recorded, which resulted to a great extent from the availability of ESF funds: it seems that trainings became more popular as a result of a greater 'supply' of financial resources supporting these kind of activities. Indeed, the trainings are very widespread, but unfortunately they seem to be lacking in effectiveness and clear direction to the groups where they are most needed. More and more often, the organizations providing training are 'hunting' for beneficiaries. It is also worth underlining that non-governmental organizations (NGOs) – smaller ones in particular – have only very limited access to financial resources from the EU. Efforts are currently being made to facilitate access to the funds available in the framework of the plans prepared for the new programming period (2007-2013). The non-governmental circles actively solicit the introduction of a special micro-grants system, addressed to micro-initiatives.

Modernization of the various approaches to the third sector

When observed through the glasses of the social entrepreneurship paradigm, the third sector re-

veals various seemingly inherent limitations – what has been termed the 'voluntary failure'.¹⁰⁶ In the context of the discussion on social entrepreneurship and its possible beneficial effects, the most important drawbacks worth mentioning here, from a funding perspective, are the so-called 'philanthropic insufficiency' and 'philanthropic amateurism'. Still, the third sector seems to constitute the most promising – and in some sense the most natural – institutional basis for the fast development of social enterprises in Poland. The third sector itself should see social entrepreneurship and social enterprises as an effective method for organizations to achieve relative financial independence from both sponsors and public administration.

Social entrepreneurship may also prove attractive for the so-called 'old social economy' organizations, which, in the communist period, were largely overtaken (at least in Poland) by the state and are nowadays undergoing a severe crisis of identity. These organizations must have noticed the new markets which are opening up in the field of public services and common-good services. In these fields, inevitably, they have to compete with the non-governmental sector. In this perspective, the area of the 'new social economy' can be seen as a kind of common ground for the two sectors, and to some extent a common remedy for their respective problems. The new social economy may prove interesting at least for the section of the cooperative movement that is not capable of surviving on the open market for services (without compromising its character and undergoing de-mutualization processes), while, for the third sector, it can constitute an opportunity to achieve true autonomy or self-reliance.

1.1b Main characteristics of the third sector in Poland

The concept of the third sector, as an area distinct from both the state and the market, started to be used in Poland with the transformation of the 1990s. It was accompanied by notions such as 'non-profit organizations' or 'non-governmental organizations', which soon replaced the exploited and historically compromised concept (associated

¹⁰⁶ Salamon, 1987.

with the 'social actions' of the communist era) of 'social organizations'. The fact that the Polish counterpart of the term 'non-governmental organization' was finally adopted to refer to the third sector was by no way accidental. Indeed, the term 'non-governmental organization' seemed to be, for historical and political reasons, the easiest to accept and the best-fitted to express the emancipation nature of the civil movement of the early 1990s. It should however be noted that, from the very beginning, it was in practice used interchangeably with the term 'non-profit organization'. Both terms have, so to speak, a somewhat 'negative' and 'residual' nature: both start with the prefix 'non', which demarcates these concepts respectively from the state ('non-governmental') and from the market ('non-profit').

Later, the concept of the third sector started to be used more widely, in an effort to unify the existing terminology. Though the term 'third sector' is the least recognizable (public opinion surveys led by KLON in 2005 show that the term is recognized by only 5 percent of respondents, while 30 percent of respondents recognized the term 'non-governmental sector'), it served as a kind of synthesis, referring to organizations which were simultaneously non-profit *and* non-governmental. By using this term, one avoids the necessity to specify which of the two oppositions (to the state or to the market) is most relevant in a particular case; the 'third sector' concept even goes further in this direction, as it indicates that both oppositions are to some extent relevant. Finally, it also underlines the fact that the described organizations form a separate 'sector'. The three concepts – 'non-governmental sector', 'non-profit sector' and 'third sector' – thus started to be used in practice as synonyms, in particular among practitioners.

During the above-described process of terminology shaping, in the early 1990s, the third sector practically excluded the so-called 'old social economy' (and in particular cooperatives). In the prevailing view, they were indiscriminately doomed to remain in the area of the previous communist rule, and were not counted as genuine participants of the emerging third sector – at the time, they seemed neither very non-governmental, nor very non-profit. In fact, even the cooperative sector saw itself as a separate realm. And to some extent, the situation has remained unchanged to this day, and not only in Poland. The belief according to which the cooperative sector in Poland was

not part of the third sector became predominant. Today, this situation gives rise to some logical problems: Indeed, if we assume that cooperatives are not included in the third sector, then generally (if we accept the division in three sectors) they belong nowhere. It is also a problem for cooperatives themselves, and perhaps the price they pay for their close affiliations with other sectors.

This terminological problem becomes especially visible as far as the social economy is concerned. Leaving the old social economy outside the third sector seems to be a mistake. But on the other hand, considering, in the Polish context, that the third sector also includes cooperatives, amounts to supporting a thesis that – although apparently correct from a logical and formal point of view – is contrary to the widespread and accepted opinion. How could this deadlock be broken? It seems that two concepts of the third sector (one narrower, the other one broader) are in use here. Indeed, we can speak of the third sector in its narrower sense, as it is the case in Poland, and focus on the traditional non-governmental or non-profit organizations. On the other hand, we can also (as we do in this publication) use the concept of the third sector in a broader sense, including in this sector almost every institutional form situated outside the market, the state and the family (production, redistribution, reproduction) – hence not only foundations and associations, but also cooperatives and mutual societies.

As for the 'social economy', although the term was not commonly used until very recently, the realities it refers to have a long tradition in Poland. For a long time, social economy organizations have had a specific status, not only as an instrument of emancipation of their members, but also a tool of emancipation of the nation as a whole. Some 120 years of annexation created a system of institutions addressing the needs of the society in which they were created, as well as various strategies of acculturation of the Polish nation imposed by the occupants. While at the time in Western Europe the impulse for the development of the social economy was mostly related to the industrialization processes, in Poland, it was also associated with political motivations, which resulted in a situation where purely economical ventures were in fact shaped around social purposes.¹⁰⁷ It might be as a result of these particular circumstances that in the 20-year period between the two World Wars, the

social economy in Poland accounted for a significant segment of the national economy. Its importance was due not only to its economic importance (there were over 20,000 cooperatives in the country, and 50 percent of the insurance market was under the control of mutual insurance companies), but also to its importance as a sector inspiring social and cultural activities, especially in the rural areas.¹⁰⁸

However, the events of the last 70 years have to a large extent ruined these accomplishments. For those entities of the 'traditional' social economy (such as cooperatives) which survived, the cost of this survival was the loss of their independence. They are still paying the price today, struggling with their image (as well as their past) of servile extensions of the communist regime. The 'new social economy' is only starting to sprout, mainly in the non-governmental sector, which is itself (despite the existence of a small number of organizations which managed to survive the communist era and the transitory period after the collapse of communism) in the phase of early youth. Under these conditions, articulating social enterprises as a specific dynamic within third sector organizations represents a challenge. To address it properly, it is not enough to assess the extent to which the formal characteristics of these institutions fit the idea of social entrepreneurship; one must also assess the extent to which the concept reflects the reality of their functioning. Taking this into consideration, we propose below a review of the Polish third sector based on the criteria that allows for the consideration of this sector as enabling for social enterprises. Due to the continuity of 'The Role of Social Enterprises in Employment Generation in CEE and the CIS' project and the need for maintaining a common perspective with the participating partners, the starting point was the definition proposed by EMES within the scope of the project.¹⁰⁹

Analysing the background for social enterprises in Poland

The analysis will be used for three purposes. First of all, it will deliver basic information on the charac-

teristics and the number of organizations, taking into account the whole spectrum of institutions which constitute the basis for the development of social enterprises. Second, it will be used to distinguish those organizations within the Polish third sector that can already be regarded as making up an emerging 'social enterprises sector', and to describe their conditions and profile of operations. Finally, it will constitute an opportunity to present several comments related to the applicability of the EMES criteria under the Polish conditions.

We will start our analysis with the presentation of the data describing the potential of the social economy in Poland. Putting aside discussions concerning the delimitation of its borders and the extent to which different solutions in this area can be treated as universal, one should begin with the currently most popular institutional definition of the social economy, according to which this term is synonymous with the broader definition of the third sector. It includes voluntary organizations (non-profit organizations or associations), economic self-governing organizations (which in Poland form a separate, legally distinguished form of gathering), cooperatives, mutual aid societies, foundations and trusts. Some of these organizational forms have a long history in Poland, while others (such as trusts) are practically non-existent. Over the past years, new, hybrid-type organizations are also being set up, as a result of the increasing popularity of the social economy concept; these organizations combine different characteristics of the abovementioned types of institutions. In the broad categories of the 'traditional non-profit sector' and of the 'new' and 'old social economy', the following types of entities could evolve into social enterprises.

Voluntary organizations (associations and foundations): according to the data of REGON (National Official Business Register) from September 2006, there are currently over 63,000 non-governmental organizations in Poland (not counting approximately 15,000 Voluntary Fire Brigades¹¹⁰), namely 55,000 associations and 8,200 foundations. These data only include organizations reg-

¹⁰⁷ Frączak, 2006.

¹⁰⁸ Kochanowicz, 1992.

¹⁰⁹ EMES European Research Network, 2006.

¹¹⁰ Voluntary Fire Brigades, although they have a legal form of associations, are treated in Poland as entities of a different character, mostly due to their direct relations with the local government, political connections and strongly centralized structure. Nevertheless, it is worth emphasizing that they constitute probably the most important social institutions in the rural areas, especially in Eastern Poland, where they 'replace' other forms of organizations (a situation which, from the point of view of strategies aiming at developing the non-governmental sector, can be regarded as a problem).

istered in the REGON system as 'parent units'. If we also take into consideration these organizations' local branches, the total number of registered non-governmental organizations in Poland exceeds 70,000. However, it should be stressed that some organizations listed in REGON (from 10 to 40 percent of the registered organizations, depending on the method of assessment) are no longer operational. They do not exist anymore but stay in the system because organizations are not required to inform the REGON of their disbandment as well as because this disbandment requires complicated procedures. On the other hand, the REGON does not take into consideration 'informal' initiatives – *de facto* organizations which do not have a legal status and are not registered as local branches. There are quite solid reasons to believe that they are numerous.

Business support/professional organizations:

Although these organizations were not included in the Polish part of the initial EMES report, they are direct inheritors of the traditional ways of organizing around economic interests, in the form of guilds, economic chambers, professional organizations, etc. There are around 5,500 such organizations in Poland today.

Cooperatives: More than 12,500 cooperatives are registered in Poland today (even though, according to the data of the National Cooperative Council, in practice, less than 10,000 cooperatives are actually in operation): housing cooperatives (approximately 5,000), agricultural and rural production cooperatives (about 4,000), workers cooperatives (1,300), cooperative banks or financial societies (approximately 800).

Mutual societies: This history of mutual societies in Poland goes back to the Middle Ages. They played a significant role in rural areas, as a form of collective protection against natural threats (e.g. fire associations served as a common insurance against damages caused by fire), management (e.g. water companies), providing neighbourhood aid, cheap credits and loans as well as grants for the poorest. Mutual Insurance Associations were among the largest ones; their market share reached 50 percent before World War II. After the war, the whole mutual movement was practically destroyed,¹¹¹ and it is currently slowly being rebuilt.

In Poland there are today nine Mutual Insurance Companies operating (their joint turnover reached almost 200 million PLN, i.e. around 50 million euros in 2005), and almost 900 other mutual institutions (mainly savings and loans associations).

The 'new social economy'

Transformations of 'traditional' entities of the third sector after 1989 have recently been accompanied by the development of new types of institutions and organizations, which combine the features of economic and social ventures. The formation of some of them is the result of a spontaneous evolution of the sector itself (e.g. 'economization' of existing non-governmental organizations, or creation of other, new organizations). This evolution is linked to the 'founding' process, stimulated from above (for example by the administration), which sees these organizations as a means of dealing with the inefficiency of the public system of social aid. The new social economy includes Social Cooperatives, Vocational Rehabilitation Facilities and Social Integration Centres. Social Cooperatives, formally introduced by the provisions of the Act on social cooperatives of 27 April 2006, had in practice started to sprout over a year earlier. Modelled on Italian social cooperatives, they combine an economic activity with the social and professional integration of their members – disabled people or people experiencing difficulties on the labour market. By the end of 2006, over 60 social cooperatives were operational throughout the country. Vocational Rehabilitation Facilities are basically businesses operating in the field of supported employment, helping people who experience particular difficulties to access the labour market. Founded by the Act on vocational rehabilitation and employment of the handicapped of 27 August 1997, they are still very few (35 as of the end of 2006), which is mostly due to formal problems connected with their operation. A significant share of these organizations were established by self-government authorities and controlled by them, which – together with the fact that they are not membership-based organizations – seems to be problematic when one recalls the dominating conceptions of the social enterprise. However, they are regarded by many as a kind of 'prototype social enterprise' in Poland.

¹¹¹ Leś, 1994.

Table 6 – The Third Sector in Poland

	Types of organizations	No. of registered organizations	Employment (No. of employees ¹¹²)	Members
	Associations & foundations	63,000	120,000	9-10,000,000 ¹¹³
	Business-support organizations	5,500	33,000	1,100,000
	Cooperatives	12,800	440,000 ¹¹⁴	6,000,000 ⁸
	Cooperatives for the Disabled	350	55,000 ¹¹⁵	30,000
	Mutual Insurance Associations	9	500	?
	Other mutual aid associations	880	?	?
	Social Cooperatives	106 ¹¹⁶	500	400
	Vocational Rehabilitation Facilities	35	1700	-
	Social Integration Centres+Clubs	35+90	500+?	-
	Total	Approx. 83,000	Approx. 600,000	Approx. 16-17,000,000

Finally, Social Integration Centres and Clubs constitute newly introduced support facilities; they were founded by the Act on social employment of 2003. Altogether, at the end of 2006, there were around 35 Social Integration Centres and over 90 Social Integration Clubs in Poland. These types of organizations can be established both by

public and private institutions; currently, their founders are most often local authorities or institutions of public administration operating in the sphere of social help.

The information presented above draws a picture of the social economy in Poland as a sector includ-

¹¹² The employment statistics refer to the number of paid employees, regardless of the form of employment.

¹¹³ This figure should not be treated as referring to the number of people who are members of organizations, as it is based on the data acquired from the organizations, not from individuals, and thus reflects the total number of members declared by organizations. The distinction is important because, on the one hand, some people may be members of more than one organization and, on the other hand (especially in Poland, given the size and the image of some of the organizations, like the Polish Red Cross or the Polish Fishing Association), not all members may be aware that they actually are members. At the level of individuals, the total number of Poles declaring membership in at least one organization is approximately 6.8 million (see Gumkowska M. (2006) 'Volunteerism, Philanthropy and 1 percent in Poland 2005', Warsaw: Klon/Jawor Association).

¹¹⁴ Krysiak I. (2006) Information on the cooperative sector in Poland. Prepared for BISE Bank. Available at: http://www.ekonomiaspoleczna.pl/files/ekonomiaspoleczna.pl/public/biblioteka_eS_pliki/Raport_o_sektorze_spoldzielczym.doc. Data from the research 'Condition of social economy sector in Poland 2006' deliver almost the same results.

¹¹⁵ Based on the assumption (on the basis of National Cooperative Council assessments) that the number of active cooperatives approximates 10,000, and within the cluster of cooperatives for the handicapped there are 260.

¹¹⁶ At the beginning of 2007.

ing a wide and heterogeneous set of institutions. On the basis of the available figures (which, in some cases, are estimates), it can be said that this sector includes over 75,000 organizations, employing almost 600,000 people and brings together a total of 15 million members.¹¹⁷

These numbers in fact do not say much about the potential of the Polish third sector as a driving force in the development of social enterprises. They only indicate how broad the research area can be. It is difficult to evaluate the odds for social enterprises' development within the diverse sub-sectors. For this purpose, we will now try to take a look at various entities that can be considered social enterprises using the definition proposed by EMES.¹¹⁸

1.1c Main challenges for the third sector with respect to social enterprise development

It seems that people in Poland are increasingly recognizing the terms 'social economy', 'social entrepreneurship' and 'social enterprises', at least judging from discussions with representatives of non-governmental organizations. Of course, the concepts have not entered yet (and may never enter) everyday language. In fact, when used outside the circle of interested people, an explanation is needed as to their precise meaning. Perhaps, like in the case of the term 'third sector', the notions are doomed to remain unfamiliar to the wider public. But the problem lies elsewhere: indeed, the important issue is not whether the terms will be more and more often mentioned in discussions, but rather whether the realities they refer to will become more widespread. So far, real achievements of the 'new social economy' in Poland are still far from being impressive. The limits of the social economy are being extended through terminological manipulations (such as the assumption that non-governmental organizations are in fact part of the social economy) rather than by its real growth. On the sectoral map, borders are being moved and already existing activities are being incorporated into the social economy, but the latter's real size

remains practically unchanged. Such a 'development' is of artificial rather than substantial nature. What could foster the genuine growth of the social economy, and in particular of social entrepreneurship? Below, we try to outline a basic, and necessarily far from exhaustive, 'map' of barriers and challenges for the development of the social economy in Poland.

We should start with challenges related to the difficult 'migration' of traditional non-profit organizations towards social enterprises. In fact, the very first risk is the risk of rejection of the social entrepreneurship idea within the non-profit sector. Data concerning the Polish non-governmental sector show how limited is the development of organizations that would meet the theoretical criteria of the EMES definition of the social enterprise. Every fifth organization employs remunerated personnel, every tenth receives more than 20 percent of its revenues from formally registered economic or remunerated activity, and more or less every twentieth meets both conditions. If we take into account other, 'softer' but at the same time perhaps more fundamental preconditions for defining social enterprise, such as for example a visible orientation towards using economic activity as a means to solve social problems, the group becomes even smaller. Non-governmental organizations are not especially exemplary organizations (in comparison to other segments of the third sector) as employers offering jobs for groups that are vulnerable to exclusion on the employment market.

Thus, we can advance the conclusion that social entrepreneurship in Poland is still a rare practice, and that examples of Polish social enterprises should be looked for using an Internet browser rather than scientific analyses. We may be pleased to see that, as it seems, the group of organizations willing to use economic instruments in their activity gradually grows in Poland. But we have no evidence to say that the last two years have witnessed an increase in the number of initiatives which engage in economic activities linked with a significant level of risk. It is also difficult to distinguish those initiatives that regard economic activity as a means to solve social problems from those for which it is only a

¹¹⁷ This does not mean, however, that 15 million Poles are members of third sector organizations (see note 5).

¹¹⁸ We will refer to the results of the research entitled 'State of social economy sector in Poland 2006', carried out in August 2006 on a stratified, representative sample of almost 2,000 different social-economy institutions.

method of self-financing. Finally, we have to ask what the prospects for a dynamic growth of this type of activity are, or more generally, whether, in the light of the present situation, one can expect an evolution of the Polish third sector towards a social entrepreneurship or social enterprise model.

Within the Polish non-profit sector, a substantial barrier to the development of social enterprises may be the specific *ethos* of social activity, which is understood rather in terms of redistribution than trade. For the majority of Polish organizations (and a vast majority of Poles), civic activity is defined by opposition to the logic of the market or the idea of 'profit'. More than half of associations and foundations (when we exclude those officially engaged in economic activities) are likely to agree that social organizations should provide all their services for free, and even more conceive of the sale of services by social organizations as inappropriate.¹¹⁹ The specific, anti-economic self-definition of the Polish non-profit sector which emerges from these opinions probably represents a more serious problem for the promotion of social enterprises than the present, limited scale of economic activeness within the non-profit sector. As a result, incubating social enterprises within the non-profit sector in Poland would require a cultural shift, an effort to influence the predominant ethos of social activeness, and it should be supported accordingly by the implementation of incentives aimed at the development of institutions with educational programmes.

Although non-governmental organizations may be expected to be interested in an evolution towards social entrepreneurship, the process of migration towards social entrepreneurship within the non-governmental sector may face many obstacles. First, many organizations generally prefer less risky financing strategies for their activities, based on sponsors and grants. Moreover, a lot of organizations believe that NGOs should not, in principle, pursue any economic activity. These doubts are not unreasonable: in some cases, we can already witness a kind of 'slipping into commercialization' among NGOs. Indeed, some organizations, after starting a commercial activity, quickly become virtually

undistinguishable from commercial businesses. After their 'conversion' to the market, they often reveal an unhealthy eagerness of neophytes, unflinchingly sticking to the principle that 'nothing is for free'. When absolved from the 'sin' of profit making, they seem to forget the goals for which they make this profit.

The key to this process lies not only in the sphere of intentions but also in the field of skills. Although NGOs are quite uncritical in the evaluation of their own competence and capability to compete on the open market, in our opinion the issue of competence may here be an important challenge.

1.2. Social enterprise development trends in Poland

1.2.1. Dimensional aspects and spatial distribution of social enterprises

In order to carry out an analysis of NGOs that may be considered social enterprises, one ought to start by identifying such organizations. This shall be done with reference to the EMES definition of social enterprise analyzed in the first part of this report. But to allow a statistical analysis, the group of selected enterprises needs to be large enough; consequently, we shall ignore those criteria which are not of key importance here or those which are difficult to operationalize in the Polish context. The criteria retained in this perspective are the following:

- sale of goods or services;
- independence from public administration and other legal entities;
- (assumed) exposure to economic risk.

These criteria define the set of organizations which we consider as the potential avant-garde of Polish social enterprises within the non-profit sector. This group includes both associations and foundations.

¹¹⁹ Gumkowska and Herbst, 2006.

It is also considered that all non-profit organizations are by nature meeting the following criteria:

- explicit aim to benefit the community;
- restricted profit distribution.

In view of the lack of data permitting a reliable analysis, the following criteria were not taken into account:

- 'grass-roots' nature of an organization;
- decision-making not based on capital ownership¹²⁰;
- participatory nature.

It is worth noting that leaving these criteria aside does not seem to lead to fundamental changes in the definition of the boundaries of the organizations in question, as we are of the opinion that a vast majority of NGOs meets them all anyway. Having applied the above criteria, exactly 100 units were selected from the 1,043 NGOs surveyed. We will now analyse the way in which these organizations (referred to as 'PSEs' – Potential Social Enterprises - hereinafter) stand out from the non-governmental sector as a whole. On the grounds of statistical weights computing results for the entire population of NGOs in Poland, one may estimate that some 3,000-4,000 organizations in the country meet the retained criteria. Of course, this should not be considered as the actual number of NGO-based social enterprises ('real' social enterprises are in fact very few). This set ought to be treated as the segment of the non-government sector that is closest to the social enterprise concept rather than as the 'hub' of social entrepreneurship.

Legal forms

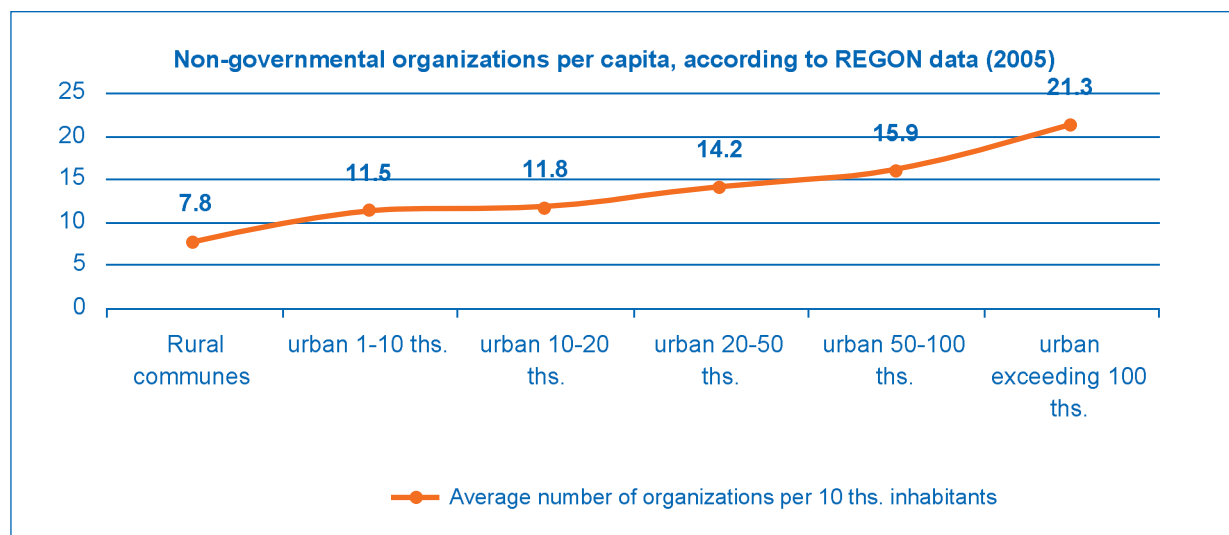
The vast majority of entities forming the non-governmental sector in Poland are associations. They represent 87 percent of the total number of organizations in the sector. In terms of legal forms, the structure of the group of organizations selected as PSEs is somewhat different. Almost one

fourth of these organizations are registered foundations, which no doubt is attributable to the fact that this status is more convenient for commercially oriented organizations. The relative overrepresentation of foundations among PSEs highlights the strain between some of the theoretical criteria of the definition of social enterprises, when applied to the non-profit sector. From the point of view of the EMES 'social' criteria for social enterprises, the most suitable institutional solution for social enterprises would be an association, while from the economic perspective it is the foundation that seems most appropriate. It is worth pointing this out because it demonstrates that in fact neither of the two legal forms is 'tailor-made' to the concept of social enterprise, and a question arises as to whether a new form or at least new legal arrangements (strengthening the social ties of foundations and/or inducing proper management, economic and tax solutions in the case of associations) would be needed to promote social entrepreneurship.

'Demographic profile'

In terms of the age structure, organizations that can be classified as potential social enterprises do not differ to a great extent from the majority of NGOs in Poland. PSEs are relatively young, as is the case of the entire Polish non-governmental sector. One fourth of the organizations have existed for fewer than three years and nearly 50 percent were established after 2001. What stands out is the proportionately large share, in the entire non-governmental sector, of organizations registered between 2001 and 2003. It can be stated that organizations founded in recent years more often than before intend to generate at least part of their funding from their own business activity. This is undoubtedly connected with the adoption of the Bill on Public Benefit and Volunteer Work (2003), which allowed organizations to run non-gratuitous non-profit business activity. The passing of this bill resulted in an increased interest, on the part of organizations, for the sale of their services, even though the Bill imposes many conditions – such as salary restrictions - on NGO business activity (conditions that

¹²⁰ This criterion could be applied theoretically if foundations were not included in the analyses set. However, in Poland a situation when donors are of key importance is as rare as are foundations that boast rich donors. Most foundations in Poland are founded without significant initial capital. This legal form is selected for other factors.

Figure 2 - The Rural-Urban Differentiation of PSEs

entities running regular business activity do not have to comply with).

From the point of view of social enterprise forecasts in Poland, and in particular the plans connected with the establishment of non-profit employment-oriented organizations, this tendency is positive. However, a relatively large share of potential social enterprises of the youngest organizations is more prone to the many 'childhood diseases' suffered by all developing institutions. The promotion of social enterprises in the Polish NGO sector should include institutional aid for newly established entities and support for their activity, in order to help them survive the first few years and overcome the initial problems encountered and errors committed.

Spatial distribution of social enterprises

In Poland, non-governmental organizations are concentrated in urban areas. According to REGON data, only slightly less than 20 percent of all NGOs registered in Poland are situated in rural areas (in rural municipalities and in rural parts of urban-rural municipalities), while 70 percent of them are located in urban communities (the remaining 11 percent are located in urban parts of the so-called 'mixed' - i.e. rural-urban - municipalities). The correlation between the urbanization of a locality and the presence of non-governmental organizations (as well as the latter's affluence in resources - an issue that will be discussed later) is also confirmed by survey data, which show that almost every third organization has its seat in rural areas or in towns of less than 20,000 inhabitants, 15 in

the Voivodship capitals alone (excluding the national capital). When we include Warsaw, then the share of NGOs operating in the 16 major Polish cities reaches 40 percent of the total number of NGOs. This disproportion is, to some extent, understandable, as the biggest cities, which are densely populated and are regional administration centres, form a naturally favourable environment for self-organization. However, the positive correlation between the relative number of organizations and urbanization depends not only on the number of inhabitants of a locality or its administrative position. It holds true even when we 'correct' the figures by taking into account the differences in density of population, i.e. when we use the indicator of the 'number of organizations per inhabitant'.

Employees in social enterprises

As mentioned before, the employment of remunerated personnel is one of the most important (theoretical) criteria for including an organization into the group of 'social enterprises'. So first, social enterprises are to employ personnel, because their activity should be based on principles similar to those accepted by 'normal' (in the sense of 'operating solely on the principle of economic effectiveness') enterprises that, in their management practice, take into account economic calculation rather than activism or social engagement (which, of course, does not mean that they are not allowed or should not use these specific resources). Second, social enterprises are to employ personnel to meet expectations that this type of organization will create jobs, expand

Table 7 - Distribution of Polish NGOs and PSEs According to Their Number of Workers

	Distribution of Polish NGOs according to their number of employees	Distribution of Polish NGOs according to their number of permanent employees	Percentage of organizations where members or directors work for the organization as volunteers – Poland	Distribution of Polish PSEs according to their number of employees	Percentage of organizations having permanent employees - %PSE	Percentage of organizations where members or directors work for the organization as volunteers - %PSE
None	74.5%	80.6%	2.3%	41.9%	53.2%	6.7%
1-5 employees	18.1%	15%	38%	34.1%	37%	36.2%
6-10 employees	2.5%	0.9%	24.3%	9.6%	1%	22.6%
11-20 employees	2.4%	1.9%	17.9%	9.6%	6%	18.4%
> 20 employees	2.4%	1.6%	17.5%	4.9%	2.8%	16.1%
Total	100%	100%	100%	100%	100%	100%

employment and achieve important social goals, while at the same time contributing to economic emancipation of their employees. And third, it is expected that some social enterprises (e.g. work integration social enterprises) will be employers of a special kind, offering jobs and professional job training opportunities to people who, for various reasons, cannot find employment on the open market.

Thus, in theory, the organizations described here as 'potential social enterprises' should all employ remunerated personnel. But as we mentioned before, the Polish non-governmental sector is not ready yet to meet this requirement: it is so frequent for Polish organizations not to meet this condition that it cannot be taken into account in our analysis. That is why a quite high percentage of organizations included in our group do not employ remunerated personnel, though most of them, unlike the rest of Polish NGOs, do. Approximately 60 percent of the organizations selected on the basis of the other criteria have remunerated employees, while in the whole non-governmental sector, only 25.5 percent of organizations employ paid personnel. Almost half of PSEs employ workers on the basis of (permanent) employment agreement; this figure only reaches about 20 percent for all NGOs. The lack of remunerated personnel in organizations is compensated by the social commitment of volunteers (this issue will be discussed in more

detail later), be it as members or directors. Such voluntary help may take the form of regular, unpaid work for the organization, and it constitutes an important factor both in individual organizations and in the non-governmental sector as a whole, though it is usually ignored in documents on NGOs' 'human resources', which only take into account data on the membership of organizations. When trying to estimate the scope of the phenomenon, we find out that two Polish organizations out of three rely, for their activities, on the regular voluntary work of more than five persons. For the whole sector, voluntary commitment amounts to approximately 800,000 'voluntary workers' (who, as we have just said, should not be mixed up with volunteers coming from outside of the organization).

These data, compared with the results of earlier editions of the survey led by Klon/Jawor Association, shed new light on the situation. On the one hand, in the last two years, the percentage of organizations employing remunerated personnel has significantly fallen – from 33 percent in 2004 to 25.5 percent in 2006. But on the other hand, statistical data on the total numbers of employees in the sector, based on respondents' answers about the number of employees in their organizations, have remained unchanged. Like in 2004, the total number of people remunerated for their work in non-governmental organizations can be estimated in 2006 at approximately

120,000, and the number of full-time jobs at approximately 64,000.

Structure and dynamic of organizations' income

Between 2004 and 2006, no major changes were recorded in the structure of the non-governmental sector's income sources. The slight changes that have taken place seem to indicate a negative evolution. In 2004, a 'median' organization enjoyed an annual income of approximately 13,000 PLN (which means that the annual income of half the organizations did not exceed this amount), while in 2006, this figure did not exceed 10,000 PLN, but this difference is not large enough to be statistically significant. In 2006, as in 2004, one Polish non-governmental organization out of five had an income not exceeding 1000 PLN, while approximately 4 percent of Polish NGOs had an income superior to 1 million PLN. The extent of the sector's stratification in terms of income is evidenced by the fact that 4 percent of organizations account for between 70 and 80 percent of the sector's total income (depending on the method of estimation).

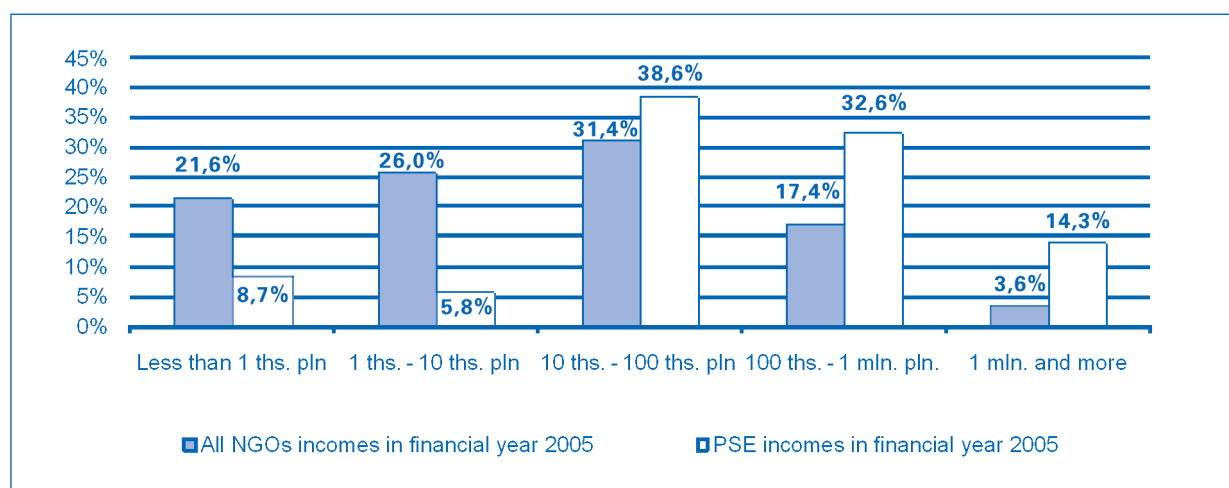
As can be expected from the data described above, the budgetary structure of PSEs significantly differs from that of the non-governmental sector as a whole. In this respect, like in terms of scope of activities or number of employees, PSEs are, statis-

tically, much stronger than simple NGOs. Less than 10 percent of PSEs belong to the group of organizations that are practically bereft of funds, while approximately 85 percent of them (against slightly more than 50 percent of all NGOs) had in 2005 funds exceeding 10,000 PLN. Moreover, 45 percent of PSEs report that they possess some financial surplus that may be used when existing sources of financing fall short – in the non-governmental sector as a whole, this figure is only 18.5 percent.

As already mentioned, the financial condition of the non-governmental sector as a whole remains statistically stable, though it should be noted that the evaluation is based on incomplete data.¹²¹ On the basis of the latter, a thesis may nevertheless be advanced: Within the group of organizations for which trend charts can be developed (i.e. organizations which had existed for more than two years)¹²², the financial situation of every second organization has changed only very slightly in recent years (the average annual income growth has not exceeded 7 percent). However, one NGO out of four has recorded annual budget growth of more than 35 percent in recent years.

In the light of the available data, PSEs seem to be in slightly better shape than the remaining NGOs. For one PSE out of two, the average annual growth rate of budgetary resources in recent years has reached 15 percent.¹²³

Figure 3 - Distribution of PSEs and NGOs According to Their Income Level (2005)



¹²¹ In the 2006 survey, in addition to providing their budget figures for 2005, organizations were asked to indicate their budgets for earlier years, starting with 2002 (except, of course, for organizations that did not exist previously). When gathering such data, an obstacle was often encountered: namely, the fact that NGOs (just like any other body) are reluctant to provide information of this kind. Moreover, recovering precise financial data for several years back may often be a quite difficult and time-consuming task. Nevertheless, the question was answered by 417, 486 and 584 respondents for the years 2002, 2003 and 2004, respectively.

¹²² Given the instability of the trends recorded for the organizations with the smallest budgets, the latter were excluded from the analysis; extreme cases were excluded as well.

¹²³ The limited number of organizations included in the sample does not allow for significant statistical analysis.

Table 8 - Sources of Income of PSEs and NGOs

Has your organization relied on the following funding sources in 2005?	% of positive answers among Polish NGOs	% of positive answers among Polish PSEs
Membership fees	59.5%	67.5%
Local self-government sources (funds from the municipality, district or voivodship self-government)	43.3%	37.8%
Gifts from individual persons (excluding the one-percent mechanism)	35.5%	30.0%
Gifts from institutions and firms	34.5%	35.8%
Governmental sources (funds from ministries, governmental agencies, Voivodship administration)	19.6%	24.2%
Bank interest, return on capital, deposits, shares, public company shares	14.4%	31.0%
Payments (covering costs) received for remunerated statutory activity of organization	9.3%	54.5%
Other sources	7.5%	7.7%
Assistance from other domestic non-governmental organizations	7.4%	6.7%
Income from campaigns, public collections, charitable initiatives	7.0%	7.7%
Income from economic activity	6.9%	53.5%
Income from the one-percent tax mechanism (concerns only public-benefit organizations)	6.0%	9.2%
Subsidies from another division of the same organization	4.6%	5.7%
Assistance from foreign non-governmental organizations	3.5%	3.7%
Income from assets (e.g. from rental of property, equipment, asset rights etc.)	3.2%	10.3%
Resources from EU structural funds	3.0%	5.7%
International assistance programmes	2.6%	3.9%

Sources of income

As regards their sources of income, PSEs also differ from other organizations. This is obviously related to the fact that they pursue extensive remunerated economic activity. Nevertheless, the main source of income among PSEs is membership contributions, which is all the more curious since PSEs take the form of foundations much more often than other NGOs do (24 percent of PSEs are foundations, against only 13 percent of all non-governmental organizations). Another characteristic which is worth noting here and which definitely differentiates PSEs from other NGOs is the fact that PSEs cite savings and investment (i.e. interests on bank accounts, returns on capital, deposits, shares and public company shares) as a source of income more than twice as often as NGOs in general. In this respect, the difference between PSEs and other NGOs is thus very pronounced. What might account for this is that PSEs are, in statistical terms, bigger than NGOs in general, more often located in big cities and, most importantly, have funds to invest – almost half of them reported financial surpluses. As for now, on the basis of available data, we can only say that PSEs, in comparison with other NGOs, seem to be extremely active in managing their assets and have more professional systems to do so. In short, they are more entrepreneurial. This is not surprising, since they pursue extensive economic activity.

1.2.2. Main sectors of activity and recipients

NGO fields of activity

NGOs covered by the survey were asked to indicate in which fields they were active and which fields among these were the most important in view of their declared mission. Their answers brought no surprise. Organizations mainly active in the areas of sports, recreation, tourism or hobbies were the most numerous: together, they represented almost 40 percent of the whole Polish non-governmental sector. The second most important group, in terms of number of NGOs

(with a much lower number of organizations) is that of organizations which mainly pursue activities in the area of art and culture, education, social services and social assistance, as well as health-care. Only 2 percent of the surveyed organizations have chosen the area of 'job market, employment and professional skills training services' as their main field of activity. Bearing in mind the scale of employment-related problems in Poland, as well as expert opinions that the non-governmental sector should more actively participate in employment-market policy implementation¹²⁴, this percentage seems to be extremely low. But what this figure shows is in fact that the field of labour-market services in Poland has been completely 'overtaken' by public agencies and (in the case of some services) by the commercial sector. Since most people who are permanently excluded from the labour market are unable to benefit from the services supplied by these agents, one can conclude that there is almost no real alternative designed to fit the needs of this group. The fact that almost 10 percent of organizations indicated employment market services as one of their areas of interest (and not necessarily the main one) does not really improve this gloomy picture.

Among PSEs, the situation regarding organizations' main field of activity is at first glance quite similar. The only field in which they seem to be engaged slightly more often than NGOs in general is that of education. But differences appear when analysing the figures about PSEs' various areas of activity (and not only their main field of activity): As much as 60 percent of PSEs – i.e. nearly double the number of NGOs – see education as an important field of activity. This percentage is obviously very likely to be linked to the fact that as much as 45 percent of PSEs cite training as their main field of economic activity. The fact that 'support for institutions and organizations' and 'scientific research' are also important fields of activity – cited by PSEs more frequently than by all NGOs – might be due to the same reason.

Labour market services

As already mentioned, one of the main reasons why the debate around social enterprises has

¹²⁴ Cf. For example UNDP Report (2005), *In care of work (W trosce o pracę)*, Warsaw: CASE, UNDP.

Table 9 - NGOs' and PSEs' Fields of Activity

Field of activity	Distribution of Polish NGOs according to their main field of activity - 2006	% of Polish NGOs indicating a given field as one of their fields of activity - 2006	Distribution of Polish PSEs according to their main field of activity - 2006	% of Polish PSEs indicating a given field as one of their fields of activity - 2006
SPORTS, TOURISM, RECREATION, HOBBIES	39.2%	46.7%	31.9%	37.2%
ART AND CULTURE	12.8%	23.1%	18.3%	35.5%
EDUCATION	10.3%	35.6%	15.5%	60.4%
SOCIAL SERVICES, SOCIAL ASSISTANCE	9.9%	20.5%	5.2%	14.6%
HEALTHCARE	8%	16.8%	5.8%	10.2%
LOCAL DEVELOPMENT	5.9%	13.4%	2.3%	12%
JOB MARKET, EMPLOYMENT, PROF. TRAINING	2.3%	8.8%	3.5%	11.3%
ENVIRONMENTAL PROTECTION	2.2%	8.8%	3.2%	14.9%
PROFESSIONAL AND INDUSTRIAL ISSUES	1.9%	3.9%	6.4%	9.3%
LAW, HUMAN RIGHTS, POLITICAL ACTIVITY	1.8%	6.9%	0.0%	4.7%
SCIENTIFIC RESEARCH	1.3%	5.6%	3.5%	11.4%
SUPPORT FOR INSTITUTIONS, NGOs	1%	9.5%	1.1%	20.6%
RELIGION	0.8%	3%	0.0%	4.5%
INTERNATIONAL ACTIVITIES	0.6%	7%	0.0%	12.3%
OTHER ACTIVITIES	2%	4.7%	3.3%	5.8%

become so heated today lies in the high hopes that social enterprises generate in their role as providers of new employment services and as creators of new jobs for groups that are especially vulnerable to exclusion from the open labour market. Both experts¹²⁵ and, to some extent, the results of the discussed survey confirm that the non-governmental sector creates an environment that is particularly conducive to the establishment of such organizations. The reasons for this include both the specific characteristics of these employment markets, which enable more flexible employment and are favourable to the employment of people in non-traditional life situations, and the potential role of non-public institutions that can be played by third sector

organizations in delivering employment-market services.

This role is qualified as 'potential' because the available data on the Polish non-governmental sector's participation in the fight against unemployment reveal that only about 8 percent of NGOs are active in employment generation services, and only 2 percent see this field as their main field of activity. Most commonly, their activities consist in delivering trainings, professional counselling, and services related to social and professional inclusion. The more demanding task of creating (permanent, temporary or protected) jobs is undertaken by some 40 percent of NGOs dealing with labour-market services, i.e.

¹²⁵ Cf. for example www.bezrobocie.org.pl or the already mentioned report by the UNDP and CASE, *In care of work*.

Table 10 - The Third Sector as an Employer for Vulnerable Groups

Categories of employees	% of organizations employing people from a given category (among organizations employing remunerated personnel)		
	Non-governmental organizations	Business organizations	Cooperatives
People...			
Over 50 years of age	39.1%	65.2%	85.9%
Retired or pensioners	28.8%	25.5%	43.3%
Entering the job market (young people)	18.4%	12.5%	19.5%
Physically disabled	5%	7%	13.9%
Long-term unemployed	4.9%	1.8%	6.3%
Working at home for health reasons	1.9%	-	0.5%
Recent immigrants or refugees	1.3%	-	1%
Working at home for family reasons	1%	-	1.1%
Unemployed or under public works programmes	0.9%	2.1%	1.4%
Ex-convicts	0.61%	-	0.3%
Mentally disabled	0.3%	3.4%	2.6%
Homeless or exiting homelessness	0.03%	1.8%	1%

only 3.6 percent of all NGOs. These organizations are presumably those that are making the first contribution to social enterprise development in Poland. This is especially true if we take into account the functions they should fulfil as social policy implementation organizations.

On the basis of data about the frequency at which Poles use the services delivered by different kinds of organizations, it can be estimated that the group of recipients of services delivered by 'labour-market NGOs' includes at least 400,000 people (Gumkowska, 2006).

Quite independently from NGOs' actual or potential role in the active fight against unemployment, NGOs themselves form, in the opinion of many observers, an interesting niche on the job market, especially fitted to the needs of people who find it hard to get a job in other sectors. This may well be the case, but we have to say that, so far, this hypothesis finds no support in

the statistical data. It is true that approximately 60 percent of organizations employing remunerated personnel hire employees who, in view of their age, health condition or disabilities, are especially vulnerable in the labour market, and that 7.3 percent of these organizations use supported forms of employment, but when compared with economic entities, and in particular cooperatives, they do not seem to be a 'haven' for such people. Thus, though it is hard to refute the notion that the non-profit sector could create an especially attractive environment for flexible forms of employment, especially for those who are experiencing difficulties on the labour market, in Poland this potential remains untapped. This function of the sector remains a project rather than a practice, and if employment in the non-governmental sector is indeed 'flexible', in terms of loose ties between employees and employers, it is simply due to the weakness of NGOs, which are unable to offer stable employment to their workers.

Economic activity

In 2006, in the entire Polish non-governmental sector, 14.7 percent of organizations pursued remunerated not-for-profit activities (a form of economic activity introduced by the Act on Public Benefit and Volunteerism of 2003) and 8 percent ran a 'regular' business.¹²⁶ New light is shed on these data if we bear in mind that in 2004 economic activity was declared by approximately 16 percent of organizations, while income from (at the time, recently allowed) remunerated statutory activity was declared by a small percentage. It seems that in migrating towards remunerated not-for-profit activity organizations have encountered both formal obligations connected with 'regular' business activity, as well as cultural and mental barriers, which are described in more detail below. We can reasonably hope that organizations' increasing tendency to cover some of their own costs – a trend that was initiated by the Act – will continue in the future. However, at the same time, the radical decrease in the number of organizations that openly pursue economic activity (involving the risk-taking related to the sale of goods and services) may be a worrying factor for the supporters of a market orientation by the third sector.

Economic activity, whatever its form, is pursued by 18 percent of organizations, which means that over 80 percent of organizations do not offer remunerated services. But reality diverges to a great extent from this official picture. This is good news – rather than a troubling fact – for the supporters of a market orientation for third sector organizations. Among those 18 percent of 'formal enterprises', in practice, only one enterprise out of ten derives more than 20 percent of its income from the remunerated activity. Organizations that produce something are almost nonexistent: most commonly, they offer training services and services related to the organization and operation of various events. Slightly less frequently, they are active in the areas of publishing, trade and services. If we bear in mind the role of income from remuneration in the structure of their revenues, we should not be surprised that PSEs (more often than other NGOs) carry out more than one type of activity. As mentioned earlier, more than half of

them operate on the training market, and approximately one fifth organizes events or engages in publishing or trade and service activity.

1.2.3. Relations established between social enterprises and public agencies

The role of government

In recent years, the government in Poland has contributed to the promotion of the social economy. This is especially true of several officials in the Ministry of Labour and Social Policy, who made special efforts to create a separate legislation regulating the operation of the so-called 'social cooperatives'. Provisions were gradually introduced, first as a part of the Cooperative Law, and then as a separate Act. But once again, we should underline here that many of the achievements resulted from efforts of individual government officials rather than from a concerted action and strategy on the part of the whole government. The Law on Social Cooperatives is currently under legislative revision, but the process has been interrupted by recent parliamentary elections.

At present, the government is also completing the preparation of documents related to the so-called new EU programming period, for the years 2007-13. These documents may have a huge impact on the future development of Poland. It should be noted that the 'social economy' concept is present in the documents (both at the regional and national levels). Interestingly, Poland openly promotes the social economy as part of its 2007-13 programming documents.

So far, social economy development is considered in the context of priorities related to human capital development, especially regarding social integration. The inclusion of the social economy in the leading themes of the biannual National Action Plan for Inclusion can also be seen as a significant success. On the part of the non-governmental sector, consultations on the said documents have been organized mainly by the *Stała Konferencja Ekonomii Społecznej* – SKES (Perma-

¹²⁶ These results are slightly different from data on the organizations' sources of financing. This can be accounted for by the fact that some organizations that formally pursue an activity may, in a given year, have no income deriving from it. The difference may also result from the incompleteness of financial data: usually, a minor percentage of organizations refuse or are unable to provide information in this area.

nent Conference on the Social Economy in Poland). Founded three years ago, SKES brings together various circles connected with the social economy in Poland, and its unique advantage lies in the simultaneous participation of representatives of the traditional NGO circles and of the cooperative circles.. SKES prepared a list of proposals concerning the role of the social economy in programming documents for the years 2007-13.¹²⁷

*Modernization of the legal
/ regulatory environment*

The Act on Social Cooperatives

There are several regulatory efforts related to social economy development in different areas. The first one is the Act on Social Cooperatives of April 27, 2006, that came into force on July 6, 2006¹²⁸. This Act represents in itself a small history of hopes and illusions related to regulatory efforts. It deserves special attention because it is the first legislation especially designed to promote a specific legal form for social economy initiatives, namely the so-called 'social cooperative'. In fact, in the Polish legal system, the social cooperative form was introduced earlier, with the coming into force, on 1 June 2004 of the Act on the Promotion of Employment and on Institutions of the Labour Market of 20 April 2004¹²⁹, which amended the Act of 16 September 1982 – the so-called Cooperative Law.¹³⁰ According to the Act on Social Cooperatives, the latter are a kind of labour cooperative, established by a special category of individuals, namely unemployed people (such as defined by the Act on the Promotion of Employment and on Institutions of the Labour Market) and people mentioned in the Act on Social Employment of 13 June 2003, i.e.:

- homeless people who follow an individualized programme to get off the streets;
- alcoholics, after completion of psychotherapy in an appropriate medical institution;

- drug addicts or people addicted to other illicit substances, after completion of a therapy in an appropriate medical institution;
- mentally ill people, such as defined in the regulations on mental healthcare;
- former prisoners who encounter social integration problems;
- refugees who implement an individual integration programme.

The Act on Social Cooperatives is seen by its promoters as a great achievement. In many respects, this Act was inspired by the Italian model of B-type social cooperatives. This legislative 'borrowing' generates great expectations (which, if disappointed, may cause problems for cooperatives), but social cooperatives are not flourishing in Poland: though it has been possible to establish social cooperatives since 2004, only 100 of them had been created as of October 2006, and many of these remain far from economically viable. In fact, many of them have not yet started operating; in their activity, they encounter many obstacles that result both from the environment in which they operate and from the lack of appropriate skills on the part of their founders, who often lack a proper 'sense of entrepreneurship'. It is also often difficult for cooperatives to obtain orders, be it from individuals, private businesses or public administration. It seems that there is a kind of incompatibility between the capabilities and aspirations of the cooperatives' members, on the one hand, and the expectations and requirements of their potential clients and partners, on the other hand. So far, in Poland there is no appropriate legal and cultural environment for social cooperatives. Quite often, they have an unfavourable public image, usually based on unjustified stereotypes. Their legal environment also reveals many defects, so they have to operate in a rather 'unfriendly environment'. For many, they are neither non-governmental organizations, nor real businesses. Indeed, the situation of Polish social coopera-

¹²⁷ The proposals relate in particular to the issue of equal treatment of social economy entities in terms of access to EU resources; demand for social economy development to be recognized as one of action directions; and covering of social economy institutions (which so far are almost exclusively seen as related to social integration and employment) by the support offered to traditional entrepreneurship (and especially to small- and medium-sized enterprises), in particular in the fields of training support, advisory support, and development of financial infrastructure adapted to the needs of the social economy. According to the plan, some 40 social-economy incubators will be established in different regions of Poland.

¹²⁸ DzU 2006, nr 94, poz. 651.

¹²⁹ DzU 2004, nr 99, poz. 1001.

¹³⁰ DzU 2003, nr 188, poz. 1848 ze zm.

tives reveals serious limitations as to the 'transferability' of models. It is worth noting here that in Italy, the discussion on social cooperatives had been going on for over 10 years, with the participation of both the Christian Democrats and the Communists, before the legal act regulating social cooperatives was adopted. And a movement for the economic self-reliance of special groups of people (a kind of proto-cooperative) had already started at least in the mid-1970s; the legal act of 1991 only regulated an existing and vigorous social sphere.

Obviously, the simple 'translation of the last chapter' cannot quickly bring about the desired results. The Polish legal and cultural environment, which is very different from the Italian environment (for example, in terms of regulation of access to public finances), makes the task even more difficult. The idea that people formerly excluded from the labour market can successfully start an economic activity meets either with suspicion (e.g. on the part of employers, concerning alleged fiscal manipulation and unfair competition), or with doubts as to the skillfulness of the workers concerned.

Law on Public Benefit and Volunteerism

The regulation that has had the most prominent impact on the development of forms of economic activity within the third sector is the Act on Public Benefit and Volunteerism. Passed in 2003, after seven years of preparation, this Act contains many very important provisions. The Act was welcomed by the majority of experts¹³¹ and organizations.

First, the Act introduced the concept of a public benefit organization, but in our discussion this aspect is less relevant. Most importantly, the Act provides for the possibility for organizations to conduct a so-called 'not-for-profit remunerated activity'. In practice, the provision means that, in addition to the formerly allowed possibility to pursue an economic activity (which, however, should be separated from the statutory activity), organizations are also permitted to receive - though only to a limited extent - payment for activities pursued in the field of their statutory

tasks. Such activity is not treated as an economic activity. The amount of the payment received should not exceed the amount necessary to cover the direct costs incurred in connection with the activities pursued (hence, by definition, the organization must not realize profits).

Secondly, in order to regulate the level of costs, some limitations on wages were introduced (1.5 times the average wage in the industry) for organizations pursuing not-for-profit remunerated activities. A great majority of experts¹³² and NGOs supported the new arrangements. However, an important problem lies in the requirement, included in the Act, to separate the statutory activities from the economic activity. For many years, among practitioners, lawyers and judges alike, a discussion has been held on the relationship between the area of statutory activity and that of economic activity. The issue is obviously of fundamental importance for the development of social enterprises. Among many non-governmental organizations, the economic activity is often seen as a 'necessary evil', permissible only in view of the weakness of domestic philanthropy, and the resulting need to supplement the funds used for statutory tasks. Regularly, but fortunately without effect, proposals are submitted to prohibit NGOs from carrying out an economic activity. The Law on Public Benefit and Volunteerism is currently under revision, and one of the most important elements of debate is the question of the economic activities of NGOs. In September 2007, a Parliamentary Public Hearing was organized. The newly elected parliament will continue to work on the proposed modification of this regulation.

Proposed new legislation - the Law on Social Enterprises

Currently, a new legal initiative is becoming the subject of intense deliberation; a conceptual framework, partially inspired by the British 'Community Interest Company' concept, has been developed by a group of scholars (Prof. Izdebski and Prof. Hausner). According to the proposal they have made, any type of institution would be able to establish a special subsidiary social enterprise (without separate legal incorpo-

¹³¹ In 2005, the KLON/JAWOR Association led a survey covering a group of approximately 300 experts (Expert Panel 2005); over 70 percent of these experts were of the view that the new Act would improve the situation of organizations.

¹³² Some 85 percent of the Panel respondents supported this provision.

ration), defined by a set of criteria very close to those introduced by EMES. The draft of the Law on Social Enterprises will most probably be available at the beginning of 2008.

Government strategy for the development of social enterprises

The government agenda includes several efforts to promote social entrepreneurship and social enterprises. Recently the government (in consultation with the non-governmental sector) concluded its work on a *Strategy for the Development of Civil Society in Poland*. The chapter of this strategy dedicated to plans related to the social economy is quite vague and should be further developed later. It is worth considering trying to convince the government (as happened for example in the UK) to give the social entrepreneurship and social enterprise issue a more strategic position. This could be achieved by various groups involved in the last phases of the Equal Projects, as several Partnerships are involved in the mainstreaming of their results. In particular, one of the Partnerships – ‘In search of a Polish Model of Social Economy’ (administrated by the Foundation for Socioeconomic Indicators) is specifically working on the elaboration of an aggregated and agreed upon set of recommendations related to the development of social enterprises. It will take the form of a ‘Manifesto for the Social Economy’ (similar to those published in the UK and Finland for social enterprises).

1.3. SWOT analysis of social enterprise development in Poland

Strengths	Weaknesses
<p>Good internal communication of social economy actors.</p> <p>Well-developed social economy infrastructure (training, information, integration)</p> <p>Relatively well-developed research related to social economy</p> <p>Dynamism of individuals involved in social economy promotion</p> <p>Good (dense) international network of cooperation</p>	<p>Relatively small size of social enterprise sector.</p> <p>Lack of access to proper financial infrastructure (specially funding for capacity building and necessary investment of social enterprises). Funding is available only for 'soft' part of enterprises.</p> <p>Too few examples of sustainable projects (many of them are still heavily subsidized)</p> <p>Overlapping efforts of many actors</p> <p>Difficult incubation phase of majority of social cooperatives (many of them were not able to survive)</p> <p>Social integration methods are not modernized – particularly outdated tools exist in the public administration of employment and welfare services (some of them in fact reinforcing existing dependencies and 'welfareism')</p>
Opportunities	Threats
<p>Relatively good communication with decision makers (both in Government and Parliament)</p> <p>Personal involvement of key individuals in Government promotion efforts</p> <p>Social economy is part of the National Development Strategy and is relatively well positioned within the 2007-13 implementation plan.</p> <p>Many national and regional programmes promoting the social economy.</p> <p>Massive efforts of modernization and training for public administration of employment and welfare services.</p> <p>New legal projects – particularly proposed Act on Social Entrepreneurship</p>	<p>Terminological chaos – lack of clear communication</p> <p>Reservation related to economy with 'adjectives' (social) as artificial 'fake' economy</p> <p>'Creaming' of beneficiaries. Due to specific procedures (lack of readiness for risk) of access to EFS funds social economy actors might not be interested in working with really most deserving / demanding beneficiaries.</p> <p>NGO sector will not answer the social economy 'call' – since other options (grants, philanthropy) are more comfortable, independence is not the key issue for them.</p> <p>Specific ethos of social activeness, which is understood rather in terms of redistribution than trade</p> <p>Unclear legal status of mission related economic activities of NGOs.</p>

1.4. Recommendations

Many of the recommendations referring to the development of social entrepreneurship and social enterprise in Poland have been already presented in previous sections. Below, we shall recapitulate only those that we believe to be of key importance in political terms. We will also mention ideas that were not properly discussed in the main section (due to its limited length).

Terminological problems should be solved – There is a strong need for a definition of the social economy. Social economy and social enterprise (the former to a greater extent, the latter to a lesser extent) are currently subject to a *terminological evolution* process, similar to the one that has affected, for a much longer period of time, the concept of civil society. Also in this case, we encounter multiple traditions, and – like with the notion of civil society – for some people, these are key concepts, while for others, they are only misleading names which, dangerously enough, give the impression of a consensus only to hide real differences. In both cases we can distinguish at least three aspects in the definition of the concept. So, in short, in analogy to the case of civil society, we can speak of the social economy as:

- **A noun** – social economy as a group of institutions,
- **An adjective** - social economy as a special kind of economy, with special (social) characteristics such as values, specific relations between participants etc.
- **A space** – social economy as a network, space, means of communication between participants (mutuality), characterized by ‘horizontal trust relations’, a capability to mobilize various resources, ‘access’ to goods rather than to their ownership.

When trying to define what the social economy is and how it works, it is crucial to avoid dogmatism. Both the excessive ‘narrowing’ of the concept (e.g. to cover only social employment) and the undue ‘broadening’ of its meaning (to include e.g. business philanthropy, corporate social responsibility, and the household or informal economy, thus leading to its total vagueness and ‘trivialization’) may be harmful to social

enterprises. When searching for the right definition, we also have to bear in mind that the social economy and even social entrepreneurship may prove to be too general, or even too abstract, concepts to call the attention of practitioners or the wider public. General debates on their true meaning are prone to be long-lasting ones, also because they seem to be intrinsically ‘evolving’ concepts. Although it is worth pursuing such debates, for the purposes of the promotion of some practical solutions, it is better to distinguish some clear-cut and well-defined elements: like in the case of the civil society, a broad awareness of the social economy concept's theoretical underpinnings is not necessarily needed to ‘put it into practice’. In addition, we have to remember that a reverse path of theory-building is also possible: theory may just ‘experimentally’ emerge from practice.

The specific identity of the Polish social economy should be defined - In the process of social economy development in Poland, a proper recognition of its domestic origins should be ensured. Social enterprise comes as a new term and label, but in fact it refers to solutions that, often enough, have a quite long and rich tradition in Poland. In fostering a national version of the social economy, identifying the Polish roots of the field may not only serve as a source of inspiration, but also anchor these efforts in existing values and traditions. Of course, growth in the social economy may take place because of external factors, but the latter cannot be directly transplanted, since their local context is untranslatable. Often enough, solutions that work in one country prove to be of a very limited usefulness in another one.

Regulatory issues should be settled – Defining what is needed, what is possible, and what is not possible. The regulatory arrangements can, undoubtedly, influence the growth of the social economy, though the causal power of legal acts should not be overestimated. In recent years, many efforts have been made to improve the legal environment for the operation of the third sector in general and the social economy in particular. This task was very demanding, and required intense work which, in view of the limited resources available, meant that other activities had to be neglected to some extent. Today, despite several shortcomings, the Polish legal system is more advanced than those of other CEE

countries in terms of how it regulates social enterprises. The question remains whether this legal environment, while not hampering the development of the social economy sector, has started to foster it. The answer to this question seems to be affirmative, but it is still too soon to provide a definitive answer. 'Pushing' social enterprise growth with the help of legal regulations entails a risk of bringing effects contrary to the best intentions of social entrepreneurship promoters, especially when such regulations are hurriedly prepared and are thus not based on a deep analysis of their implications or sufficiently ample material from pilot projects.

Keeping this in mind, we would like to indicate several important issues that nevertheless require some legal regulation. A general decision is needed as to the extent to which, in fiscal legal terms, organizations should be allowed to perform their social (statutory) tasks on the basis of their income from economic activity. The problem is that in the case of social enterprises, the very combination of the notions of social task and economic activity (a combination which is so far regarded as unacceptable in Poland) becomes the fundamental principle of operation: social enterprises perform their statutory tasks through economic activity. This 'collision' may lead to tensions. For some, social enterprises' hybrid status is an interesting innovation, while for others it leads to a kind of 'confusion', detrimental to the logic of the legal system. Today, the issue of separation - or combination - of the statutory and economic activities is possibly one of the greatest challenges faced by the sector. Whether social enterprises (or, more generally, non-governmental organizations) should be treated as 'normal' commercial enterprises constitutes a closely related question. The answer that will be given to these questions will have implications regarding the mechanisms of access to public resources – the system of grants that has been developed in recent years is based on the assumption that its beneficiaries are not-for-profit organizations. On the other hand, the public procurement system (quite often implemented in a rather unthinking way) is much better adapted to traditional enterprises than to NGOs.

The social economy should be recognized as a potential driver of growth - There are many reasons to suppose that the social economy is conducive to self-fulfilling expectation: we need

to strongly believe in its importance for this to become true. But such faith on the part of interested actors is not enough: institutions and parties determining the direction of Poland's development, be it at the central, regional or local level, should also be convinced of the social economy's potential. In our view, the social economy (or rather the whole set of related activities, such as empowerment, community development, community welfare, participatory governance etc.) is badly needed in Poland where, for decades, a model of 'top-down' organization of social life was cultivated, despite its poor results. In spite of some achievements in the fields of self-government promotion and general decentralization, today Poland needs new developmental paradigms, and in this respect, almost all solutions offered by the social economy may prove to be helpful. Challenges are indeed numerous: the social and employment assistance systems are anachronistic and passive; the level of inclusion of disabled people in the labour market is shockingly low (the lowest in Europe); the level of social capital is dangerously low as well; there is a deep deficit of civil participation; non-governmental organizations are dependent on public administration; public governance is bureaucratic and ineffective etc. Consequently, it is worth listing the basic proposals in this field.

First of all, social economy organizations should no longer be discriminated against in terms of their access to support resources (many programmes list eligible beneficiaries, often excluding social economy organizations). Social enterprises should not be confined solely to the integration and pro-employment spheres (this is the case of social cooperatives in Poland), which are moreover controlled by public administration. Instead, the numerous programmes aimed at supporting small- and medium-sized enterprises should be open to – and even encourage the participation of – social enterprises.

Soft financing (supported by training and proper banking instruments) as well as the improvement of technical infrastructure for social entrepreneurship initiatives should be given much broader attention. The social economy does not only refer to a group of institutions but also to a special network, constituted on the basis of mutual relations and on the principle of partnership. Assistance offered to Poland should not be seen as a gift for officials and the government adminis-

tration but rather as a means to support (while not substituting for) the efforts of individual communities. It is not a good idea to try to absolve citizens for their lack of future-directed thinking: instead, more organic and participative attitudes in the preparation of developmental strategies and implementation should be fostered, otherwise the transitional assistance from the EU will not result in fostering citizens' activity and self-sufficiency, but may rather lead to a complete degradation of those virtues. In this respect, a greater recognition of collective actors (such as Local Action Groups) than what has been the case hitherto is urgently needed, for these actors are better placed to collectively prepare and implement locally-based plans. It is impossible (though, in our opinion, it would be highly desirable) to reformulate the programming and implementation of the 2007-13 budgetary programmes in such a way as to make these groups their basic 'element' (like in the British *Single Regeneration Budget*), but it is necessary to include at least those of them that are capable of self-organization in the category of beneficiaries and intermediaries that support local initiatives. We do not refer here to the traditionally construed Global Grants mechanism (on the macro level) but rather to the role of intermediary in the distribution of micro-grants. If there is no room for such solutions, we will have to forget about any chances of obtaining EU support for the smallest and often very valuable local projects (even today, only 4 percent of them have been capable of benefiting from such funds).

A far-reaching developmental reflection is needed, that will not back off from risk-taking or even the plausibility of failure (given that failure is an opportunity to gain new, useful experience). Thus, first of all within financing systems, mechanisms should be created that would allow for higher risk levels (here, we do not suggest more laxity in the financial management of programmes, but rather refer to mechanisms leaving more room for initiatives that may fail despite all the necessary efforts on the part of their authors). Otherwise, there is a risk that financial resources will be spent for activities that are easy, secure, and unnecessary, while those initiatives that really need assistance will be left on their own.

Finally, an intense investment should be made in what could be called 'education for entrepre-

neurship' (the latter being understood as meaning something broader than merely 'business and generation of wealth'). What we are referring to here is the promotion of an attitude of responsibility, openness to risk-taking and general willingness to change the world around. This is a kind of human capital that is lacking in Poland and should be strongly supported. Heretical as it may sound, we would insist on the fact that today, support is needed for entrepreneurial attitudes at the individual level (especially among young people), for there lie the true origins of the sense of entrepreneurship. Programmes supporting young entrepreneurs have been implemented in many European countries: in Germany, for example, a special federal body has been operating for this purpose for several decades; in England too, numerous initiatives have recently been launched – see for example the so-called UNLtd at <http://www.unltd.org.uk/>, an organization that has given assistance to 1,400 young individuals in their efforts to realize their social projects.

2. Promoting the Role of Social Enterprises in Serbia

2.1. The background for social enterprises in Serbia

The economy in Serbia and former Yugoslavia as a whole was characterized by several features that made it very different from other socialist countries in Europe. Although it was basically a command economy, socialist enterprises had free access to internal quasi-markets and external markets. Also, these enterprises were internally organized on the principle of self-management. Collective ownership over enterprise assets defined as 'social ownership', as well as autonomy of employees in decision-making related to business, profit distribution and selection of management, made the whole economy of former Yugoslavia look very much like 'social economy'. However, such a type of organization in the economy showed very soon another face: the inefficient organization of enterprises, low productivity and lack of investment in new technologies produced severe losses. The whole experience showed that this 'social economy' could have persisted only if protected from market risks and limited in size. Finally, during the 1980s the economy and political system fell into deep crisis.

The post-socialist transformation in Serbia was also marked by many specific aspects, as compared to other post-socialist countries. The last decade of the 20th century saw the hindrance of the reform processes, an unregulated institutional framework, and an extremely grave economic crisis to which devastating wars also contributed. All this led to a deterioration of the position of numerous social groups. The true transformation processes were not to begin until 2000. Furthermore, they started from a significantly worse position than countries that were more successful in the transition processes, or than the conditions prevailing in Serbia itself at the end of 1980s.

The conditions for the development of the social economy in Serbia are characterized by the specificities of belated and hindered post-socialist transformation which can be termed 'blocked transformation'. 'Blocked transformation'¹³³ was a process in which the former League of Communist 'societal *monopoly* was replaced by interlocked positions of economic and political *dominance* in order to postpone the development of a market economy and political competition' (Lazic, in Higley and Lengyel, eds. 2000). Although a number of institutional changes were introduced during the period of 'blocked transformation' (the multiparty political system and the market economy), substantial changes were blocked by the centralized power of the interconnected political and economic elites, which resulted in the continuing regulatory role of the state in the economy, postponement of a more extensive privatization, etc. On the one hand, these extremely disadvantageous conditions during the period of blocked transformation resulted in increased needs for various forms of social integration, while, on the other hand, the systemic framework hindered the development of organizations, initiatives and actions that could lead to the development of the social economy. The major features of the blocked transformation period could be summed up as follows:

- quasi-democratic political system
- lack of adequate restructuring and privatization of the economy
- marked expansion of the informal economy¹³⁴
- hindrance of civil society development
- isolation by the international community

The aforementioned conditions resulted in a sudden weakening of the social functions of the state and a rapid impoverishment of a major part of the population. Socially disadvantaged categories of the population expanded to include not only the traditionally marginalized groups (Roma, persons with disabilities and the like), but also refugees, internally displaced persons (IDPs) from Kosovo and Metohija, and an impoverished

¹³³ The 'blocked transformation' lasted from 1990 until 2000.

¹³⁴ In the first half of 1990s the share of the grey economy in the official domestic product amounted to as much as 54.4 percent, but fell to 1/3 during the second half of the decade (Krstić et al., 1998:7).

domiciled population constantly increasing in number.

The fall of the Milošević regime in 2000 and the arrival of democratic powers mark the beginning of the real post-socialist transformation in Serbia. At the beginning, macro-economic stability was established, as well as a relatively satisfactory rate of economic growth,¹³⁵ and key systemic reforms initiated. By 2004 the reform of major financial institutions was accomplished, and a whole range of laws improving the business climate were introduced. However, relatively slow economic growth, under-developed markets for goods and services, as well as the relatively low purchasing power of the population further reduced the scope for the development of economic activities by social enterprises.

The process of privatization was also intensified,¹³⁶ aggravating the situation in the labour market. Privatization, restructuring, and downsizing of socially-owned enterprises¹³⁷ led to a significant increase in unemployment.¹³⁸ At the same time, intensive labour market reforms were undertaken, with the support of the new legal framework and National Employment Strategy which emphasizes active employment measures. In 2002 the new law on local self-governance was enacted, transferring a large portion of authority in the field of economic development, education, social welfare and other processes to local authorities. The reform of the social policy system is also under way. A whole range of important national strategies were adopted to improve the position of disadvantaged social groups. Two general strategies, the Strategy for Poverty Reduction and the National Strategy for Employment, contain measures to improve the position of all vulnerable groups. Other strategies such as the National Strategy for Solving Problems of Refugees and Internally Displaced Persons, National Strategy for Improving the

Position of Persons with Disabilities and the Strategy for Roma Integration focus on particular vulnerable groups. All the strategies mentioned contain a set of labour market measures, tailored for marginalized groups. From 2002 to 2004 the number of people included in programmes of 'active job seeking' doubled (from 22,740 to 50,586 persons).¹³⁹

Reform processes bring about an increasing need to adopt an innovative approach when dealing with social integration, social welfare and social development. Against this background, new approaches in the field are becoming more numerous and more evident.

2.1.1. The transformation of the welfare system and main features of the labour market

The welfare system

From the socialist period Serbia inherited a centralized system of social welfare in which the state planned, financed, and provided services. The state provided various types of services that were available to all categories of the population and to all groups of citizens from all sectors of the welfare system. These services were delivered through state institutions/organizations, as well as through state enterprises, unions and other social stakeholders. In that period the state promoted a full employment policy.

The part of the system which is mostly related to the vulnerable groups – social protection – was established during the socialist regime as separate from other parts of the welfare system. It was – and still is – based on a network of residential institutions and centres of social work (CSW), managed from the central level.

¹³⁵ During the first two years, the growth rate was over 5 percent (Strategy for Poverty Reduction, Government of the Republic of Serbia).

¹³⁶ According to the Law on Privatization of 2001, from the beginning of the privatization process until 30 September 2005, 2,482 enterprises in social or state ownership were privatized. This brought in proceeds of €1.4 billion, of which €899.9 million was intended for investment, and €272.4 million for the social programme for workers made redundant in the privatized enterprises (Republic Development Bureau, 2005).

¹³⁷ While in other former socialist countries state ownership was the main ownership form, in Serbia the dominant form was the so called 'social ownership'. Owners were neither the state, nor individuals as natural persons or other legal persons, but society. During the privatization, the ownership of those organizations was transferred to the state. Many of those enterprises were downsized, due to a lack of interest or eligibility for privatization.

¹³⁸ Unfortunately, there are no precise data on total number of persons made unemployed as a result of the privatization, downsizing, and restructuring of enterprises. However, data on redundant employees who were included in the programme for resolving the surplus of employees are available (Official Gazette of the RS no. 64/05). According to these data more than 126,000 surplus employees from 231 companies were included in these programmes between 2002 and 2005.

¹³⁹ The First Report on the Implementation of the Poverty Reduction Strategy (Government of the Republic of Serbia, 2005) presented the achievements in implementing the policy measures defined in different strategies.

Table 11 - Indicators for the Labour Market Situation in Serbia and the EU (2006)

Labour market indicators	EU 15	EU 27	Serbia
Employment rate	66.2	64.5	49.8
Unemployment rate	7.0	7.1	21.6

Source for EU: Eurostat¹⁴³ ; Source for Serbia: Labour Force Survey,¹⁴⁴ 2004, Statistical Office of Republic of Serbia.

At present, numerous reform initiatives are taking place in this area. These initiatives aim to involve new actors and stakeholders in service delivery. However, public institutions are still the main service providers. The government plans to create the conditions for the introduction of other service providers in order to promote competition and improve the quality of services.

The law defines the important role of local authorities in the area of social protection. Their obligation is to finance community-based services such as shelters, day-care centres, home care, etc. However, only a small number of municipalities completely fulfil their obligations in the field of social welfare, the reasons for which are most often found in the constant lack of financial resources and the absence of obligatory control by local authorities in respect for the rights of various groups. The reasons also include the lack of established criteria on the minimum amount of municipal budgetary allocations for social welfare (Government of the Republic of Serbia, 2005).¹⁴⁰ The average percentage of local budget allocation for social protection in Serbia is 2 percent¹⁴¹ and it is insufficient to cover all vulnerable groups in the local community.

In 2005, the government of Serbia adopted an important document in this area, the *Social Protection Development Strategy*. Apart from improving the work of public services, the strategy stipulates a gradual transition from the predominantly residential to open forms of care, that is, the development of various services of

social protection within local communities. This follows the trend initiated several decades ago in developed countries, since the open forms of protection are the most inexpensive ones¹⁴² and yield better results in strengthening the capacities of beneficiaries.

The strategy stipulates the transformation and closing down of some of current major residential institutions, sector and fiscal decentralization which would give local authorities more autonomy to open new services, and, importantly, the pluralization of service providers. Instead of the currently prevailing dominance of the public sector, the state plans to have the non-profit sector as the provider of an important part of local social services. To that end, the government established the Fund for Support to Persons with Disabilities (financed by the State Lottery funds), the Social Innovation Fund (in cooperation with UNDP, the EU and other international partners), and other programmes that contribute to developing the sector of non-profit social services and creating new space for the market of new service providers. Through these programmes, numerous clubs, day-care centres and other non-profit services were opened with significant potential for employment (of vulnerable groups, among others). These programmes also enabled the development of capacities of the non-governmental (mainly non-profit) sector for providing social services.

¹⁴⁰ According to the data in the *Social Protection Development Strategy*, more than 100 municipalities provide no care services whatsoever for the elderly and disabled in their natural environment (Government of the Republic of Serbia, 2005).

¹⁴¹ Matkovic, 2006.

¹⁴² Data for Romania show that the cost of placing a child in an institutionalized setting is double the cost of placing a child in a professional foster family, and 10 times the cost of adoption or reintegration in its own family (Tobis, 2000: 30). Insufficient data for Serbia show the same trends: average cost of placing in institutional care is almost double the cost of family-based care. (Lišanin, 2005).

¹⁴³ <http://epp.eurostat.ec.europa.eu>

¹⁴⁴ The Labour Force Survey is a regular research study of the Statistical Office of the Republic of Serbia which every October gathers information on the labour force from a sample of around 6,500 households and 17,000 individuals. The methodology was brought into line with the standards of International Labour Organization (ILO) and Eurostat, with the aim of making the data comparable.

The main features of the labour market

Transition processes in Serbia aggravated the general conditions in the labour market. The labour market in Serbia is characterised by: a trend to increasing unemployment, surpassing the rate in the EU and many East European countries; a high percentage of long-term unemployment and a constant rise of the average unemployment period; a high degree of unemployment among the young population; a high unemployment rate among workers with secondary school and lower education level; a problem of regional inequality in unemployment; and high employment in the informal economy. Key indicators reveal that the overall situation in the labour market in Serbia is significantly inferior to that of the EU (Table 11). The labour market in Serbia shows a lower employment rate and a higher unemployment rate than average EU rates. In 2004 the employment rate in Serbia was just slightly higher than that of Poland (51.7 percent), while the unemployment rate was higher than the rate in all EU countries, Romania, Bulgaria, Croatia or Turkey. Privatization led to a significant transfer of employees from the social/state sector to the private sector: 21 percent of total employment was in the private sector in 2002 compared to 60 percent in 2005 (Statistical Yearbook, 2003; Labour Force Survey, 2005). 20.6 percent of employees were self-employed, 71.3 percent were engaged by an employer, while 8.1 percent were family workers (Labour Force Survey, 2005).¹⁴⁵ There is no recent evidence on employment in the informal economy, but the Economic Institute¹⁴⁶ carried out an analysis of the hidden economy in 2000, which was based on a representative sample of 3,865 persons. Around 30 percent of the labour force worked in the informal sector, 51 percent of them on a regular basis every month. This corresponded to at least 1 million people engaged in the informal sector.

Long-term unemployment prevails among the unemployed in Serbia. As many as 65 percent of all unemployed persons have had that status for over two years. Some 40 percent of unemployed people are seeking employment for the first time, while among those who have had employment in the past, more than a half became unemployed due to the liquidation of their enterprises, or were made redundant.¹⁴⁷ Unemployment strikes the young population (15-24 years old) especially hard; among this group the unemployment rate is 44.83 percent, which in 2003 was three times higher than the average for this age cohort in the EU of around 15 percent (National Employment Strategy, 2004). It also strikes persons who lost their job at a late age (in their 50s), as well as qualified manual and non-manual workers (NES report, September 2004).

The position of women in the labour market is significantly worse than that of men, as is evident from lower activity and employment rates and higher unemployment rates among women than among men.¹⁴⁸ Marginalised groups – Roma, refugees, internally displaced persons and persons with disabilities – are in a particularly unfavourable position in the labour market.¹⁴⁹ According to a UNDP research study in 2004, unemployment rates among marginalized groups are significantly higher than the unemployment rate of the general population in Serbia. While the unemployment rate for the general population is around 19 percent, for the population of refugees and internally displaced persons it is around 32 percent, while for Roma it amounts to as much as 39 percent.¹⁵⁰ Indicators of the position in the labour market for persons with a disability are not available, which poses an additional difficulty in designing detailed measures aimed at increasing employment in this category. Besides a much higher unemployment rate, marginalized groups also show higher employment in the informal sector, as well as a substantially dif-

¹⁴⁵ Family workers are persons who help other family members to run a family business or farm and are not paid for their work. The majority in this category are women in farming households.

¹⁴⁶ Krstic *et al.*, 2001.

¹⁴⁷ *Ibid.*

¹⁴⁸ An extensive analysis of the position of women in the labour market was presented in the study *Position of women in the labour market in Serbia* (UNDP, 2006b), according to which the activity rate of women was 18 percent lower than that of men, and their employment rate was almost 20 percent lower than that of men, while their unemployment rate was around 8 percent higher than that of men.

¹⁴⁹ There are no precise data on these groups. Refugees are estimated to number 107,000 and internally displaced persons 200,000 (Group 484, 2005). Census data on the Roma population is extremely imprecise. According to the 2002 census 108,193 Roma are registered in Serbia (1.44 percent of the population), while some secondary sources indicate a figure of more than 400,000 (Minority Rights Centre, 2005). There are also around 760,000 people with disabilities (Strategy for Improvement of Position of Persons with Disabilities in Serbia, 2006).

¹⁵⁰ UNDP, 2006a.

Table 12 - Employment in Specific Branches of the Economy, 2004, in percent

	Domiciled non-Roma	Roma	Refugees/IDPs
Trade	18%	23%	21%
Agriculture and forestry	2%	22%	11%
Industry and mining	13%	9%	7%
Leisure services (tourism, restaurants, etc.)	10%	6%	12%
Public utilities	10%	5%	9%

Source: National Vulnerability Report for Serbia, UNDP, 2006.

ferent industrial structure of employment, as compared to the domiciled non-Roma population.

Features of poverty

After the breakdown of socialism, the problem of poverty in Serbia emerged as almost a new phenomenon. The major causes of the transparency and the increase of poverty came from both the political and the economic fields. The increasing political liberties blew away the egalitarian ideological cover from the real social inequalities, allowing 'traditional' poverty to pop up (among small peasants, unskilled employees and Roma). The ideological shift also let 'mechanical' solidarity fall apart: the all-encompassing socialist welfare state was substituted by an anomic gap. At the same time economic reform led to an increase of poverty in three ways. First, it was time to uncover and face the heritage of the command economy: hidden economic inefficiency accompanied with a debt burden. Second, only a small number of citizens played a central role in privatization and the accumulation of capital. Third, an additional recession occurred during the 1990s owing to secondary damage from Milošević's financial engagement in the Bosnia, Croatia and Kosovo conflicts, bringing about a sharp decrease of GDP. The whole picture was worsened by international isolation. The costs and benefits of transition have not been shared equally. This twofold economic trajectory produced a rapid and intensive increase in social inequality, with Gini coefficients rising to over 0.30. The basic characteristics of poverty in Serbia screened according to the World Bank methodology are presented in table 13.

In 2005 the Statistical Bureau used three methodologies to estimate the poverty rate, and the estimates varied from 6.55 percent to 25.06 percent (8th Bulletin on the Application of Poverty Reduction Strategy in Serbia, Government of the Republic of Serbia). This study, as well as earlier ones (2002, 2003), showed that poverty is highest in urban areas, in southern and western regions of Serbia, and among single parents, elderly couples, and poorly educated people. Other studies showed that poverty in Serbia is not only about those who are under the poverty line, but also about those who are just above the poverty line (Cvejić, 2006). According to this research, at the end of 2003 the number of poor people was estimated at 13 percent, but the next category of economic position (lower middle) contained as many as 44 percent of citizens, and 25 percent of these were defined as jeopardized by poverty because they also scored low on the measure of social capital (ability to rely upon a social network when needed).

2.1.2. Main characteristics of the third sector

Since the beginning of the 20th century, with the ongoing development of democracy in Serbia, the first associations of citizens emerged. With the establishment of socialism after WWII, associations of citizens were placed under centralized state control, but when the socialist system declined and the rise of cultural freedoms began in 1980s, the number of organizations and movements increased. However, not all the NGOs and

Table 13 - Poverty indicators in Serbia in 2002-2007

	Poverty index, %			Poverty gap, %			Poverty intensity, %		
	2002	2007	change	2002	2007	change	2002	2007	change
Urban	11.2	4.3	-6.8	2.1	0.8	-1.3	0.6	0.3	-0.4
Rural	17.7	9.8	-8.0	4.2	2.0	-2.2	1.5	0.6	-0.9
Total	14.0	6.6	-7.4	3.0	1.3	-1.7	1.0	0.4	-0.6

Note: Changes in % between 2002 and 2007

Source: Krstic, G. Poverty Profile in Serbia 2002-2007

movements that appeared instigated the development of civil awareness. The structure of Serbian society, in which the rural population, as well as traditionalism and an authoritarian consciousness were still predominant, preferred the rising nationalism and populism.

During the 1990s the development of the third sector was significantly marked by the features of blocked transformation. Owing to the strong nationalist movement, authoritarian political convictions and the war in the vicinity, the activities of most of the newly established NGOs were to a significant degree oriented towards the development of civil society, anti-war activities, the development of democratic institutions and the like. These activities contributed significantly to the change in the political system in 2000 and the modernization of the institutions that ensued. Today, the third sector in Serbia is dominated by NGOs. There are also voluntary associations and charity organizations.

War and humanitarian catastrophe in the mid-1990s brought to Serbia a large number of inter-

national humanitarian organizations and donors. Through cooperation with these organizations the development of another type of NGO began, which was closer to the social economy and which not only represented but also drew together the members of disadvantaged groups (Roma, refugees, women, the unemployed, war wounded, etc.). The development of these organizations stimulated the awareness of marginalized groups and disintegration processes, as well as the scope and quality of the solutions offered for their integration.

Prior to 1990, there were about 17,000 NGOs, primarily various sports associations, professional associations, etc.¹⁵¹ In the period 1990-2000, around 2,000 new NGOs were registered, of which as many as 695 during 1997 after democratic opposition parties had won local political power in major towns all over Serbia. During the first six months after the fall of Milošević, around 900 new NGOs were registered. On the one hand, the new government was more responsive to the NGO sector. Since the mid-1990s many NGOs formed informal coalitions, and in 2000

Table 14 - Regional Distribution of Serbian NGOs According to Year of Establishment, in percent

Period	1990	1991-1995	1996-2000	2001-2003
Belgrade	19.6	29.4	41.2	9.8
Serbia excluding Belgrade	1.9	9.8	56.8	31.4

Source: NGO Policy Group: Third Sector in Serbia, 2001.

¹⁵¹ The data on the NGO sector are based on the study of 821 NGOs by Policy Group in 2001, and the study of 102 NGOs carried out by Lazić in 2004 (cf. NGO Policy Group, 2001; Lazić, 2005).

formal coalitions, with opposition democratic political parties, which, in the end, led to the expansion of the democratic political movement and electoral triumph. A large number of NGO activists found places in the new institutions after the change, thus directly transferring ideas and experiences from civil society to the institutions. On the other hand, there was an apparent growth of external aid after the political changes in 2000. This fact was registered in the NGO survey as well. The most important sources of finance for NGOs were foreign funds. As many as 84.4 percent of NGOs were using foreign funds (mostly foreign foundations and international NGOs), 21 percent local private ones, 10.4 percent local public ones, 7.6 percent the national budget, and 15 percent were charging membership fees.¹⁵² New NGOs first started to be established in Belgrade, the rest of Serbia following (Table 14).

The somewhat slower rate of NGO sector development in the interior of Serbia resulted from the lack of human resources, tougher traditionalism and insufficient ability to resist political and ideological pressures, that is, the slower development of social capital.

What is more, by the beginning of 2000 the third sector was showing poor employment potential, as well as relatively scarce financial resources. As many as 77.3 percent of NGOs in 2001 did not have a single employee, 16.9 percent employed 1-5 people, and 2.3 percent 11 or more.¹⁵³ Almost half the NGOs surveyed had small budgets (up to €2,500). There is no systematic evidence on the number of employees in NGOs in Serbia. Therefore we must rely upon the rough estimate made by the Centre for Development of the Non-Profit Sector that NGOs in Serbia employ 3,170 people (with the Red Cross accounting for 690 of these).

Although the vast majority of NGOs still rely on foreign funds to perform their activities, it is nowadays becoming more frequent that they cooperate closely with the local and state authorities. Besides, the state institutions are

beginning to recognize non-governmental institutions as partners in the realization of programmes of social support and social welfare. Although such a practice is still largely limited to individual programmes and is carried out with the support of instructions from foreign partners, it marks the beginning of an important trend of establishing continuous cooperation between the state and NGOs.¹⁵⁴

The founders of associations of citizens with a religious affiliation in Serbia are the Serbian Orthodox Church, the Islamic Religious Community and the Catholic Church. The operation of these organizations is regulated by the Law on Churches and Religious Communities of 2006. This law gives the churches and religious communities the right to establish institutions and organizations in their social and charitable work. Social and charitable activities are separated from religious services and charity organizations are obliged to clearly publish the name of their founding church/religious community and to present the full name under which they have been registered. According to the law, churches and religious communities may be completely or partially exempted from the payment of taxes and other obligations while conducting their activities or generating an income. Although these organizations mostly provide humanitarian aid to vulnerable groups, some of them deal with production or services directed towards the economic activation and empowerment of the vulnerable (e.g. agricultural production) or towards social care (e.g. daily home care).

No law on social enterprises exists in Serbia. The formation and activities of voluntary organizations are regulated by two laws, which are both obsolete: the Law on Social Organizations and Associations of Citizens of the Republic of Serbia enacted in 1982, and the Law on Associations of Citizens, Social Organizations and Political Organizations in the Socialist Federal Republic of Yugoslavia, enacted in 1990. The former stipulated that associations of citizens and social organizations could be founded by persons (only natural, not legal ones). Social organizations or asso-

¹⁵² The total percentage is higher than 100 percent because of multiple options listed by NGOs.

¹⁵³ NGO Policy Group: Third Sector in Serbia, 2001.

¹⁵⁴ For example: the local authorities of Novi Sad rely on the experience of Caritas in organizing home care services within the Gerontology Centre; the Ministry of Labour, Employment and Social Policy has engaged several NGOs to monitor projects the Ministry finances through the Fund for Social Innovations and the Fund for Support to Organizations of Persons with Disabilities.

ciations of citizens could be founded by not less than 10 citizens, and if membership fell below that limit, the organizations or associations were to be closed down. The registration process is still regulated according to the Law on Associations of Citizens, Social Organizations and Political Organizations in the Socialist Federal Republic of Yugoslavia, from 1990. Unlike the Republic law from 1982 that allows for the foundation of a separate enterprise by voluntary organizations, the Federal law of 1990 does not foresee the possibility that economic activities are carried out by voluntary organizations, and stipulates that these organizations are financed through membership fees, grants and other ways stipulated by law. Both laws (federal and republic) are relicts of communist ideology, both in terms of terminology and content.

The new bill on the Associations of Citizens was submitted to parliament for discussion and enactment.¹⁵⁵ It aims to regulate the process of founding and the legal status of associations, registration and deregistration, membership and organs, changes in status, cessation of work, as well as other issues important to the work of associations. With the enactment of this law the above-mentioned two laws will cease to be in force. In principle the bill liberalizes the work of associations of citizens, but regulates rather restrictively the use of the property of an association by its founders. The bill lays down that an association is a voluntary, non-governmental, non-profit organization, founded in accordance with the principle of freedom of association by several natural or legal persons, with the aim of accomplishing and improving a common or general goal or interest. It stipulates that the registration of an association is voluntary, but it can only attain the status of a legal person after registration, which means that it cannot function without registration. Associations can be founded by no fewer than three legal persons or natural persons eligible for work, but at least one of these persons must have its registered office or residence in the territory of the Republic of Serbia. The Registry of Associations is to be entrusted by

the ministry with governance competencies. The bill stipulates that an association can acquire property through membership fees, voluntary contributions, donations and grants (in money or in kind), financial subsidies, inheritances, interest on deposits, leases, dividends and other ways stipulated by the law. The property of associations can be used only with the aim of attaining the goals stipulated by its Articles of Association, and cannot be shared among its members, founders, members of the association's bodies, managers, employees or other persons related to the above-listed persons (with the exception of expenses and salaries).¹⁵⁶

The bill expressly stipulates that a branch office of a foreign association can perform its activities in the territory of the Republic of Serbia following registration in the Register of Foreign Associations kept by the ministry with governance competencies.

The cooperative sector is undergoing a slow transformation. Overall, there are almost 3,000 registered cooperatives, with a majority of agricultural cooperatives. However, accurate data on the number of active cooperatives are not available. The foundation and functioning of cooperatives is still regulated by the old *Law on Cooperatives* that was enacted in 1989. According to this law cooperatives are 'independent self-managed organizations of workers and citizens who freely associate their labour or resources, into an artisan, housing, youth, savings and loan, consumers' cooperative, cooperative for intellectual services, and other kinds of cooperatives for the provision or production or services'.¹⁵⁷ During the last years many cooperatives that were founded during the socialist period have been closing down; those who are still active face problems of untransformed land ownership.¹⁵⁸ However, there are also trends of establishing new, modern agricultural cooperatives, mostly due to international donors' programmes. The development of social cooperatives is a new phenomenon and these kinds of cooperatives are still small in number (cf. section 2.2.).

¹⁵⁵ Enactment of this law was postponed several times in the last six years owing to debate between the main stakeholders.

¹⁵⁶ On the dissolution of an association, the Articles of Association can stipulate only a domestic non-profit legal person with the same or similar goals as the grantee of its property. Otherwise, the property of the association becomes the property of the Republic of Serbia, and the right to use the assets is given to the local authority where the association had its registered office, and is to be used for the purposes similar to the association's goals, or for social purposes.

¹⁵⁷ Official Gazette RoS, No. 57/89, 46/95.

¹⁵⁸ During the socialist period cooperatives were formed on nationalized land taken from small peasants who were allowed to possess a maximum 10 hectares of land.

2.1.3. Main problems and challenges facing the third sector with respect to social enterprise development

Generally, the third sector in Serbia has a limited but stable potential for developing social-enterprise activities. Numerous NGOs¹⁵⁹ possess the human resources, knowledge and experience, as well as the financial capacities and versatility of financing sources that would enable them to transform themselves into social enterprises.

However, there are significant obstacles facing NGOs that want to promote social-enterprise activities:

Unrecognized concept of social enterprise.

The social enterprise concept is not delineated in relevant legislation, and entities that could fall into that category do not self-identify as social enterprises. There is a lack of awareness among government officials and in the third sector about the principles and potential of social enterprises. Nevertheless, professional and academic circles are expressing increasing interest in this field. Usage of the concept in professional and academic circles is increasing. Social enterprise in Serbia currently exists in the form of non-integrated initiatives that address problems of unemployment and social disintegration on a small scale.

Undefined legal status. Even the new bill on the Associations of Citizens represents only a legal framework for the establishment of NGOs. On a practical level NGOs are regulated by numerous laws (on employment, on financing and taxation, etc.) and regulations. Some of these regulations are contradictory, which allows for biased interpretation by state institutions. An example is the instruction from the Ministry of Finance that all NGOs should pay a 5 percent tax on foreign donations and 18 percent VAT on local donations. The instruction is not compulsory, but many local public revenue offices follow it, and few NGOs complain. Also, the income-generating activities of NGOs are not regulated (unlike those of charity organizations).

Weak experience in production activities.

Most of the social enterprise-like activities of NGOs so far have been in training and social-care services. Production activities are sporadic.

Distorted public image of the NGO sector. As a relic from the times of conflict with the Milošević regime, when some NGOs played a major role in the civic struggle, an ideological perception of the whole NGO sector as 'traitors' to the national interest has persisted. This distortion is perpetuated by a significant number of political parties, even those that are 'democratic' in name. Such an image obscures the increasing achievements of NGOs in training, social care, social integration and the like.

Quick withdrawal of donations, insufficient support from the state.

After the fall of the Milosevic regime, many funds directed to develop civil society, as well as funds aimed to support humanitarian programmes were withdrawn. However there are no systematic data on the size and structure of donations. The self-sustainability of many NGOs is still fragile and the state is playing an insufficiently active role in creating favourable conditions for NGOs and providing support.

2.2. Social enterprise development trends in Serbia

The existing legal framework in Serbia does not recognize organizations that could be strictly defined as social enterprises. However, the following forms of organizations that almost entirely correspond to the concept of social enterprise, or are very close to the model, can be identified in Serbia:

- associations of citizens
- cooperatives
- social cooperatives
- vocational enterprises for persons with disabilities
- spin-off enterprises in the form of limited and joint-stock companies

¹⁵⁹ The NGO sector includes both associations of citizens (the majority) and foundations.

- incubators
- agencies for the development of small- and medium-sized enterprises

A mapping of social enterprises conducted in 2007¹⁶⁰ showed that cooperatives (particularly agricultural cooperatives) represent the largest part of this group, followed by associations of citizens and enterprises for persons with disabilities. A detailed breakdown is presented in Table 15. Most social enterprises are found in Serbia's northern province of Vojvodina (45.3 percent), followed by Central Serbia (42.3 percent) and the City of Belgrade (12.3 percent). When agricultural cooperatives are excluded, a different regional distribution can be observed as the other types of social enterprises are more concentrated in Central Serbia.

In terms of their legal framework, there are not many types of social enterprises: association of citizens, cooperative, limited-liability companies, joint-stock companies and enterprises for training and employment of persons with disabilities. However, organizations with the same legal form can differ radically according to their principal

functions (objectives and activities); that is, organizations of the same or similar functional characteristics can take completely different legal forms. For the sake of systematization, organizational forms are shown primarily in relation to their legal forms, while functionally distinct organizations are shown within each legal form.

The forms of organizations listed above differ in their degree of similarity to the social enterprise form as defined by EMES.¹⁶² Some of them meet the criteria almost completely (forms like social cooperatives, to be explained later in chapter 2.2.), while others stray from the ideal type (due to such factors as the degree of profit orientation in agricultural cooperatives, low amount of paid work and production/service activities in voluntary organizations, low degree of autonomy in agencies for the development of small- and medium-sized enterprises and the like). Some of them have the potential to grow into real social enterprises, while others, in changed legal or social conditions, will deviate from this type. In present conditions, despite the differences, organizations identified as social enterprises share the following social functions:

Table 15 - Mapping Outcome

Type of organization	Number of identified SEs	Percentage of the SE sector in Serbia
Associations of citizens	162	14.2
Cooperatives	898	78.6
Enterprises for PWDs	55	3.3
Spin-off enterprises	24	2.1
Agencies for SME development	13	1.1
Business incubators	6 ¹⁶¹	0.5
Other SEs	2	0.2
Total	1,160	100

Source: Second Development Initiative Group, Social Enterprise Mapping in Serbia, 2007.

¹⁶⁰ Mapping of Social Enterprises in Serbia, SeConS, UNDP, 2008.

¹⁶¹ During the mapping 15 business incubators were found, but 9 are still in the construction process.

¹⁶² Cf. Part I, 'Initial Study on the Promotion of Social Enterprises in CEE and the CIS.'

Table 16 - Review of Different Legal Forms for Social Enterprises

Legal form	Relevant laws	Income-generating orientation	Ownership	Types
Association of citizens	The Law on Social Organizations and Associations of Citizens, 1982 The Law on Churches and Religious Communities, 2006	Absent or marginal	Collective	- Voluntary organization - self-help organization - Religious organization - Microfinance organization
Cooperative	The Law on Cooperatives, 1989	Dominant	Collective	- Agricultural cooperative - Women's cooperative - Social cooperative
Limited-liability company	The Company Law, 2004	Dominant	Private	- SME Agency - Incubator - Spin-off enterprise
Joint-stock company ¹⁶³	The Company Law, 2004	Dominant	Private	Spin-off enterprise
Vocational enterprise for the handi-capped	The Law on Enterprises for Vocational Training and Employment of Persons with Disabilities, 1996	Dominant	State, Private	Vocational enterprise for the handi-capped

- Potential to generate new jobs, either through direct employment or through services that increase the target groups' potential for (self-) employment;
- Achieving the economic integration of disadvantaged groups through their employment or through connecting various participants, providing access to market information and the like;

¹⁶³ Joint-stock companies that are characterized by a profit distribution constraint and whose stockholders are members of an Associations of Citizens.

- Achieving the social integration of marginalized social groups that can be carried out through economic integration, or solely social integration (through day centres for persons with disabilities, inclusion of refugees in organizations along with members of the domiciled population etc.);
- Meeting the economic, social, cultural and health-care needs of disadvantaged groups;
- Improving the living standards of target groups (through donations, material support, services) or through various forms of integration;
- Supporting local development in disadvantaged areas, which improves the chances to integrate marginalized groups.

Social enterprises are of utmost importance to the transformation of the welfare system in Serbia – from the former socialist system in which the functions of the welfare state were limited to the centralized institutions of the state, to a modern system in which the state, civil sector and private sector join forces to provide welfare services in a new way, as described in section 1.1.

2.2a Associations of Citizens

Voluntary organizations are most often in the form of associations of citizens.¹⁶⁴ There is no systematic and detailed record of the activities of these organizations in Serbia. According to the research carried out in 2001, these organizations show extreme diversity in terms of their goals and missions (Table 17).

Although at the beginning of 2000 most organizations were still oriented towards the goals of contributing to the development of certain aspects of civil society, social enterprises have since become more orientated towards the integration of marginalized groups and the development of the local community. Unfortunately, there are no more up-to-date data on the basis of which it would be possible to check non-systematic observations on the growing trend towards social enterprise. The data on the orientation towards various target groups are to be taken

with a certain reserve, bearing in mind that they date from the same period (beginning of 2000).

NGOs carry out social-enterprise activities in various ways. They can be divided into two groups – those oriented towards providing support and help to precisely defined target groups (such as persons with disabilities, refugees and the like) and those oriented towards providing support and help to several target groups, or even oriented towards a more integral development of the local community aimed at improving the economic and social integration of disadvantaged groups (e.g. establishing and connecting agricultural cooperatives, or introducing IT in rural communities). Besides, these organizations can directly include members of their target groups in their work and be established as a self-help organization, or have their target group appearing solely as a beneficiary, but not involved in their activities. Having this in mind, it is useful to distinguish between two basic types of organizations differing in terms of the above aspects:

- Self-help organizations incorporating the beneficiary group, most often established through self-organization of a disadvantaged group, with the aim of meeting their needs and furthering their interests;
- Externally socially oriented organizations – oriented towards external goals and groups, which can further be divided into: a) organizations designed to assist a strictly defined target group (e.g. women's organizations providing care to the elderly), and b) organizations oriented towards several target groups or towards general local development (e.g. organizations providing vocational training for various groups of disadvantaged people, or providing wider simultaneous support to the economic integration of farmers, women or youth in rural areas).

Organizations of both types organize production or service activities (self-help being significantly more common than the other ones) for two main reasons: through these activities they employ the members of target groups (especially the self-help organizations) and endeavour to achieve economic sustainability through these

¹⁶⁴ Legal grounds for founding and regulating the work of NGOs are described in the legal framework section.

Table 17 - Associations of Citizens According to Main Goal/Mission (2007)

Type of Association of citizens	% of associations
Environmental protection	10.5
Local development	10.9
Support to the Roma population	9.5
Support to elderly	5.3
Support to PWDs	16.8
Support to refugees and IDPs	2.2
Support to women	4.3
Support to children and youth	8.3
Support to (self)employment, entrepreneurship	2.0
Development of agriculture	14.8
Support to other, several vulnerable groups	11.9
Preservation of tradition	1.6
Improvement of education	1.1
Other	0.6
Total	100

Source: SeConS, UNDP, 2008

activities. Bearing in mind that the laws in force do not stipulate the possibility of performing market activities by voluntary organizations, they employ the following solutions:

- they organize this activity within the same organization (very often a separate organizational unit is established for these purposes);
- they establish a separate legal entity registered to perform the given production/service activity; these legal entities can be enterprises for employing persons with disabilities, limited-liability companies or joint-stock companies.

According to the Law on Churches and Religious Communities from 2006, voluntary organizations with a religious affiliation can establish certain institutions and organizations within the

framework of social and charitable activities with the aim of performing production and/or service activities. The law also stipulates that in performing the activities and providing income, churches and religious communities can be fully or partially exempted from paying taxes and other obligations, in accordance with the laws defining certain public revenues. According to the law, these organizations are to display in a noticeable manner the full title under which they were permitted to perform their social or charitable activities, as well as the title of the church or religious community that founded them. The founders of these organizations are the Serbian Orthodox Church, the Islamic Religious Community and the Catholic Church. Although the goals of these organizations are most often to provide humanitarian support for disadvantaged groups of the population, certain organizations also undertake

production or service activities intended to integrate the disadvantaged, or to provide certain social services.¹⁶⁵

The majority of NGOs that we can characterize as social enterprises still have multiple sources of financing; that is, what they earn through their commercialized services constitutes only a part of their income. Their spin-off enterprises, however, often operate fully as market-based entities, and receive donations only as a support in establishing themselves.

Social enterprise within self-help organizations

This type of organization comprises associations of persons with disabilities, and organizations founded by representatives of disadvantaged groups (such as refugees, single mothers, unemployed women and the like) with the aim of attaining the objectives and interests of their group and endeavouring to attain these goals by organizing production/service activities in the market.

There are a large number of associations of persons with disabilities in Serbia, the majority of which were founded several decades ago under socialism. Bearing in mind that during that period associations were formed with the strong support of the state, many of these associations have kept the practices and organizational structures of the previous system. Nevertheless, they can be considered self-help organizations. The great majority of these associations still rely to a

significant degree on local budgets. The resources they provide from their own funds enable them to cover material costs. Programme activities are organized by various organizations to different degrees and are financed by individual donations.

Associations of persons with disabilities adjust to changed social conditions to differing degrees, and manage to transform their organizations with different levels of success. Thus, one can observe that today certain associations of persons with disabilities are developing an entrepreneurial orientation, initiating production/service activities and employing their own members. An example is given in Box 15 below.

Contrary to these 'old-system' associations of persons with disabilities, the new ones are established as real 'self-help' organizations with a more prominent entrepreneurial orientation, and with the aim of better responding to the needs of their members,¹⁶⁶ which is in certain cases realized through establishing a separate enterprise.

Since NGOs cannot initiate production activities, they most often provide services, or, if they do engage in production activities (mainly crafts), they are usually considered to be involved in work-therapy or socialization of their members. Resources generated through selling these products are treated as donations. Such activities are usually on a small scale (according to the number of employees, quantity of products and turnover),

Box 15. Massage Saloon of the Belgrade Association of Blind Persons

The Massage Saloon of the Belgrade Association of Blind Persons was founded as an extended activity by the authorization of and with material support from the Belgrade authorities in the mid-1990s. The saloon employs eight blind persons who received proper training (at the physical therapy and massage training school). The saloon is not a legal entity and operates through the accounts and administration of the Belgrade Association. The saloon is not a VAT payer. Its profit goes to the treasury of the Association, and the Association determines the salaries of employees and decides on the distribution of the remaining profit to meet the expenses of the saloon or the administrative expenses of the Association. The profit covers the salaries and contributions of employees, while 20-30 percent goes to the Association. In principle, the saloon is run by the chairman of the Association. Decisions relating to the operation of the saloon are adopted by the executive board of the Association, but in practice the saloon is run by its employees who manage it by mutual agreement.

¹⁶⁵ Organizations like 'Čovekoljublje' (Serbian Orthodox Church) and the Muslim Humanitarian Society Merhamet Sandžak, carry out programmes of agricultural production (greenhouses, animal husbandry, etc.), while organizations such as Caritas provide home assistance services and day centres for the elderly.

¹⁶⁶ An example of such an organization is given in the section on enterprises.

Box 16. Programmes for Economic Support of Disadvantaged Women in the NGO 'Lastavica'

'Lastavica' was established in 1996 with the arrival of a great wave of refugees from Croatia, as an association supporting disadvantaged women. Although in the beginning enough funds for individual projects of support to women were provided from donations, the members soon began to plan income-generating projects which could later on allow the organization to sustain itself. The majority of the target group members were elderly women and women without qualifications. Their skills were mainly reduced to cooking, knitting, chicken-keeping etc. Apart from that, 70 per cent of them were illiterate and could not take care of their own affairs. 'Lastavica' provided management, administrative services and training for the women.

First of all, a textile workshop was opened, and it has been working ever since as an extended activity of the NGO. Soon afterwards, a catering service was opened, and it developed to such an extent that it began to generate serious income and a separate enterprise, a limited-liability company, was founded. Besides, there is a workshop for pickling and preserving food for winter (a seasonal activity) established as an extended activity.

The activities listed above enable women from the refugee population to find employment and earn an income, but also enable the whole organization to improve the realization of its social goals through long-term programmes such as the Club for Reinforcing the Employment Capacities of Unemployed Persons (computer courses, English courses and communication courses) and Programmes for the Elderly (mobile teams for home care, and a club for the elderly).

and are treated as an extended activity, so that the associations could remain within their legal framework. An example is given in Box 16.

There is a tendency, noticeable in both associations of persons with disabilities and self-help organizations of other vulnerable groups, that as soon as the volume of production or services increases to such an extent that it begins to bring significant resources and demands adequate organizational and logistical solutions, such organizations tend to found a separate enterprise (more in the section on enterprises) to handle these activities. It is important here to note that although such enterprises are separate legal entities, their work and goals remain to a great degree in line with the work and goals of the association itself (see more about this in the section on *Spin-off enterprises of voluntary organizations*).

Socially oriented organizations with an entrepreneurial orientation

Contrary to self-help organizations, these organizations are more externally oriented, that is, they do not include or engage the target groups through membership or employment,¹⁶⁷ since their mission is sometimes not to help vulnerable groups per se but to develop the local community. Such organizations usually offer programmes to educate certain vulnerable groups and support their employment, or provide services to improve the quality of life of vulnerable groups (e.g. home care for the elderly). However, besides the above-listed services common in the activities of third sector organizations, there is a very specific type of organization – microfinance organizations – among the organizations of this type, a fact which results from inadequate legal

¹⁶⁷ With rare exceptions concerning the sporadic employment of members of vulnerable groups, similarly to organizations with a religious affiliation which employ members of vulnerable groups, (most often) through agricultural programmes.

¹⁶⁸ Microfinance in Serbia appeared with the influx of a large number of refugees in the mid-1990s. First of all, the UNHCR developed the 'Income-generating Projects' programme, the aim of which was to provide support to refugees. The programme was realized through six international humanitarian organizations, and was based on a combination of humanitarian and economic criteria. The programme supported a certain number of refugees to gain economic independence.

¹⁶⁹ Such instances of microfinance are intended for the unemployed, but cannot be used in the following fields: agricultural production, infrastructure development, taxi services and programmes whose estimated cost exceeds €20,000. The loans are granted as mortgage loans or warranty-loans with an annual interest rate of 1 percent, and a 3-5-year repayment term. The basic criterion for granting these loans is the number of jobs created. The borrower is to maintain the reported number of jobs for the period of repayment. Monitoring of the activity supported by the loan and the number of employees is carried out by the National Employment Service, which submits a report to the Ministry of Economy.

Box 17. *Mikrofinans* – NGO for Micro-Loans

Mikrofinans was established in 2000 in accordance with the Law on Associations of Citizens. According to its Articles of Association, its principal activity is financial and educational support to disadvantaged groups: refugees, internally displaced persons and the local impoverished population. The Articles of Association define microfinancing as the activity of granting microfinance loans.

The main goal of the organization is to enable members of disadvantaged groups who do not meet the requirements to get bank loans to gain access to microfinance to develop their entrepreneurial activities, and to provide training and information to these groups. It improves their socio-economic position, increasing sustainability, access to markets and the development of their firms, therefore generating new jobs. *Mikrofinans* grants loans to individuals, not firms, and these individuals can be legal entrepreneurs (owners of small registered enterprises), or informal ones (individuals who have not yet registered their enterprises). What makes *Mikrofinans* so specific in comparison to other microfinance organizations is that besides providing microfinance, it also provides its beneficiaries with training for their specific job, as well as support until they establish their business properly. Through its 'access to market' programme, *Mikrofinans* aims at market networking of its beneficiaries, by connecting, for example, fast-food producers with packing producers and the like. Apart from microfinancing entrepreneurship, *Mikrofinans* also grants disadvantaged people housing credits of up to €4,000.

Although still relying on donations, *Mikrofinans* provides a part of its microfinance resources through its own turnover. Interest income is used to cover expenses, and the surplus is returned to the portfolio to fund new loans. *Mikrofinans* thus continually increases the number of loans and the number of beneficiaries. It currently has around 4,400 active loans, and every loan generates 0.6 jobs. *Mikrofinans* is economically self-sustaining, but one of its major problems is an undefined tax obligation. In order to avoid problems in tax-paying, *Mikrofinans* pays profit tax, but has also begun negotiations with the relevant authorities for a tax refund, citing its non-profit status.

framework for 'conventional' microfinance activity. An example is given in Box 17.

Microfinance is an important form of economic reinforcement of socially disadvantaged groups and support to their integration into the labour market through the development of small-scale enterprises.¹⁶⁸ No law on microfinance exists, and the area of establishing microfinance organizations is also unregulated by law. Certain commercial banks have microfinance programmes, and the Government of Serbia established a Fund for Development of the Republic of Serbia, which offers microfinance.¹⁶⁹

Apart from those organizations that are relatively narrowly oriented towards clearly defined target groups and/or a limited number of services, there are also organizations with a more integral (holistic) approach to the development of local communities in Serbia. At the same time they are oriented towards various target groups in the same environment. Such an integral approach to

the development of local communities is especially important in Serbian society, since it is characterized by vast regional differences in terms of development, economic structure and social problems. An integral approach to local communities, carried out simultaneously in various regions, can definitely produce better results and contribute to reducing regional differences. Also, their activity in rural environments is of special importance, since rural areas are facing serious problems – underdevelopment, poverty, depopulation and degradation of resources essential to agricultural development. An example of such an organization is given in Box 18.

An important trend can now be noticed among the organizations of this type in Serbia: the networking of organizations sharing the same mission and active in various regions of the country. The networking of organizations has three benefits: a) it enables individual organizations to reinforce their individual resources; b) from the point of view of the community, better overall effects

Box 18. Agromreža – A Network for Rural Development

Agromreža was established in 2002 with the mission to modernize and develop agricultural production in Serbia and to revitalize rural communities. Agromreža improves the organization of small farmers by opening farmers' clubs; develops agricultural cooperatives by establishing and networking clubs of cooperative managers; provides professional logistic support to cooperatives and farmers through a club of consultants; activates rural youth through rural youth clubs, and supports the economic activation and organization of rural women (cottage industries and rural tourism) through women's clubs. Apart from that, Agromreža constantly follows the markets for agricultural products and, in the absence of an agricultural products exchange, informs farmers of developments in agricultural markets through a market information system. Agromreža is also active in introducing domestic and European standards in agricultural production.

Agromreža has so far established nine rural development centres, founded 13 agro-business clubs alone and 24 in cooperation with ADF, and founded eight women's clubs, two youth clubs and around 70 cooperatives (out of which 20 in cooperation with ADF). Some of these programmes are financed from its own resources. Agromreža members pay an annual membership fee of €60 and receive a package of services comprising education, logistic support to found cooperatives and clubs and information through the information exchange. Other services that demand specific professional support are charged additionally, and are carried out by the club of consultants. Agromreža is still to a significant degree supported by donations, so far generating only 20 per cent of resources through its own activities.

are achieved through the simultaneous realization of the same or similar programmes; c) organizations included in the network can lobby together and exert stronger pressure for adequate legislation. Networks differ from other forms of connecting NGOs with various partners, primarily because partnerships and cooperation are not limited to individual projects – the network is built on the basis of the shared long-term mission of the member organizations. These networks usually have a central organization acting as a focus and co-ordinating the work of the whole network. Examples of such organizations are the Association for Women's Initiative – AWIN – which brings together a large number of women's organizations and initiatives all over Serbia through various programmes of education and employment of women; Ethno-network, linking together cottage industry and rural tourism cooperatives and informal organizations of women performing these activities in rural areas; Agro-network, linking together clubs of farmers, cooperative managers and women's clubs in rural areas; and the network of telecot-

tages linking together telecottages as information centres in rural communities.

Since 2000, the telecottage movement has been developing in Serbia, and includes around 70 telecottages all over Serbia. Telecottages are non-governmental organizations with the principal mission of supporting the development of rural communities and connecting them with the wider community through the introduction of information technologies.¹⁷⁰ They are small information centres open to all members of the local community, and they provide various information technologies services (using computers, internet access, certain services specific to certain telecottages only), opening the local community to the wider community and creating new potential for the members of local rural communities. An example is given in Box 19.

Telecottages are connected into a network, the organizational core of which is the Telecottages Association of Serbia, which grants licences to organizations meeting the conditions needed to become a telecottage. It also provides network

¹⁷⁰ Telecottages were established in 2000, through a competition opened by the Hungarian organization DemNet, funded by USAID resources. This project resulted in opening 66 telecottages in various parts of Serbia.

Box 19. *Temerin Telecottage*

Temerin Telecottage was founded in 2000 and is an example of an exceptionally successful telecottage, which has managed to expand its technological capacity from 5 to 17 computers. The telecottage was founded with the support of the local community, which provided it with space.

The telecottage is self-sustaining – it supports itself through commercial services, but the prices of these services are below market prices, and it provides services to civil organizations at exceptionally favourable prices. As a non-profit organization it should not be subject to the same financial obligations as for-profit ones. However, as the new law on non-governmental organizations has not yet been enacted, it is forced to operate as a for-profit organization (fiscal cash register; subject to taxation as a for-profit organization).

Temerin Telecottage has three employees and combines its commercial activities with humanitarian and civic ones: it provides administrative and IT services (use of internet and computers); provides information (on markets, jobs, competitions, loans); organizes English language courses at very affordable prices; organizes programmes of IT training for entrepreneurs; cooperates with the National Employment Service (engages unemployed persons who undergo telecottage training through work paid for by the NES for a six-month period); sends information on vacancy notices to unemployed persons; allows unemployed persons to search free of charge for vacancies on the Internet; and organizes humanitarian and environmental activities either alone or in cooperation with the Red Cross and the association of persons with disabilities (it single-handedly compiled a list of all 1,030 persons with disabilities in Temerin, registered the type and degree of disability and compiled a list of orthopaedic aids and products needed in the community).

members with information on competitions for various projects, and establishes connection with related foreign and international organizations.

Telecottages combine mainly commercial activities with humanitarian and civil ones. However, some telecottages are more commercially oriented,¹⁷¹ while others are more oriented towards the welfare of the local community.¹⁷² Besides, the first steps have been taken to link the concept of telecottages with local associations of persons with disabilities: a telecottage in Ivanjica is the first in Serbia to be founded within the framework of an association of persons with disabilities, and the first one to directly employ persons with disabilities.

The experience of telecottages in Temerin and the like shows that telecottages in major villages can establish basic economic sustainability, while those in small and exceptionally under-developed villages cannot exist without local commu-

nity support. At the same time, these telecottages are the weakest links in the network and pose an obstacle to its long-term development.

2.2b *Cooperatives*

Cooperatives are undergoing a process of slow transformation. Cooperatives include both the remnants of the predominantly agricultural cooperative organizations inherited from the socialist period, as well as attempts to establish modern forms of agricultural and social cooperatives.

With the aim of transforming agricultural as well as other forms of cooperatives (which were less common in the previous system), in 1989, the *Law on Cooperatives* was passed, according to which cooperatives represent 'independent self-managed organizations of workers and citizens who freely associate their labour, or only resources, into artisan, housing, youth, savings

¹⁷¹ Like Ljig telecottage, which specializes in developing websites.

¹⁷² Like Guča telecottage, which is especially active in environmental projects, and in providing psycho-social support to disadvantaged children in the wider community.

and loan, and consumers' cooperatives, cooperatives for intellectual services, and other cooperatives for the provision of production or services'.¹⁷³ This law is still in force, even though terminologically and essentially outdated, which results in a series of difficulties for the development of modern cooperatives. Activities to amend and supplement this law are in progress in the Ministry of Economy of the Republic of Serbia.

In 2006 the federal law on cooperatives was enacted. According to the law, the founders of cooperatives are individuals. A cooperative can be established with shares in the form of movable and immovable assets, or without any shares. The property of cooperatives is collective and consists of movable and immovable objects, monetary funds, and securities. Cooperative property is formed from the shares of its members that have been transferred to the cooperative or from cooperative membership fees. It also can be formed from funds acquired by the operations of the cooperative, or from funds acquired by the cooperative by other means (for example, from donations). A cooperative may be founded by no fewer than 10 persons. The law also prescribes that in managing the cooperative, members have equal voting rights (one member – one vote), and that the organs of the cooperative are the Assembly, Management Board, Supervisory Board, and Director. A part of the profit, i.e. the surplus of income over expenditure, is placed in the compulsory reserve fund, in a percentage determined by the cooperative. The share of profit that the cooperative does not place in funds, or does not use for other purposes, is distributed to its members in accordance with its rules.

According to the law, the following types of cooperatives can be founded: agricultural, housing, consumer, artisan, health care, savings and loan, youth, students', and pupils', as well as other types of cooperatives for the production and sale of goods and services. However, in reality, the most common are agricultural cooperatives, while the other types are extremely rare, and are often cooperatives only in the formal sense, and do not base their functioning on actual cooperative principles (for example, youth and students' cooperatives represent specific labour markets for the

engagement of young people for occasional jobs, housing cooperatives have ceased to exist, etc.).

Like all legal entities, cooperatives are subject to legal provisions, with an obligation to pay VAT if their profit exceeds two million CSD. All obligations to the Tax Administration are the same as for other enterprises: to submit the annual balance sheet, as well as individual tax returns. Reserves placed in different funds that are not distributed are not taxed again.

The main obstacles that cooperatives have to deal with include an obsolete law that fails to recognize modern cooperatives (such as social cooperatives), a non-reformed land ownership law that poses many problems to agricultural cooperatives,¹⁷⁴ a bad image of cooperatives inherited from socialist time, which prevents the establishment of new cooperatives.

The following three forms of cooperatives are currently present in Serbia:

- Agricultural cooperatives, created by associations of small agricultural producers in an effort to strengthen their position in the market, and pool the resources required to develop agricultural production;
- Women's cooperatives, created by the efforts of women's NGOs in order to enable women with a marginal position in the labour market to be included in the sphere of economic activities, and thus improve their economic and overall social position;
- Social cooperatives, created to integrate – both economically and socially – extremely marginalized groups of persons with disabilities, who have limited capacities to work.

Agricultural cooperatives

Agricultural cooperatives are income-generating organizations with the primary goal of strengthening their market position. However, under conditions of growing rural poverty, abandonment of land, and decline of agricultural production, they represent an organizational form with the

¹⁷³ Official Gazette of the Republic of Serbia, Nos. 57/89, 46/95.

¹⁷⁴ Many of agricultural coops were founded during socialism and their land is still in state hands. Denationalization of land is a prerequisite for their transformation.

Box 20. *Paradiso Agricultural Cooperative*

The Paradiso vegetable growing cooperative is a good example of founding a cooperative with help from donors. The cooperative was founded in 2006, in a village in Vojvodina, in northeast Serbia, after one of the founders was educated in Holland. The cooperative is unique, owing to the fact that its members are local farmers and refugees who have decided to integrate into the local community, and to participate in agricultural production. The American Development Foundation (ADF) provided plastic hothouses, and initially the share of each of the 10 cooperative members was 200 m² in these hothouses. The cooperative specializes in producing tomatoes, and after adequate training and the introduction of standards, it uses the so-called integral production method, which implies better quality compared to 'production in the wild' in Serbia, although the quality is lower than with ecological production.

Since the cooperative has only just been founded, members are gradually adjusting to the new way of working, are working individually on their own segments, and are still often individually acquiring raw materials and materials for reproduction, but the most important aspect is their joint appearance on the market.

Profit is shared equally. Thanks to joint production, they are generally able to produce and deliver the product in the quantities required by large supermarkets such as Metro, and owing to integral production according to European standards, they are able to satisfy quality criteria. However, in order to become regular suppliers of such supermarkets, they must increase production.

important social goal of strengthening small agricultural producers in the countryside, where a significant part of the population still lives.

The benefits offered by cooperatives to their members can be summed up as follows:

- A collective position, which is especially important when clients are large consumers with product needs that cannot be filled by farmers as individual producers;
- Easier and more favourable acquisition of raw materials and supplies;
- Production is modernized because only some members need to complete a particular specialization. They can convey this to the whole cooperative. Also, the introduction of new technologies is easier;
- A joint approach to solving critical situations (assistance in case of losses sustained by some members, problems in production, etc.).

Since many registered agricultural cooperatives are not active in Serbia¹⁷⁵ the question of how many are operating according to modern cooperative principles remains open. An important role in developing modern agricultural cooperatives is played by foreign donation programmes, which combine education with technological and financial support, to assist the formation of modern cooperatives. Organizations such as the American Development Foundation (ADF) and Community Revitalization through Democratic Action (CRDA) have implemented programmes of revitalization for agricultural cooperatives and for upgrading agricultural production in numerous municipalities in Serbia. An example is given in Box 20.

In addition to foreign donors, significant support to the development of modern agricultural cooperatives is provided by domestic NGOs specializing in the modernization of agriculture and the development of cooperatives: the Association of Cooperatives of Serbia, founded in 1895,¹⁷⁶ and a relatively new NGO specializing in supporting the formation and activities of cooperatives and rural development in general – Agronetwork.

¹⁷⁵ According to the Cooperative Association of Serbia, almost 1,000 agricultural cooperatives are members of this NGO association.

¹⁷⁶ The association of cooperatives is facing a series of difficulties, as a consequence of the more or less successful transformation of its member cooperatives, the majority of which were founded during the pre-transition period.

Box 21. Women's Educational Cooperative in Užice

This cooperative is an example of a successful association between players within the local community, with the goal of founding and sustaining the cooperative. The cooperative is registered for foreign-language courses. Premises were donated for use by the local community, and equipped using donations. In return, every year the cooperative provides courses free of charge for five students selected by the local community. Courses are charged at below-market prices, and students are selected from among the employed, pensioners, and those employed at wages lower than the average for the republic. Even under such conditions, the cooperative is operating profitably, and regularly pays fees to professors. During the last year, the cooperative had over 140 students following five language courses. Owing to the need to enlarge capacity, negotiations are in progress with the local post office to provide space, with the cooperative in return organizing courses for post office employees at a preferential price. Not all engaged professors are members of the cooperative. Some are engaged on a part-time basis. In addition, some members organise individual teaching, in premises they obtain themselves, giving the cooperative 10 percent of the profit. Thus, professors do not provide private 'black market' classes which have been very frequent since the beginning of the 1990s, but rather legalize their work via a suitable, flexible arrangement. Members of the cooperative also pay an annual membership fee.

Women's cooperatives

An important trend of revitalization and development of cooperatives was initiated by women's organizations, who found themselves marginalized in the labour market, as well as women who are unemployed owing to strong traditional models (primarily in rural communities). Labour market indicators show a pronounced level of unemployment of women in Serbia, reaching 24 percent in 2004 – the highest level of unemployment of women in Europe. On the other hand, data for the period 2002-2005 indicate a persistent downward trend in the employment of women. Women in rural areas are most frequently regarded as assisting members of the household, who supply unpaid labour for the family's agricultural production (while also being deprived of pension insurance), and in a significant number of cases deprived of ownership over land, real estate, and the means of production.

Even though women's cooperatives in their modern forms are only just emerging, positive examples of successful women's cooperatives, along with programmes of education, can in the future contribute to a more significant development of this form of social enterprise.

One of the important initiatives in the foundation of women's cooperatives originated from the Association for Women's Initiatives (AWIN) in 2003, when a group of female activists organized

education seminars throughout Serbia, with 12 cooperatives resulting from this programme in various regions. Owing to the outdated and imprecise legal framework, some of these cooperatives were faced with serious difficulties in registering. The Commercial Court, which is in charge of the registration process, at first declined to register cooperatives for performing educational and health care activities. Only after consultations on a broader level, and additional interpretations of the law, did the court agree to register these two cooperatives. This lack of legislative precision, as well as clarity pertaining to the competences of individual state institutions, is a consequence of the still incomplete transformation of the broader institutional system, as well as the absence of new, more precise laws. The registration of cooperatives is currently overseen by the Agency for Economic Registers, which significantly expedites the procedure. An example of a women's cooperative is given in Box 21.

In addition to the above-mentioned forms of women's cooperatives, there is also a growing trend to found women's cooperatives in villages, to trade in women's handicrafts and engage in rural tourism. The aim of such initiatives is to strengthen the socio-economic position of undereducated and older rural women, while simultaneously introducing new activities into local rural communities, thus contributing to their overall development.

Box 22. Vivere Social Cooperative in Kragujevac

The cooperative was founded according to an Italian model, and with Italian assistance in the form of training and donations. It was founded by a group of women who had completed programmes of education, and a group of parents of mentally retarded adults (for a total of 13 members). The cooperative combines a day-care centre for mentally retarded adults, with sewing, embroidery and weaving workshops. Women working in the workshops spend part of their time producing for the market, and part of their time training persons who have limited mental capacities for work. Persons with disabilities undergo training in sewing, embroidery and weaving, and once they master these skills, they will produce according to their capacities, under the expert supervision of the women, simultaneously making use of the services of the day-care centre, while persons without the capacity to work will continue to use only the services of the day-care centre. Women already working in production give the cooperative only 10-15 percent of their earnings. The day-care facility accepts all mentally retarded persons over 24 years of age. The cooperative is located in premises provided by the local authorities, equipped from donations. The six employees of the cooperative are paid by the City Assembly, with minimum salaries. The city also provides food for the beneficiaries of the day-care centre. The cooperative presently has 13 regular beneficiaries and two who come occasionally. Parents of beneficiaries of the day-care centre contribute 2,000 CSD a month, and these funds are used to cover the costs of accounting services, cable TV and disposable materials.

Social cooperatives

As opposed to agricultural and women's cooperatives, social cooperatives have a strong social function. This is not only because they are directed to a larger extent towards providing certain services in the local community, but also because, in order to serve the interests and needs of their members, the enterprise aims to integrate them into the community. Regrettably, initiatives for founding social cooperatives are still at the very initial stages, and one can more correctly speak of individual cases that could serve as examples of the spread of similar initiatives. An example is given in Box 22.

Social cooperatives of this type represent a very favourable form of organization, not only for inclusion into work processes and social care, and integration via a day-care centre, but also because of the way in which beneficiaries are integrated. They are simultaneously beneficiaries and members, which enables them to play a highly participative role, and to personalize services, which most frequently is not the case when using the services of state social welfare institutions, and is to a lesser extent possible in other forms of organization.

2.2c Enterprises for the vocational training and employment of persons with disabilities

Enterprises for the vocational training and employment of persons with disabilities are registered according to the law of 1996.¹⁷⁷ A new law is expected to enter into force in 2008, and will encompass measures for persons with disabilities to enter the open labour market, as well as, under special conditions, work in so-called sheltered workshops.

In reality, there are various forms of organization of enterprises for the vocational training and employment of persons with disabilities. These enterprises can be founded by associations of persons with disabilities, and can have relative autonomy from their founders. In addition, they can be founded by large profit-driven enterprises (and employ mainly persons with disabilities resulting from work-related causes), with virtually no autonomy in their operations.

According to data from the Ministry of Labour from February 2006, 52 enterprises for the professional rehabilitation and employment of per-

¹⁷⁷ These enterprises originate from two earlier forms of enterprises for persons with disabilities, known as DESs (independent enterprises for employment of persons with disabilities), and sheltered or 'protective' workshops (parts of larger systems, with the function of employing primarily persons with labour related disabilities). These two terms are still broadly used, however today they all have a common name and operate according to the same law.

sons with disabilities employ a total of 2,926 persons with disabilities.¹⁷⁸ Of this number, 60 percent are persons with disabilities due to work-related causes, 21 percent are persons with mental disorders, and 12 percent are persons with hearing disorders. Of the total number of employed persons with disabilities, 86 percent have not completed secondary education. There is no data on the total number of persons with disabilities who could enter the labour market, nor on the number of such persons who are registered with the National Employment Service (NES). Some unreliable estimates of the former could be provided by associations of persons with disabilities. Regarding the later, registration of disabilities of individuals who apply to the NES is part of the current reform of the service.

For an enterprise to be eligible for state support, at least 40 percent of its employees must be persons with disabilities, and it must fulfil the following conditions: it must employ suitable experts (psychologists, defectologists, teachers of practical subjects for vocational training); it must have a programme for the vocational training of persons with disabilities approved by the ministries of Education and Health; it must possess adequate premises and be technically equipped.

Regular budgetary funds are set aside to support these enterprises, and in accordance with the law, the ministry assists them in two ways:

- by regular financing (on a monthly basis) and according to the principle of paying half the average national salary for each employed person with disabilities;¹⁷⁹
- annually, according to governmental decree, these enterprises are allotted funds for innovative programmes (based on an open competition) aimed at improving working conditions or upgrading production.

Enterprises that specialize in the rehabilitation and employment of persons with disabilities enjoy tax benefits in accordance with the regulations of the Ministry of Finance. These include:

exemption for 24 months from payment of contributions for employees newly employed through the National Agency for Employment; VAT reduction from 18 percent to 8 percent; exemption from profit tax; lower customs tariffs for the import of machines and equipment not manufactured in the country. These enterprises may also be treated preferentially by local governments (for example, by receiving subsidies for communal services and electricity). In addition, they have priority when competing for the procurement of certain services, provided they fulfil the other criteria (regular payment of contributions for employees, quality of products and services).

However, these enterprises face numerous problems:¹⁸⁰ frequent operating losses, inability to establish significant market presence, inability to collect debts, the burden of debts from previous years, surplus labour coupled with the inability to transfer the surplus to the National Agency for Employment (due to unpaid obligations), low qualifications of employees, frequent absenteeism from work, outdated technologies and production programmes, weak entrepreneurial initiatives, frequent changes of management, and insufficient cooperation with local government. In addition, workspaces are frequently not adapted for employees with disabilities, and there is no adequate protection at work (occasionally not even elementary conditions of hygiene). Enterprises frequently (in up to approximately 90 percent of cases) do not employ the experts prescribed by law. Certain enterprises have solved this problem by entering into cooperation contracts with special schools, centres for social welfare, or the founder of the enterprise, even though significant numbers of enterprises approach the Ministry of Labour, Employment and Social Policy with suggestions for engaging persons with adequate qualifications from the civilian national service. In addition, labour-related documentation (decisions pertaining to persons with disabilities, applications for compulsory social insurance, and labour contracts), are not harmonized with existing regulations, and in some enterprises, employees with disabilities are not placed in jobs in accordance with decisions to work under special conditions. A cer-

¹⁷⁸ Data from the report on surveillance performed by the Ministry of Labour, Employment, and Social Policy of the Republic of Serbia.

¹⁷⁹ These funds are not specifically provided for salaries of persons with disabilities employed therein, which frequently causes misunderstandings, since certain employees feel that they are entitled to 50% of the average salary in the republic, even if the enterprise has operating losses.

¹⁸⁰ The problems are listed in the report of the Ministry of Labour and Social Policy of Serbia on the survey carried out in February 2006, in 61 enterprises for vocational training and the employment of persons with disabilities, of which 52 submitted valid data.

Box 23. The Djepeto Enterprise for the Rehabilitation and Employment of Persons with Disabilities

The Djepeto enterprise for the rehabilitation and employment of persons with disabilities was founded in 1994 in Vršac. Its funders were a female professor in the school of mental disability (who was also the source of the idea), the Society for Aiding Mentally Underdeveloped Children, two large economic enterprises and the municipal council. Founding investments were set so that the major founder (60 percent) was the municipal council. A workshop was provided by the municipality (240 m²), but since the building was completely dilapidated, it was gradually rehabilitated with the help of donations, and equipped for production (looms, sewing machines). The enterprise has existed for 13 years, and only during the last three years has it been partially financed by the municipality. In the beginning, it was financed by projects for the vocational training of persons with disabilities, mainly children from the local special schools. Later on, it became self-sustaining owing to its production activities, which included sewing and weaving. Various articles were manufactured, from flags for organizations and state institutions, to fashion clothing presented at fashion shows. The enterprise employed seven persons with disabilities, of whom four had impaired hearing, and three were mildly mentally disabled. The enterprise went out of business due to a change of heart by the local authority. At local elections after 2000, a different political group gained a majority in the municipal council. It wanted to make a part of Djepeto's workspace into an editorial office for the municipal paper. The municipal assembly voted to discontinue Djepeto's financing, while the management board of the enterprise (in which the municipality had the majority of votes) decided to give the premises to the municipality. Djepeto therefore ceased to exist because of the local authority.

tain number of enterprises do not pay salaries to employees, but only contributions, while in most enterprises salaries are owed for over one year.

Changed conditions obliged these enterprises to replace their strong reliance on the state with a stronger market orientation, with state assistance representing an additional element of support. There are few examples of enterprises that have already undergone such a transformation, and are operating successfully. However, there are also examples of enterprises that were successful, but failed to retain sustainability, because of political instability at local government level. An example is given in Box 23.

The Ministry of Labour and Social Policy has defined the following goals for the process of transformation of such enterprises: introducing changes into programmes for production or services, upgrading the quality of management, ownership transformation and restructuring, closing of certain enterprises, with the transfer of employees

to more successful enterprises. One of the strategies for transformation contemplated by the ministry is to transform social enterprises employing persons with mental and sensory disabilities into state enterprises, and to privatize the remaining enterprises, with the obligation of the new owner to respect the Law on the Professional Rehabilitation and Employment of Persons with Disabilities. Such solutions are still being deliberated, since there are huge differences between individual enterprises, and there is a relatively strong resistance from the persons with disabilities that they employ. Also, detailed analyses need to be carried out, and clear criteria for privatization established.

2.2d Other forms of social enterprise

Social enterprise also appears in Serbia in legal forms characteristic of profit-oriented enterprises, limited liability enterprises (Ltd) and joint stock companies.¹⁸¹ Such enterprises are founded for several reasons:

¹⁸¹ An Ltd is a form of enterprise in which the founder's responsibility for the company debt is limited usually up to the amount the founder has invested in the company. A joint-stock company is a form of business organization that falls between a corporation and a partnership. The company sells stocks and its shareholders are free to sell their stocks as well, provided that the shareholders are liable for all the debts of the company. The dominant form of spin-off enterprises founded by voluntary organizations is the Ltd enterprise. However, there are some examples of voluntary organizations that founded joint-stock companies in partnership with other enterprises.

1. As a consequence of the need for voluntary organizations to perform manufacturing/service activities, for which they employ representatives of vulnerable target groups;
2. As a consequence of the effort of voluntary organizations to use proceeds from market operations to ensure the sustainability of the organization and/or the better realization of its goals;
3. To pool the resources of several players whose mission it is to develop social enterprises in a predominantly indirect form, via education, aid and support, as is the case with the Agency for Development of Small- and Medium-Sized Enterprises;
4. To use the efforts within one organizational unit to directly generate new small businesses, as is the case with business incubators.

Types one and two are founded by associations of citizens, while types three and four are usually founded by different stakeholders, including associations of citizens, local governments, local institutions, and for-profit enterprises. Spin-off enterprises founded by associations of citizens are either owned by the founders or members of the founding organization.

The issue that essentially differentiates social enterprises from profit-oriented enterprises, regardless of the fact that they may share the same legal form, are limitations regarding generating and distributing profit. In social enterprises, profit is generated to serve goals resulting from the social mission of the founder, and therefore profit is channelled toward fulfilling that social mission.

Spin-off enterprises of voluntary organizations

Enterprises that are formed as voluntary organizations' spin-offs may have one founder (NGO), or several founders, among which voluntary organizations are most frequent, while other founders represent partners in the form of the local community, individuals, and even profit-oriented enterprises (mainly significant donors to voluntary organizations). These enterprises most frequently have the legal form of a limited liability enterprise, and rarely the form of a joint stock company. Therefore they pay taxes like all for-profit organizations. However, regardless of

their legal form, these enterprises are characterized by a close association with the mother NGO, as well as by a subordination of the business goals of the enterprise to the mission and goals of the NGO. In this sense, these enterprises have relatively limited autonomy as main decisions are taken by the founder and owner. The association frequently also shares personnel with the mother voluntary organization. Sometimes, these enterprises contain within their very name the recognizable name of the voluntary organization from which the enterprise was spun off, or emphasize in some other fashion that they are an organization with social goals. An example is given in Box 24.

It needs to be emphasised that this form of development of social enterprises is still in an initial phase, and that organizations are still making efforts to find the forms that best suit their experience and needs. The major problem emphasized was precisely that of defining the relationship between 'social' and 'entrepreneurial', i.e. between an NGOs' wider social goals (supporting vulnerable groups) and the vital need of 'daughter' enterprises to operate efficiently as an income-generating entity (preventing losses produced by unrealistic expenditures on the social programmes of the founding NGO). In the case of the Lastavica catering service, this was noticed early on and a consultant was engaged to devise a proper solution. As an outcome, a contract was produced that ensured that for the first three years all operational costs of the enterprise would be covered, after which a part of the profit would be transferred to the NGO.

There are also examples of self-help organizations that found separate enterprises with the goal of generating profits for the mother organization, but which for the time being do not employ their members in the spin-off enterprise. An example is given in Box 24.

Agencies for the development of small- and medium-sized enterprises

Agencies for the development of small- and medium-sized enterprises were encouraged through a programme of donations from the European Agency for Reconstruction in 2001, that was aimed at supporting the development of entrepreneurship. In 2001, the Republic of Serbia passed a Law on the Agency for the Development

Box 24. Catering-Lastavica Spin-off Enterprise

Catering-Lastavica is an enterprise which separated from the NGO Lastavica, after having achieved a significant level of operations and income. The NGO is the founder and owner of the enterprise. The enterprise originated as a means for broadening the scope of activities of the NGO, which initially primarily offered psychological and social aid to women refugees from Croatia. Within an economic development programme, in view of the (low) educational profile of women, a catering programme was initiated, which involved the production of finger foods for organizations with which Lastavica cooperated. This type of service found a good market, and due to a rapid expansion of activities, experts were engaged to train women to prepare food, as well as to standardize recipes and preparation procedures. In addition, two women completed training to use computers, followed by a series of training courses in management, preparing business plans and public relations. They began to work on organizing the operations of the enterprise (a system of Internet ordering was also introduced), and developing business plans. Initially, the enterprise employed five women. Today, nine persons are employed, while efficiency has also improved. The women employed no longer come exclusively from the refugee population, as women from other vulnerable groups are included as well (single mothers, financially vulnerable women).

Relations between the catering firm and the NGO are clearly defined. The NGO Lastavica is the founder, and nominates the management board, which elects the director. As a result of the concern that the financing of the NGO by the catering firm will threaten the development of the enterprise, an agreement was reached according to which during the first three years all the profit is retained by the firm, to be used for future development. In the initial period, the NGO offered significant financial, administrative, and educational support to the enterprise. Now the three-year period is over and the enterprise should start to transfer part of its profits to the NGO. However, a question has arisen as to the form in which the NGO is able to accept this money.

of Small- and Medium-Sized Enterprises. This law resolved the status of the national agency and the regional agencies, defined their basic work goals and their manner of financing. According to this law, the national agency is a legal person, with rights, obligations, and responsibilities established by the law and the statute. It operates according to the regulations governing public services. The decision to form regional agencies is passed by the government, at the suggestion of the national agency. The ministry responsible is the Ministry of Economy, which has a Sector for the Development of Small- and Medium-Sized Enterprises and Entrepreneurship.

The foundation of agencies has promoted the principle of partnership between the public sector, the private sector, and the non-government sector. They were founded as limited liability companies (Ltd). This legal form was selected since there was no other form which would result in an organization that is both non-profit and has private entities as founders. The non-profit orientation of the agencies is set out in their statutes, via provisions limiting the generation and distribution of profits.

In the Strategy for Development of SMEs (2003), and the Action Plan (2005), regional centres are recognized as the most important partners at the regional level for the realization of local economic development, together with local management, banks and associations of citizens. The network of individual agencies/centres has developed over time into a network of autonomous centres with their own strategies for growth and development. Currently, 12 agencies form the network. Regardless of the fact that this is a network managed by the national agency, cooperation agreements have been signed between members of the network, while contracts pertaining to obligatory services are signed every year.

According to the law, the national agency's activities are directed towards the preparation of development strategies and measures of economic policy, offering expert assistance for foreign investment and for forming enterprises, coordinating programmes, promoting entrepreneurship through various forms of assistance and direct work with entrepreneurs. The activity of the regional agencies follows the general guide-

Box 25. Zlatibor Regional Centre for Development of SMEs and Entrepreneurship

This regional agency was founded to provide services to small- and medium-sized enterprises: business information, counselling, training. The goal was economic development which should contribute to the creation of new jobs. The founders of the centre are the municipalities of Užice, the government of Serbia, the regional chamber of commerce, two banks, one NGO and the association of entrepreneurs. According to the law, founders (with the exception of the government) were obliged to pay a founding investment (US\$ 750 each) within two years, but some have not done so to date.

The centre's activities have significantly changed since it began. In the period when the centre received EAR financial support, services were mainly free of charge, while the main target group was potential small entrepreneurs who were unable to pay for the expert services required to embark on entrepreneurship. Under the new conditions, when funds from donations stopped coming, the centre channelled its activities towards a target group that is able to pay, primarily small enterprises, craft shops and medium-sized enterprises. In keeping with this target group, the services have also changed. Services of direct business consultancy are most frequent, while training is less frequent. In addition, the centre continuously offers services of distributing business information. A club of entrepreneurs meets at the centre, based on an annual contract, and its members pay membership fees. Membership fees cover primarily business information and certain basic advice, while other services are charged separately.

Target groups not able to pay for the services offered still receive such services free of charge. Special programmes have been created for this group. With the support of donor funds, a programme is delivered to approximately 60 beneficiaries from vulnerable groups (refugees and the financially endangered), who received funds from HELP to start production, and have formed small businesses. These beneficiaries receive all the centre's services, as do permanent users.

Funds at the disposal of the centre can be classified as follows: 15-20 percent comes from central and local government, 20 percent from clients, and 60 percent from donations. If any funds are left over, they are invested in additional training for the unemployed. As regards self-sustainability, the idea is to get part of the funds from local government, until the economy grows stronger, since this is the only way to avoid transforming the centre into a market-oriented consulting agency, and for it to remain a development agency catering to the needs of the local community.

lines prescribed by this law, but must be adapted to meet local needs in order to fulfil the goals defined at their foundation. These are to support local economic development and create new jobs. In the beginning, most services were free of charge, while today most services are chargeable, though not at actual market rates. This means that agencies can target their programmes at groups of beneficiaries who are not able to pay for services, but have entrepreneurial potential.

Initially, the agencies had the same goals, plans and programmes of activities. With the discontinuation of permanent donor funds, the functioning

of the national agency and the regional centres began to differ. In some cases, the municipality plays a more active role, and provides funds from the local budget for the work of a specific regional agency, while in other cases there is more reliance on donor funds. All regional agencies offer a certain number of services financed from the central budget.¹⁸² They pay tax like profit-oriented enterprises. An example is given in Box 25.

The agencies for the development of SMEs are bound to a partial profit distribution constraint and must deliver important services (training, business education, administrative support in prepara-

¹⁸² These funds are transferred to regional agencies via the Republic Agency.

Box 26. Korak Business Incubator

The incubator is located in the premises of a once-significant manufacturing company on the outskirts of Belgrade. Owners of the incubator are the municipality (51 percent) and a private company (49 percent). The motive to initiate this incubator originated from an analysis of the resources of the factory, and the needs of the workers of DMB facing the process of privatization. The analysis of preconditions showed that the incubator could be formed while the factory was being privatized.

The process of registration was rather slow. A form was sought which would be appropriate for the local partner, i.e. local government. Finally, the limited company was selected as the legal form for establishing the incubator. After registration of the enterprise, second-level registration was done, in accordance with the Law on Innovative Activities which regulates incubators. The statute laid down that profit should be reinvested in accordance with the incubator's mission and goals and in the public interest, which can be stated as follows: local economic development, re-employment and structural change of the industry, while respecting local resources.

The beneficiaries of the incubator are workers from DMB with a business idea, as well as entrepreneurs from the local community. They are selected according to the following criteria: the programme must be independent, and must not hinder privatization (must not pose a threat to the future owner of the enterprise), and the business plan must be sustainable. The incubator offers the following services to its beneficiaries: premises, consultancy and mentoring during work, support when entering the domestic or foreign markets, marketing, and access to financial institutions.

The idea of this incubator is to adapt its services to a large extent to the requirements of individual beneficiaries. An individual work plan is prepared for each enterprise in the incubator, which is also stipulated in the contract for using the incubator. Activities of firms in the incubator are monitored based on a system of coefficients used to evaluate the business plan and ideas, the number of employees in individual enterprises, the value of equipment taken from the factory and the period within which the future owner of the factory will be able to charge rent for use of the equipment. The same system is also used to eliminate potential beneficiaries.

Specific characteristics of the Korak incubator are: connections with the ministry and support from the government via the national investment plan, as well as from the first ever partnership between a private firm and the local community.

tion of documentation for loans). A consistent part of services is provided to vulnerable groups (persons with disabilities, refugees, IDPs, women).

The Law on the Republic Agency also defines the organizational structure of the national agency, as well as the regulations according to which agencies are registered as legal entities. The organs of the national agency are the management board, the supervisory board and the director. The president, members of the management board, the supervisory board and the director are nominated and removed by the government of the Republic of Serbia. The activities of the

national agency are supervised by the supervisory board which consists of elected representatives of the employees and representatives of small- and medium-sized enterprises.

Business incubators

A business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support and services. A business incubator's main goal is to produce successful firms that will leave the programme financially viable and freestanding.¹⁸³ A business incuba-

¹⁸³ Definition taken from the ENTRANSE programme, supported by the government of the Republic of Serbia and the Ministry of Economy.

tor is an efficient instrument to support the development of small- and medium-sized enterprises. It offers the resources required to increase the beneficiary enterprises' chances of survival or upgrading. Resources may include premises, training, accounting, equipment, marketing, computer networking and business consultancy.

As in the case of the Agencies for SME development, business incubators provide economic and professional support to vulnerable groups.

The incubator approach emphasizes recognizing and resolving the obstacles and problems faced by new businesses. In addition to direct work with beneficiaries, the goal of an incubator is to work with the external environment, i.e. to create a stimulating business environment for the development of entrepreneurship. The most common goals of incubation programmes are creating jobs in a community,¹⁸⁴ enhancing a community's entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry and diversifying local economies.

The foundation of business incubators in Serbia is important, because it accelerates and efficiently assists numerous enterprises simultaneously. In Serbia, in recent years, there are many unused business premises left over from economic complexes, as well as numerous workers who have become redundant in the process of enterprise restructuring, and numerous young people who wait for long periods of time for their first job. Incubators appear in response to this state of affairs, and are initiated by various players.

The government of the Republic of Serbia adopted an action plan for supporting small- and medium-sized enterprises, and a strategy for the development of small- and medium-sized enterprises and entrepreneurship, which define the framework for the development of incubators. To date, all initiatives have benefited from donor participation and support, as well as partnership with local authorities.

With the aim of emphasizing the potential of incubators for social enterprises, in this document, we present an entirely different example, initiated by local government and private enter-

prise, without any donor funds, but with support from the government and ministries. An example is given in Box 26.

The Economic and Environmental Department of the OSCE has initiated and supported incubators throughout Serbia. 'Timočki klub', an NGO from Knjaževac, has initiated the formation of an association of business incubators in Serbia. The association is to be a non-profit organization, which would improve the position of business incubators, upgrade their efficiency through an exchange of experiences and resources, and accelerate their development.

2.3. SWOT analysis of social enterprise development in Serbia

This part of the study stems from the endeavour to systematize the findings on the conditions for social enterprise through a SWOT analysis. Unlike the previous national report, the SWOT analysis has been carried out for different organizational forms. The analysis units are four chosen forms in which the social economy appears, while the topic of the analysis is the potential of social enterprises to generate new jobs.

The third sector in Serbia has a great potential for social enterprise development, but it does not employ many people at the moment, and is more oriented towards indirect employment through educational programmes, encouraging entrepreneurship and relevant development of the local community. However, experiences with social enterprises within NGOs are variable and it is difficult to draw universal conclusions from them. One of the major problems for direct employment is the reluctance of NGOs to engage in economic activities in a more intensive manner, in order not to jeopardize their primary social goals by an exaggerated focus on market activities. On the other hand, opportunities to develop new services are opening up before these organizations, such as the opportunities in social welfare. Direct access of NGOs to resources from donations is getting more and more limited, which encourages them to under-

¹⁸⁴ In Germany, there are over 200 business incubators which support 3,700 small- and medium-sized enterprises, generating 28,000 jobs.

Voluntary organizations	
Strengths	Weaknesses
<p>Sensitivity to the needs of disadvantaged groups</p> <p>Awareness of the need to achieve economic sustainability</p> <p>Diversity of goals, activities, orientation towards various marginalized groups</p> <p>Extensive experience in finding concrete organizational and legal solutions for the direct employment or promotion of employment of disadvantaged groups</p> <p>Work in accordance with the principles of social enterprise</p> <p>Organizational dynamism, flexibility, innovation</p> <p>Commitment and qualifications of human resources and their excessive preparedness to learn (adoption of new programmes, methods, etc.)</p>	<p>Poor orientation towards economic activities, especially among the numerous 'old' associations of persons with disabilities which mainly rely on the state</p> <p>Limited growth potential due to the dominant orientation towards social goals of founders</p> <p>Small scale of employment</p> <p>Massive presence of unpaid work</p> <p>Inadequate qualifications and lack of experience in managing economic activities</p> <p>Non-continuous inflow of resources</p> <p>Absence of long-term planning</p> <p>Not being acquainted with the terms of social entrepreneurship and social enterprise</p>
Opportunities	Threats
<p>Gradual withdrawal of donations</p> <p>Development of cooperation with local stakeholders (authorities, for-profit sector) and the state</p> <p>Inclusion of third sector organizations in social services market</p> <p>Adoption of knowledge and experience from other countries</p>	<p>Unfavourable legal framework (limitation of commercial activities, and who can be founders)</p> <p>Inconsistent interpretation of tax regulations (in gaining profit and payment of taxes)</p> <p>Too fast withdrawal of donations (sustainability is still fragile)</p> <p>Insufficiently active role of the state in creating favourable conditions for NGOs and providing support</p>

take entrepreneurial activities in order to achieve sustainability. However, an excessively fast withdrawal of donations and the absence of external support would jeopardize the potential of NGOs in Serbia in the field of social enterprise.

Cooperatives are an extremely favourable framework for generating a large number of jobs. They succeed in dealing with a number of market failures and promote social integration. However,

owing to an excessively negative attitude on the part of many towards cooperatives based on their experiences gained during the socialist period, there is a very strong resistance towards this organizational form. Contrary to other forms of cooperatives, social cooperatives are just beginning to appear, and it cannot be expected that they will enable more serious job creation in the near future. It is important to note that there are no organized activities directed towards pro-

Cooperatives	
Strengths	Weaknesses
<p>Strong entrepreneurial orientation in new and transformed cooperatives</p> <p>Favourable financial conditions on foundation</p> <p>Pooling resources (financial, material and human)</p> <p>Democracy in decision-making</p> <p>Solidarity</p>	<p>Inefficient, non-professional management</p> <p>Obsolete or inadequate equipment</p> <p>Inadequate human resources in terms of their education and motivation (primarily among the members of unreformed cooperatives)</p> <p>A large number of cooperatives in which ownership transformation has not been done – from state property to cooperative property</p>
Opportunities	Threats
<p>Adoption of foreign models and knowledge</p> <p>Logistic support by foreign donors</p> <p>Modernization and development of the agricultural sector as an important strategic orientation of the state</p> <p>Awareness present in certain disadvantaged groups of the advantages of employment through cooperatives</p>	<p>Obsolete, imprecise law</p> <p>Prejudices, negative attitude towards cooperatives due to the experiences from the socialist period</p> <p>Ineffective popularization of the concept of cooperatives</p> <p>Slow ownership transformation, primarily among agricultural cooperatives</p> <p>Unstable market</p> <p>Corruption</p>

moting cooperatives as a framework through which to reduce unemployment.

Excessive protection of these enterprises by the state led, in the socialist period, to an inadequate orientation towards the market. Although characterized by a favourable legal framework, which is soon to be improved, the potential to employ persons with disabilities is not taken advantage of and these enterprises mainly generate operating losses. Due to the bad image of these enterprises the for-profit sector is not interested in establishing them.

As with NGOs, it is difficult to draw general conclusions on limited-liability companies and joint-stock companies, as the motives of their founders vary. Some of them were established to organize economic activity and employ the members of their target group directly, while

others were established with the aim of encouraging employment and local development, and the enterprise was the only accessible organizational form. Such a form of social enterprise carries the largest potential for employment, and with adequate measures of support through statutory regulations (enacting laws on social enterprises) and popularization of the concept, it could generate the largest number of jobs.

As well as the findings related to individual forms of social enterprises, it is important to note certain general conditions that support or hinder the development of social enterprises.

Enterprises for the vocational training and employment of persons with disabilities	
Strengths	Weaknesses
<p>Significant opportunities for direct employment and economic integration of persons with disabilities</p> <p>Activity of enterprises adapted to working abilities of persons with disabilities</p>	<p>Poor management of enterprises and too frequent changes of management</p> <p>Poor level of training and lack of motivation of employees</p> <p>Technological obsolescence</p> <p>Activities that generate operating losses</p> <p>Physical conditions for work not adapted to persons with disabilities</p> <p>Not fulfilling legal obligation to employ professionals for work with individuals with disabilities</p>
Opportunities	Threats
<p>Direct financial support by the state and through various funds</p> <p>New and modern solutions stipulated by regulations to be adopted soon</p> <p>Tax concessions</p> <p>Concessions stipulated by law in establishing such a form of enterprise and employing persons with disabilities</p>	<p>Inadequate monitoring by competent ministry</p> <p>Slow process of ownership transformation of enterprises</p> <p>Inadequate cooperation with local authorities (non-existent or characterised by extreme dependence on local authorities)</p> <p>Inadequately informed entrepreneurs about what is needed to form such an enterprise and about employing persons with disabilities is concerned</p>

Spin-off enterprises, agencies for development of SMEs, business incubators	
Strengths	Weaknesses
<p>Strong entrepreneurial orientation</p> <p>Great opportunities for direct and indirect employment</p> <p>Flexibility in adjusting to the market (finding market niches)</p> <p>Social, not economic motivation to improve activities of founders (social goals)</p> <p>Competitiveness</p>	<p>Profit is not oriented towards the community or a target group in accordance with the law, but in accordance with the Articles of Association</p> <p>Limited autonomy in spin-off enterprises and SMEs agency</p> <p>Collision of interests (central-local, profit generating-social, etc.) in the case of multiple founders</p>
Opportunities	Threats
<p>Partnership and cooperation with local authorities and for-profit and civil sectors</p> <p>Positive image</p> <p>Opportunity to use various financial sources</p> <p>Promoting the framework for socially responsible business</p>	<p>Lack of tax concessions</p> <p>Corruption</p> <p>Laws regulating the conditions and rules of doing business very often not obeyed</p> <p>For-profit sector unprepared to found enterprises with social mission</p> <p>Low market demand</p>

Favourable conditions for social enterprise development	Negative conditions and constraints to social enterprise development
<ul style="list-style-type: none"> ■ presence of various initiatives for social enterprise development ■ development of socially responsible business ■ increase of institutional sensitivity to the needs of disadvantaged categories (active labour market measures, laws regulating employment, insurance, ban on discrimination against disadvantaged categories) ■ networking of organizations, which enables pooling of resources, better lobbying and advocacy ■ adoption of experiences through donation programmes, learning from international organizations 	<ul style="list-style-type: none"> ■ weak economy ■ poor employment potential ■ excessive pressure from numerous disadvantaged groups ■ uncompleted transformation of legal framework, overlapping and discord among certain laws ■ lack of laws on social enterprises ■ undefined concept of social enterprise ■ low awareness of the importance of social enterprises among all stakeholders, including potential beneficiaries ■ new solidarity still not developed (in certain groups expectations from the state are unrealistic) ■ relying on donation sources still too excessive ■ laws regulating the conditions and rules of doing business, discharging financial liabilities towards the state, employees, etc. not obeyed ■ corruption

2.4. Recommendations

Main conclusions

The socio-economic situation in Serbia is characterized by a combination of common transitional problems and path-dependent ones. The postponement of market reforms and the international sanctions that started at the beginning of the 1990s additionally aggravated the process of economic decline and the increase in unemployment. At the same time, the process of political reforms and democratization were unfolding more slowly than in the countries that were making a successful post-socialist transition. The result of these trends was a delay in general legislative reform, and a peculiar development of the third sector in Serbia. The circumstances described to a large extent determined the present socio-economic situation in Serbia, mostly characterized by poverty, high unemployment, low entrepreneurial spirit, and an inadequate legal framework.

The institutional framework for the social economy, and particularly for social enterprises, has not been defined and established in Serbia. There is no single institution or ministry dealing with this issue in a holistic way.

The main structural characteristics of Serbia's society and economy that are relevant for social enterprise development can be summarized in the following manner:

a. Features of the third sector. During the 1990s, the third sector was designed and supported to a significant extent by donor programmes, focused on democratization and human rights issues. The minority of NGOs were engaged in activities aimed at vulnerable groups (Roma, IDPs, refugees, persons with disabilities, women, the poor), and the development of social services and local development. The main characteristics of the third sector are: low potential for employment, unstable local financial resources, and underdeveloped income-generating activities. However, these aspects of the third sector are improving in a gradual and continuous manner.

b. Labour market. The Serbian labour market is characterized by one of the highest unemployment rates in Europe, a high share of long-term unemployment, a high unemployment rate among the young and persons with only a primary or secondary education. Women, redundant middle-age workers, and the young who are looking for their first job are the most prevalent among the unemployed. Marginalized groups such as Roma, IDPs, refugees and people with disabilities have a particularly unfavourable position on the labour market. Pressure on the labour market from job seekers is extremely strong, since slow economic growth has not generated a sufficient number of new jobs. The promotion of social enterprises is particularly important in Serbia. It is unlikely that in the near future economic growth and labour-market reforms will spontaneously enable the economic and social integration of marginalized groups through employment or self-employment. Specific measures and types of organizations are needed to integrate marginalized groups and improve their social position.

c. Markets for goods and services. There are favourable market niches for the potential engagement of social enterprises. One example is the social service sector, which is currently being reformed. There are many state funds (central and local) available to support services, which are provided by a growing number of NGOs. Unlike the social-service sector, conditions are less supportive in other potential markets such as culture and community work.

d. Social capital. The maintenance of traditional types of social capital and the lack of generalized trust and solidarity prevent the development of certain forms of social enterprises. This is noticeable in the areas in which favourable market conditions (such as healthy food production) are present, but the evolution towards cooperative social enterprise still does not occur, owing to unfavourable social capital characterized by distrust, unwillingness to act collectively and the like. Additionally, in the profit-oriented sector the awareness of the benefits of directing profit to humanitarian and developmental goals is still not developed.

e. Legal framework. For certain legal forms, a modern legal framework for social enterprises, adjusted to European standards, already exists.

The Serbian public administration is often characterized by the attitude that enacting laws is the beginning and the end of the process. However, experience shows that enacting laws should be followed by adequate activities in the area of finance, capacity building in the administration implementing the laws, as well as among other relevant stakeholders (Government of the Republic of Serbia, 2002:56).¹⁸⁵

Data obtained on the basis of qualitative research carried out for the purposes of this study, as well as on the basis of the analyses available from secondary sources, limit the prospects of arriving at general conclusions. Such research cannot determine the size of the social economy, the number of employees, its share in GDP, its growth, its potential for further market growth or its employment potential.

Qualitative analysis provides an insight into the structure of the sector, its internal organization, the way individuals organize themselves, and the way organizations function in the given institutional and legal environment. These data need to be updated with the findings on the scale, dynamics and development of the sector. Besides, the limited scale of development and underdeveloped institutional framework for social enterprise have not allowed wider insights into the attitudes and orientations of the representatives of various relevant state institutions, or the representatives of the for-profit sector. Only by combining qualitative and quantitative data can we get a better picture of the social economy in Serbia.

Measures to strengthen social enterprises

Social enterprises in Serbia currently exist in the form of non-integrated initiatives that solve problems of unemployment and social disintegration on a small scale. Since the economic transition has not yet been completed, and the marginalized population is large, social enterprises could play a more important role in generating new jobs and filling gaps in service delivery than they currently do. In order to achieve this, it is necessary to bring together non-integrated initiatives into a consistent framework. It is therefore neces-

sary to mobilize key stakeholders, to raise awareness of the potential and importance of social enterprises among policy-makers, the public sector, marginalized groups and the for-profit sector, to establish and harmonize adequate legal solutions and to reinforce relevant institutions.

The first group of recommendations is related to the measures that need to be implemented at various levels in order to support social enterprises. They should be directed towards the following objectives:

- Raising awareness of the importance and potential of social enterprises among key stakeholders;
- Developing an adequate institutional framework and capacity building;
- Improving the legal framework.

Raising awareness of the importance and potential of social enterprises among key stakeholders

These measures should focus on the following stakeholders: Ministry of Labour and Social Policy, Ministry of Economy, Ministry of Finance, Ministry of Agriculture, representatives of local authorities, trade unions, National Employment Agency, Association of Employers, Agency for SME and Entrepreneurship Development, Development Fund of the Republic of Serbia, Social Innovation Fund, and representatives of the third sector. In addition, awareness-raising should also be directed towards the wider population. The proposed measures include:

- Mobilization and networking of national stakeholders so that they recognize their position, role and responsibility in developing social enterprises;
- Accepting the knowledge and experiences of countries which already have relatively developed forms of social enterprises;
- Getting acquainted with the models of development of social enterprises in the countries in the region with similar experiences;

¹⁸⁵ For example, as previously emphasized, according to the law on social protection, local authorities are obliged to found community-based social services. However, owing to the lack of financial resources or lack of political interest, they often do not establish such services. There are no budgetary or controlling mechanisms to make local governments fulfil that obligation.

- Training stakeholders (including third-sector, for-profit and public-agency representatives);
- Informing the public on a regular basis on activities in the field of social enterprises.

Developing an adequate institutional framework and capacity building

Measures at this level are oriented towards establishing appropriate institutional mechanisms and developing the necessary resources. The proposed measures include:

- Establishing a lead body (which can be an inter-ministerial body, or an agency newly established for this purpose) to assist and coordinate the development of social enterprises;
- Developing a strategy and action plan for the development of social enterprises and monitoring its implementation;
- Updating databases on the third sector and cooperatives, and making these data available to the general public;
- Strengthening regional agencies for SMEs and the Social Innovation Fund, and their participation as the agents of social enterprise development in local communities;
- Establishing/strengthening public funding resources for the development of social enterprises at local and regional levels;
- Promoting policy consistency between the central and local public agencies;
- Decreasing the market risk of social enterprises (purchasing of products and services of social enterprises by local authorities, other companies etc.).

Improving the legal framework

These measures include:

- Drafting and enacting the law on social enterprises;
- Enacting new laws on associations of citizens, cooperatives and enterprises for the vocation-

al training and employment of persons with disabilities;

- Harmonizing the laws regulating various aspects of social enterprises;
- Creating a more favourable taxation framework.

Possible areas and forms of intervention for international actors and development practitioners

Social enterprise in Serbia should be based on local interests and initiatives. However, in order to establish an integrated framework for social enterprises, and found a larger number of them, the support and assistance of international institutions and organizations are still needed.

The potential role of international actors and development practitioners in supporting social enterprise development could be developed in two directions that can be combined:

Support to national institutions in developing a national framework for social enterprises in order to take the initiative and establish ownership of the process.

Support to existing and prospective social enterprise initiatives.

For that it would be necessary to conduct additional research to identify clusters of organizations, market niches and opportunities. This line of intervention could be composed of two sub-directions:

- Establishing a new system of support through newly established bodies, agencies, training and capacity development;
- Relying on existing institutions that provide support, such as SIF, SME development agencies, the Fund for Development.

Support to national institutions in developing a national framework

- *Promoting social enterprise among various stakeholders.* The promotion programme could be

implemented through the following activities:

- round tables, conferences, workshops
- general and specialized training
- study visits
- promoting examples of good practice to the wider public;

- *Providing support to the lead body for strategy development* through expertise in the start-up phase, the development of the strategy and its implementation;
- *Organizing research into social-economy activities and the potential of the third sector and cooperatives.* In order to define precise measures and actions for increasing the employment potential of each form of social enterprise, it is necessary to carry out quantitative research.
- *Developing training programmes in partnership with the agencies for SME development.* Knowledge and experiences gathered in the field in the region, and in the countries in which social enterprises are developed, should be built into training modules and materials to be used with entrepreneurs and representatives of the third sector.
- *Developing indicators, monitoring and evaluating the process of social enterprise development.* Indicators and milestones could be developed by a 'strategic' group comprising some UNDP representatives and inter-ministry group representatives, with external support.
- *Piloting supporting schemes for social enterprise development.* Initiation of the programme or fund for the development of social enterprise within the Ministry of Economy or the introduction of a new component in the work of the Social Innovation Fund and supporting start-up initiatives/projects for social enterprises.

Possible local partners with UNDP are: Ministry of Labour and Social Policy, Ministry of Economy, Ministry of Finance, Ministry of Agriculture, Fund for Development of the Republic of Serbia, Economic Council, Council for Gender Equality, Team of the Deputy Prime Minister for the Implementation of the Poverty Reduction Strategy, National Employment Service, local government, local economic councils, the Standing Conference of Towns and Municipalities, trade unions, associations of employers, chambers of

commerce, agencies for SME development, Social Innovation Fund, third- sector representatives.

Potential donors for the development of social enterprises are the organizations that have already funded the projects in this field in Serbia as well as others interested in the field.

Support to existing and prospective social enterprise actors

While the framework is being developed, some social enterprises will find ways to develop and acquire markets, while others will still be trying. They should not be left alone until the work on the framework is finished, since the needs of vulnerable groups will not be on hold and the hands-on work will bring a *policy input* to the process of developing the framework (which will, most definitely, last for a while). Therefore, it is strongly recommended to engage in fieldwork in order to support the development of a vibrant and responsive sector.

Therefore, the second line of activities could focus on (a) establishing new or (b) strengthening existing support schemes for social enterprises. The first option would consist of creating newly established bodies or agencies, delivering training and performing capacity development, while the second one would rely on existing institutions that provide support (SIF, SME development agencies, and the Fund for Development).

- *Establishing new support schemes for social enterprises.* Social enterprises need advisory and funding support. Newly established institutions would benefit from being able to focus on specific groups, to learn and adapt to the evolving needs and to adopt a multi-sector approach, combining support from the field of economy/business, social protection, employment, etc.
- *Strengthening existing institutions to provide support to social enterprises.* In Serbia there are currently a number of institutions that provide services that could be regarded as support services. However, none of them focuses explicitly on social enterprises. Among them are the SME development agencies, the National Fund for Development, the Social Innovation Fund, the MoLSP Fund for Organizations of Persons with Disabilities,

some social enterprises and their networks etc. Some of those agents provide funding, others technical expertise, and their work could be focused or upgraded in order to target potential or existing social enterprises and provide them with tailored support.

In deciding on the policy – new support system or upgrading/mainstreaming existing support – numerous factors should be considered. Among them are costs and benefits, capacities of existing services, demand for services (financial and advisory), etc. These two strategies could be combined as well, depending on local circumstances, availability of existing structures and their ability to respond to the needs of social enterprises as well as the demand side. Demand for services and support as well as a favourable cost-benefit analysis are solid grounds for the development of supporting institutions.

The following issues are important in the further elaboration of support to social enterprises:

- *Content of support.* Broadly speaking, this research reveals that social enterprises would benefit from business advice and funding opportunities. The same is true for future social entrepreneurs.
- *Target groups.* This analysis, as well as other experiences, reveals that it is essential to involve the private sector in the development of the social economy. It should therefore be considered a target group for these interventions, and not only a target for raising awareness and securing operational support (funding, markets etc.).
- *Labelling.* Presently, numerous initiatives do cover some of the social economy issues/areas. Not all of them need to be explicitly integrated into a single strategy under the label of social economy development. It is far more important to develop microfinance institutions, social services, cooperatives, etc. than to put them under a single framework or umbrella organization/strategy.

3. Promoting the Role of Social Enterprises in Ukraine

3.1. The background for social enterprises in Ukraine

3.1a Transformation of the welfare system and main features of the labour market

The Ukrainian welfare system – an overview

During the Soviet period a comprehensive state-funded social welfare system was introduced. In 1991, with the progressive devolution of centralized Soviet power, followed by Ukraine's declaration of independence, a number of changes were made in the system. These included the creation of three extra-budgetary funds – the Pension Fund, the Social Insurance Fund and the Employment Fund – which were to administer most of Ukraine's social-security activities, while an extensive programme of family allowances and compensation for price increases was to be directly financed by the state budget.

Social insurance

According to Article 46 of the Ukrainian Constitution, citizens have a right to social protection, which includes:

- an allowance in case of full, partial or temporary inability to work
- allowances for the loss of the main breadwinner
- benefits for involuntary unemployment
- old-age pension
- other cases provided for by legislation

These rights are implemented through a system of mandatory social insurance. Ukrainian legislation provides for four types of mandatory state social insurance: a) insurance against unemployment; b) insurance against temporary inability to work, and birth and funeral expenses; c) insur-

ance against accidents in the workplace and occupational diseases, which lead to invalidity and the inability to work; d) pension insurance. The four types of mandatory state insurance are administered by the respective State Funds, to which both employers and employees contribute.

Labour-integration programmes

The state is interested in returning unemployed persons to the labour market as soon as possible. This is done through a range of measures used simultaneously or separately as follows:

- The state (namely the State Employment Service, hereafter referred to as ES) subsidizes employers who create additional jobs, and employ persons registered at the ES as unemployed, on the condition that they offer at least a two-year work contract;
- The ES offers financial grants and professional training to unemployed people who wish to create their own businesses;
- The ES offers professional training free of charge to those who seek employment;
- The ES maintains a database of job vacancies, which unemployed persons may use with the help of ES workers or on their own;
- The ES offers professional orientation consultations to unemployed persons;
- The ES offers unemployed people the possibility to take seasonal jobs – or jobs which do not require specific skills and qualifications (usually with the local authorities, state organs or state-owned institutions);
- The ES offers employment opportunities for disabled persons.

Social assistance

The following categories of citizens are entitled social assistance to which they do not need to contribute: a) disabled persons; b) war veterans; c) families that have incomes lower than the established subsistence level. All of these categories receive assistance in the form of a cash allowance and flat rent and utilities subsidies.

Main vulnerable groups in Ukraine

In Ukraine, the segments of the population that are called 'vulnerable' (in an employment context, they may be called disadvantaged workers¹⁸⁶) are:

a) **young people** (with or without a complete education): They are generally considered to have limitations in practical knowledge and work experience that make them unattractive to employers. No strong policies exist to support their integration into the labour market. The Ukrainian education system is still, in many respects, old fashioned and does not provide young people with sufficient practical knowledge and understanding of the market sectors where demand is the highest. The knowledge that they receive is mainly 'academic'. There are a number of 'sub-groups' of young people who are particularly disadvantaged: rural youth, youth in mono-industrial communities and former prisoners. All these face severe work integration constraints (cf. section III.2.3 for a more detailed analysis of their problems);

b) **disabled people**: This group may have physical or mental handicaps which many employers view as reducing their work effectiveness. Without sufficient incentives to hire people with disabilities, employers tend to 'ignore' them;

c) **young mothers with children** (including single mothers): They are not only limited in their ability to take on work (owing to family responsibilities), but they also tend to lose skills over time, hence employers' reluctance to hire them;

d) some **ethnic groups**, with strong cultural or religious characteristics, may be perceived negatively by potential employers (due to racism or fear of the influence of such groups on the corporate culture). This issue is highly relevant in the Autonomous Republic of Crimea;

e) **older people (over 50 years of age)**: Employers may view them as too old to adapt and lacking the new skills (such as how to use a computer) necessary in the evolving labour market;

f) **women**: Employers see hiring women as prohibitively expensive (for example, because of the expense associated with maternity leave). Women are often discriminated against, despite national programmes to promote gender equality in the labour market;

g) **rural workers**: Their limited range of skills and poor mobility make them difficult to employ in other industries or locations. Rural workers suffer the most from long-term unemployment and low wages.

h) **persons released from medical institutions or prisons**: These persons are stigmatized and their work reintegration is extremely difficult. The most vulnerable are young ex-convicts.

Project survey results

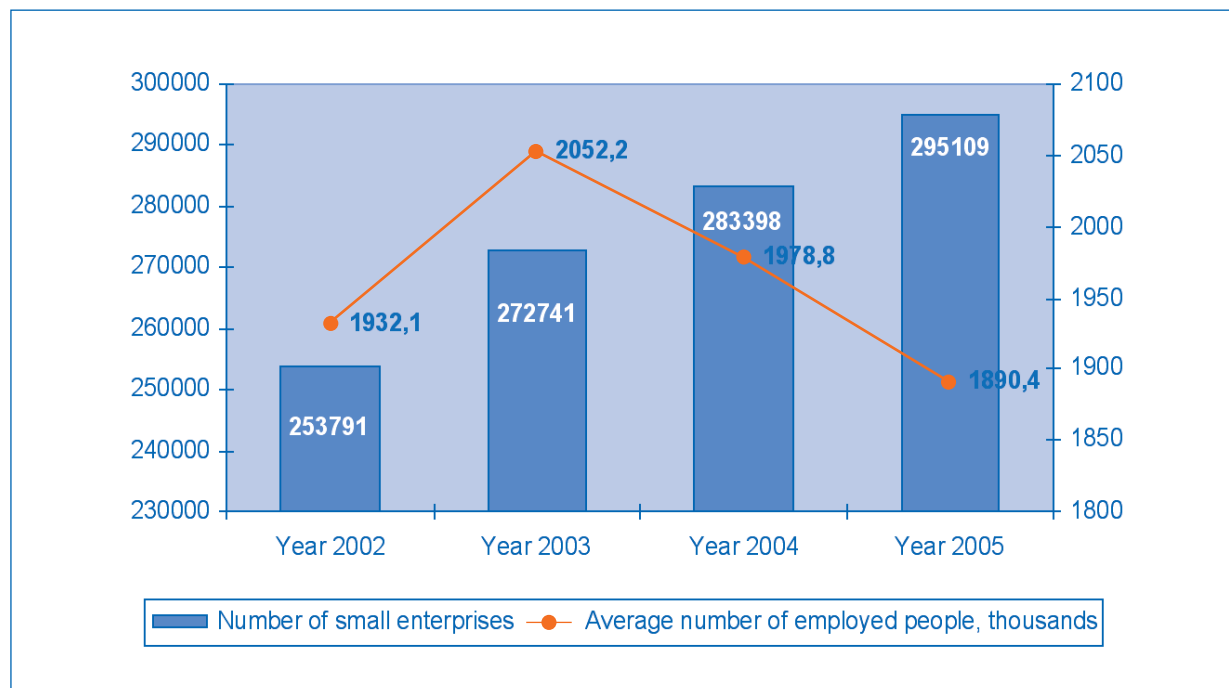
According to the project survey results, regional respondents agree on who the key vulnerable groups are. In decreasing order of importance, they cite: young people, disabled people, families with many children, single mothers, rural populations and victims of the Chernobyl disaster (in the case of the Zhitomirskia Oblast). Respondents from the Autonomous Republic of Crimea add another segment: ethnic groups. Survey respondents at the national level (ministries, international organizations, parliament) identify a number of other groups not named by the regional respondents such as orphans and ex-convicts.

¹⁸⁶ As in this study conducted by EMES and supported by UNDP.

¹⁸⁷ Article five of the Ukrainian Law 'On population employment', **guarantees additional measures of social protection** by reserving at least 5 percent of jobs in enterprises and organizations to the following population segments:

- 1) women who have children under six years of age;
- 2) single mothers who have disabled children or children under 14 years of age;
- 3) young people who have finished or discontinued their education in secondary schools;
- 4) persons who have finished or discontinued their education in vocational educational institutions;
- 5) persons who are retired from military service for a fixed period or alternative (non-military) service and who are being given their first job;
- 6) children (orphans) who are left without guardians;
- 7) persons who are 15 years old and who, with the consent of one parent, are taken on for specialized jobs;
- 8) persons of pre-pension age (men who are 58 years of age; women who are 53 years of age);
- 9) those released from rehabilitation institutions;
- 10) those released from penitentiary institutions.

In principle, city and regional employment services make decisions on job placement in close cooperation with the management of enterprises and organizations. These decisions are submitted to local government bodies for ratification.

Figure 4 – Small Enterprises and Employment (2002-2005)

Source: Ukraine State Committee of Statistics

Except for rural workers, these population segments are named in the Law of Ukraine 'on population employment' (Article 5) as being guaranteed additional measures of social protection in the form of job quotas.¹⁸⁷

Main features of the Ukrainian labour market

■ Labour demand

Since 2000, the Ukrainian economy has been growing at an annual rate of about 8 percent. In general, the enterprise restructuring process which has taken place in Ukraine over the last 10 years has benefited those already in the labour market, to the disadvantage of those looking for employment. According to labour market specialists, few firms have engaged in 'strategic restructuring' (when firms use part of their profits to increase production and employment).

From 2002 to 2005, the number of private enterprises rose by 15 percent while the number of people working in those enterprises fell by 8 per-

cent. The small enterprise sector (Figure 4) experienced a similar increase in the number of enterprises (16 percent between 2002 and 2005), but a decrease of 4 percent in the number of employed personnel since 2003. In 2005, this sector comprised nearly 300,000 small enterprises officially employing about 2 million people. The total value generated by this sector was UAH 178 million in 2005, representing 5.5 percent¹⁸⁸ of the total production volume of all enterprises.

Labour market specialists¹⁸⁹ note that over the last two or three years there has been an increase in labour demand, which is partly due to an expansion of informal or semi-formal forms of employment.¹⁹⁰ According to their estimates, these forms of employment created nearly 60 percent of all new jobs during 2003 and 2004. Hiring rates in the informal sector were viewed to be five times higher than in the formal sector. However, jobs created in this sector are often unsecure. Job creation has been highest for unskilled, blue-collar workers. This contrasts significantly with the experience of other transition

¹⁸⁸ In 2002, the production volume of small enterprises as a share of the total production volume was 6.7 percent.

¹⁸⁹ World Bank report, *Ukraine Job Study – Fostering productivity and job creation* Volume 1: overview – November 2005.

¹⁹⁰ Most new forms of employment are currently (in the best of cases) subject to a semi-formal remuneration system, according to which an employee gets an official salary, incurring for the employer social costs amounting to 38% of the declared salary, plus an unofficial payment (cash in an envelope) which sometimes even exceeds the size of the official salary.

Table 18 – Key Labour Market Trends – 2000 to 2005 (thousands)

1000 people	2000	2001	2002	2003	2004	2005
Total population aged 15 to 70	36149.2	36022.1	35899.4	35858.9	35825.3	35840.5
Economically active population	22830.8	22426.5	22231.9	22171.3	22202.4	22280.8
- women	11155.3	10986.8	10935.5	10915.9	10912.0	10813.8
- men	11675.5	11439.7	11296.4	11255.4	11290.4	11467.0
Employed people	20175	19971.5	20091.2	20163.0	20295.7	20680.0
- women	9856.9	9794.8	9901.3	9963.6	10006.9	10075.5
- men	10318.1	10176.7	10189.9	10199.7	10288.8	10604.5
Unemployed (ILO method)	2655.8	2455.0	2140.7	2008.0	1906.7	1600.8
- women	1298.4	1192.0	1034.2	952.3	905.1	738.3
- men	1357.4	1263.0	1106.5	1055.7	1001.6	862.5
Economically inactive population	13318.4	13595.6	13667.5	13687.6	13622.9	13559.7

Source: State Committee of Statistics of Ukraine and data from the Ministry of Labour & Social Policy

economies. Experts suggest that the dominance of demand for less-skilled manual labour indicates that the Ukrainian labour market is at an early stage of transition.

■ Labour supply

Economic activity rates

The key labour supply trends from 2000 to 2005 are shown in the following Table:

Over the last six years (2000 to 2005), the total number of people 15 to 70 years of age (age range taken into consideration for the calculation of economic activity¹⁹¹ levels) decreased by 1 percent. Against this background, the total number of people engaged in economic activity decreased by 2.4 percent to reach 62.2 percent in

2005 (compared with 63.2 percent in 2000). For the regions under analysis, this index increased in the following way:

The growth of the economically active population, especially in Zhitomirskaiia Oblast, suggests a sharper reduction in both the total number of people and the number who are economically inactive.

During the period analysed one can observe a significant growth in the economic activity level of the *rural population* in all the analysed regions and in Ukraine as a whole. On the other hand, the level of economic activity of the *urban population* has decreased in all the regions except in the Autonomous Republic of Crimea where it changed insignificantly (62.4 percent in 2001 and 62.8 percent in 2005).

¹⁹¹ Economic activity is calculated as the sum of people in employment and those in real (as opposed to registered) unemployment. It covers people 15 to 70 years of age.

Table 19 – Regional Trends in Economic Activity Levels

Region	2000	2005
Donetsk Oblast	62.4%	62.6%
Lugansk Oblast	57.3%	60.1%
Zhitomirskaia Oblast	58.7%	64.2%
Autonomous Republic of Crimea	60.4%	62.2%

Source: Regional Departments of Statistics

The levels of economic activity of the *male and female* populations changed in the regions in different ways. In the Donetsk Oblast the level of economic activity of both men and women decreased. In the other two oblasts and the Autonomous Republic of Crimea, this index increased for both men and women. In Ukraine as a whole the level of economic activity of men increased from 67.3 percent to 67.9 percent, while that of women decreased from 57.7 percent to 57.0 percent.

Employment

Employment increased by 2.5 percent between 2000 and 2005 to reach a level of 57.7 percent of the total population between 15 and 70 years of age (in 2005). This level is higher than that of Poland, equal to that of Hungary and Slovakia, and lower than that of Estonia, Latvia, and the Czech Republic. However, it is much lower than the Lisbon target employment rate 70 percent.

This increase in the employment rate occurred in both *urban and rural areas*. In urban areas this was due to an increase in jobs in the formal economy, while in rural areas it was due to increased work opportunities in the informal sector. In 2005, according to the Household Budget Survey conducted by the State Committee of Statistics of Ukraine, the informal economic sector hired every second rural man (either in private farming or in retail trade, repair works or transport services). Terms of employment were agreed orally with the employer without any official documentation.

The level of *male employment* in all regions analysed during the whole period is higher than that of *women*. This is because traditionally there have been more working places for men than for women. It is especially typical for mining regions such as the Donetsk and Lugansk oblasts.

Unemployment

In 2005 total unemployment in Ukraine (calculated according to ILO methodology¹⁹²) reached 7.2 percent of the economically active population, having decreased by 40 percent between 2000 and 2005 and 16 percent between 2004 and 2005.

According to ILO methodology, three quarters of the unemployed in 2005 in Ukraine as a whole were *urban citizens* (1.2 million people or 7.8 percent of the total urban population), whereas in rural areas a total of 400,900 were unemployed, representing 5.7 percent of the total rural population.

Over the 2001-2004 period both the total number and the level of unemployment among *women* decreased in the regions analyzed and in Ukraine as a whole (according to ILO methodology).

In the same period, there has been a general decrease in *long-term unemployment* in Ukraine. According to ILO methodology, unemployment is considered to be long-term if it lasts 12 months or longer. The average duration of registered unemployment in Ukraine decreased from 12 months in 2001 to 9 months in 2004.

¹⁹² In order to get a more precise picture of the scale of real unemployment in Ukraine (as opposed to registered unemployment), the ILO proposed to calculate real unemployment as the difference between the number of economically active people and the number of people in employment. The level of real unemployment is calculated as a proportion of total economic activity.

In all the regions analysed and in Ukraine as a whole, the level of registered unemployment decreased from 5.1 percent to 4.4 percent between 2001 and 2005. It is higher among *women* than among *men*.

The main reasons for unemployment, both registered and according to the ILO methodology, are:

- dismissal at own request
- dismissal for economic reasons
- impossibility of finding job after graduation (for young people)

Comparative analysis of unemployment levels in the four regions surveyed

Out of the four regions analysed, the Zhitomirskaia Oblast was the most hit by unemployment. In 2005 the level of unemployment (ILO methodology) amounted to 9.8 percent and that of registered unemployment to 6.0 percent, which were the highest figures among the regions analysed (in the whole of Ukraine, the levels were, for the same period, 7.2 percent and 4.4 percent respectively). The urban male population is the most affected. This can be attributed to the following factors:

- 1) The region, which suffered greatly from the Chernobyl disaster, is largely agricultural. Since the liquidation of the collective farms, the creation of new agricultural structures has been taking place slowly. Practically all the former employees of collective farms are registered with the state employment services;
- 2) Incomes in the agricultural industry are low and often unofficial. That is why the rural population registers with the state employment services in order to get an additional income in the form of unemployment benefits.

The Lugansk Oblast has the next highest unemployment level (ILO methodology). In 2005 it reached 7.8 percent (against a Ukrainian average of 7.2 percent), whereas the level of registered unemployed reached only 3.2 percent. In this region, the female rural population is the most affected by unemployment (both according to ILO methodology and to the level of registered unemployment).

According to statistical data for 2005, in the regions analysed the largest number of people who did not believe they would find a job came from the Lugansk Oblast.

The principal causes of this situation are:

- 1) Closure of mines since 1996, which has led to a significant reduction in jobs. This was accompanied by government measures extending the period during which the registered unemployed could receive unemployment benefits from one to two years;
- 2) Traditional shortage of jobs for women in mining regions;
- 3) Dissolution of collective farms (in the northern part of the Oblast) – as a result, an insignificant number of jobs created (especially for wage labour) and low level of incomes in rural areas.

Against a general Ukrainian trend of decreasing unemployment during the last five years, the level of unemployment (ILO method) in the Autonomous Republic of Crimea increased from 5.1 percent in 2002 to 6.9 percent in 2004. The level of unemployment of the urban population is generally higher than that of the rural population. In contrast, registered unemployment in rural areas was in 2004 significantly higher than in urban areas (7.1 percent and 3.2 percent respectively). Unemployment levels for men and women were similar.

In the Donetsk region unemployment levels (both ILO method and registered unemployment) are lower than the Ukrainian average. One should note the higher level of registered female unemployment in 2004 as against the level of registered male unemployment (1.9 percent for men, 4.9 percent for women), whereas unemployment levels calculated on the basis of the ILO method are higher for men than for women for the same period.

The generally positive trends in the Ukrainian labour market during the last five years could be attributed to the implementation of a number of governmental policy measures directed both at consolidating the economy as a whole and at strengthening the labour market regulatory mechanisms and developing active measures of employment promotion.

The particular labour- market situation of vulnerable groups

There is a scarcity of statistical information on specific vulnerable groups in Ukraine and their work integration problems at the national and regional level. For groups such as people released from medical or penitentiary institutions, and for people near retirement age, no data are available. The following analysis can therefore cover only those vulnerable groups for which statistical or other information exists.

Young people in the labour market

In Ukraine, the total number of young people aged between 15 and 34 increased very slightly between 2003 and 2006 (+0.3 percent). During that period the number of those between 15 to 19 years of age fell significantly, somewhat compensated for by an increase in the number of young people between 20 and 24 years of age (-8 percent and +7 percent respectively). As of 1 January 2006 the population of those between 15 and 34 years of age totalled 14 million.

In 2005 the employment level for this particular group (15 to 34 years of age) reached 57.7 percent. The highest level of employment was achieved by young men from 30 to 39 years of age.¹⁹³ The lowest level of youth employment was recorded for young women between 15 and 24 years of age (30.4 percent). Over the last five years employment of young men increased, whereas young women's employment fell by 0.4 percent.

Youth unemployment trends are causing concern. According to official data, the level of unemployment (ILO method) of young people in 2005 was 7.2 percent (1.8 times higher than the level of registered youth unemployment). The key reason given for youth unemployment is the absence of work experience and professional skills.

As mentioned earlier, there are three youth 'sub-groups' who are suffering particularly hard from labour-integration issues:

a) *Rural youth*. Traditionally this group is poorly educated. Their families are generally less afflu-

ent than other (urban) families and as a result, these young people have limited access to vocational training or higher education. This makes them unable to compete in the labour market with other groups in their age range.

b) *Mono-industrial community youth* (in the Donbas area). These young people have received poor-quality vocational education and lack economic prospects in these depressed towns where the majority of economic activities have stopped (due to closures of mines and other large companies). Mining communities, with their strong 'working clan' mentality, pose difficult challenges for young people in developing socially and economically, and expose them to such problems as alcoholism, drugs and crime. There are no official statistics as to the number of young people employed in 'illegal' mines where conditions of work are extremely difficult and dangerous and the equipment is home-made.

c) The most disadvantaged youth group is that of former young prisoners. There is a near complete absence of NGOs and other support structures that would provide the necessary services for the integration of young people into the labour market. In particular, services in the area of education and career and job advice are lacking. The total absence of statistics, government structures, and NGOs to support this group is a strong indication of the lack of national and regional policies and clear strategies to help this group.

Unemployment problems negatively impact young people, leading to the emergence of anti-social behaviour such as drug and alcohol abuse, and criminality. The level of youth criminality increased 1.5 times over the last five years.

The provision of jobs to young people is governed by Chapter 13 of the Labour Code. The law on 'changes to several laws relating to the provision of jobs for young people' no. 2429-IV of 1 March 2002 stipulates that in enterprises employing more than 35 people at least 3 percent of the total number of employees should be young people. For young people who did not

¹⁹³ Ukrainian statistics do not provide a breakdown of economic activity, employment and unemployment data for those groups between 30-34 and 35-39 years of age.

complete their education, this quota is increased to 5 percent and is imposed on enterprises employing 20 people or more.

A law on 'the provision of a first job to young people having graduated from higher education establishments and technical colleges' provides subsidies to employers. This law is meant to encourage employers to recruit young people with specializations. This law had been intended to enter into force on 1 January 2006. However, it did not go into force because the government could not ensure its implementation. The Cabinet of Ministers has not yet identified how to pay the subsidies to employers. The New Budget (2006) has not earmarked any financing for this law.

Many people – especially the young – lack knowledge about what kind of skills the labour market needs. As a result, young people are not provided with sufficient information about labour-market demand to make a more enlightened choice as regards their education.

Experts indicate that educational institutions are not preparing students adequately for the job market. This is why government policy to stimulate youth employment has not achieved better results. These experts further suggest that the state does not regulate these educational institutions adequately. A large number of higher educational establishments are more interested in enrolling students than in providing skills that are competitive on the job market.

Women in the labour market

Ukraine presents an ambiguous picture when it comes to enabling women to enter and stay in the labour market.¹⁹⁴ Ukrainian legislation provides equal opportunities for men and women to work and receive an equal salary (for the same work requiring equivalent skills and experience levels). But the reality is different. Over the last five years employment trends show that the level of female employment is lower than of male employment (53.1 percent and 62.8 percent, respectively, in 2005). Salary levels for women are on average 30 percent below male wages (according to 2005 statistics). Salary differences are more pronounced in the private sector

and in rural communities. The Ukrainian labour market is, de facto, divided into two: one for men and another for women. Statistics show that women are predominant in the wholesale, retail and real estate trades, in education and health-care, as well as in the financial, legal, and social service sectors. According to expert opinion, the main difference between them is the fact that the 'women's labour market' has a lower status and consequently lower wages than the men's.

The right to stay at home for both men and women is still not used by men, which leads to the fact that women face discrimination at the workplace because of their need to take maternity leave. Indeed, Ukrainian legislation currently obliges employers to pay a sum equivalent to US\$ 1,680 over the 12 months of maternity leave. The employer should also provide mothers the possibility to return to their job after a three-year child-rearing break. This is viewed by employers at large as costly and leads them to choose their employees in a discriminatory way (preference may be given first to men and second to women over the age of 35).

According to labour market experts, highly educated women have difficulties fulfilling their potential, as the market economy has not yet been able to take advantage of their skills. In 2004 the level of unemployment for women who have completed higher education was slightly higher than for men.

Women with children find it difficult to enter the labour market. There are no official statistics on this phenomenon. It can be explained by the fact that the childcare infrastructure which, during the Soviet time, was well developed and affordable, has collapsed and has not yet been replaced. In general, women with young children, who wish to work, rely mainly on their own mothers, sisters, grandmothers or friends to take care of their children. Professional nannies are difficult to find and costly. Ukraine has no developed network of public or private childcare centres.

Finally, men are clearly predominant in management and executive levels in all areas of the economy. According to data from the Basic Protection Survey (which was conducted in

¹⁹⁴ *Gender issues in Ukraine – Challenges and opportunities*, UNDP, 2003.

2002), in industry women's share of top management positions was 20.2 percent, while in agriculture it was only 9.5 percent. The highest share of women managers is found in the non-productive sectors.

Disabled people

The number of disabled people who asked for assistance to find employment over the period 2001-2004 grew in Ukraine from 6,959 people per year to 8,266 people a year (+19 percent). The number of disabled people who visited the state employment services during the year increased by 22.4 percent in Donetsk Oblast and by 13.1 percent in Lugansk Oblast, while remaining unchanged (320 persons a year) in Zhitomirskaya Oblast. In the Autonomous Republic of Crimea, it decreased by 8.8 percent.

The employment of disabled people registered by the State Employment Services fell between 2002 and 2004, except in the Crimean Autonomous Republic. The Zhitomirskaya Oblast registered decreasing employment rates among disabled people between 2002 and 2004 (59.8 percent¹⁹⁵ in 2002 down to 50.6 percent in 2004). This decrease took place despite the implementation of the general state programme on sheltered jobs for disabled people and also that of special programmes for the social and economic support of disabled people in zones affected by the Chernobyl disaster. These special programmes include specific employment assistance.

The Donetsk and Lugansk oblasts show a decrease in the effectiveness of employment assistance to disabled people. In Lugansk Oblast, in 2001, 50.2 percent of disabled people were employed, whereas in 2004 only 38.9 percent were employed. In Donetsk Oblast, as few as 22.4 percent were employed in 2004. This situation can be explained by less success in allocating sheltered jobs to disabled people. Over the period 2002 to 2004, no sheltered jobs were allocated to disabled people in either the Donetsk or the Lugansk Oblasts. As a result, only a limited number of employment opportunities were available for this group in the form of 'standard' jobs or vacant positions for disabled people.

In the Autonomous Republic of Crimea on the contrary, the employment level of disabled people, after a fall between 2001 and 2003, started increasing from 2003 to reach a level of 53.9 percent in 2004.

Deported ethnic communities

The main ethnic group repatriated to its former place of living is the Crimean Tatars in the Autonomous Republic of Crimea. No specific ethnic groups exist in the other analysed regions.

By the beginning of 1999 the number of resident Crimean Tatars registered in the Autonomous Republic of Crimea reached 253,100. To this figure, one should add 5,000 repatriates who had no time or could not register for various reasons. Finally, by 2003 about 5,000 Crimean Tatars returned to Sevastopol. Therefore in total in 2005 Crimean Tatars amount to 263,100 people (or 13 percent of the Republic's population). Given the difficult social and economic situation of the Republic and the particular difficulties the repatriated population encounters in settling in Crimea, it is expected that annually 2,500 to 4,000 Tatars will return over the next three years. The migration rate of this ethnic group will be influenced by the effectiveness of the repatriation programmes in place in the Republic and the ability of the government to deal with latent ethnic conflicts.

The state and regional (employment service) statistics do not provide specific labour-market figures on ethnic groups. Therefore an analysis of the work integration of this specific group of the population is impossible. Anecdotal evidence shows however that this group faces serious economic integration constraints. The Service of Nationality Affairs of the Government of the Autonomous Republic of Crimea deals with the problems of Crimean Tatars. In particular, this office addresses their well-being in their special settlements, the issues they face in terms of social and economic integration, and the domestic problems that exist in their communities.

¹⁹⁵ of the total number of disabled people registered in employment offices.

3.1b Main characteristics of the third sector in Ukraine

As mentioned earlier, there is at national and regional level a scarcity of statistical and trend information on this sector. This section has therefore been compiled by drawing on a number of key documents referred to in the introduction and listed in the references section as well as on the results of the surveys that the project carried out at the end of August 2006 in Zhitomirskaiia, Donetsk, and Lugansk Oblasts, as well as in the Autonomous Republic of Crimea.

Size of the sector

At the end of 2005, the Ukrainian *not-for-profit* sector comprised a total of 123,560 organizations. Table 20 below provides details of the legal status of these organizations:

Table 21 presents data for the years 2004 and 2005 on organizations which are of particular interest to

our study: non-governmental organizations, charitable organizations, associations, credit unions and cooperatives. In 2005, there were 85,811 such organizations compared to 79,151 in 2004, which represents an overall increase of about 8 percent for the whole of Ukraine as well as for the analysed regions.

Such statistical data on organizations operating in the third sector is available from two different sources: the State Committee of Statistics of Ukraine and the Ministry of Justice. The information provided by the two sources differs. The State Committee of Statistics provides data on all forms of organizations and enterprises in Ukraine, from which it is possible to compile numbers of non-governmental organizations operating on a non-profit basis. According to the data provided by the Ministry of Justice of Ukraine, the total number of registered NGOs and charitable organizations was lower than the figure stated by the State Committee of Statistics and amounted to 52,080 in 2005.

Table 20 – Size of the Not-for-Profit Sector and Types of Organizations

Non-governmental organizations	46,682
Religious organizations	18,617
Trade unions	15,639
Political parties	13,976
Charitable organizations	9,590
Consumer organizations	5,656
Citizens' unions (religious organizations, trade unions)	4,369
Unions of flat owners	4,159
Associations	2,751
Consumer cooperatives	860
Credit unions	737
Unions of consumer organizations	524
Total	123,560

Source: State Committee of Statistics of Ukraine

Table 21 – Voluntary sector in Ukraine and in Analysed Regions (2004 and 2005)

	Enter-prises of Citizens' Unions	Coope-ratives	Organi-zations of Citizen's Unions	Asso-ciations	Credit Unions	NGOs	Charity Funds	Total
2004								
Ukraine	4247	19504	206	2679	435	43152	8928	79151
AR Crimea	224	1135	51	79	15	2391	443	4338
Donetsk	211	2028	21	193	30	3781	412	6676
Lugansk	112	453	4	83	22	1744	289	2707
Zhitomirskaiia	185	386	37	21	18	853	151	1651
2005								
Ukraine	4369	21112	570	2751	737	46682	9590	85811
AR Crimea	228	1290	54	83	20	2548	460	4683
Donetsk	222	2101	29	193	61	4056	455	7117
Lugansk	114	455	26	91	42	1920	314	2962
Zhitomirskaiia	184	396	38	19	17	934	165	1753

In general, the number of NGOs and charity funds has increased by about 10 percent per year. Credit unions have increased by a magnitude of 69 percent over the last two years.

The 2004 presidential elections are said to have led to a significant consolidation of the third sector and that would explain the high percentage increase in the period leading up to these elections (as shown in Lugansk Oblast). According to some experts, during the pre-election period, NGOs were actively creating coalitions and attracting volunteers (to monitor elections, promote transparency, increase public awareness and develop links between citizens and government institutions). However, one should note the following:

a) NGOs with the capacity to form coalitions and partnerships were and are mainly those that have the experience of working with foreign donor organizations;

b) there are almost no NGOs (except credit unions) that were supported exclusively by locally funded training programmes and local financ-

Project survey results

The project survey at national level provides the following information about the sector:

As noted by the majority of experts interviewed, the NGO sector has developed immensely during the last five years. The main reasons for this were: a) the lack of interference by state bodies in the work of NGOs, combined with some modest encouragement; b) foreign donors' unceasing support; and c) positive changes in the community's attitude towards NGO activities. The sometimes ineffective interaction between NGOs, the community, state bodies and donors were mentioned as negative factors.

Recognizing that the government is now more attentive to the development of the NGO sector, experts claim that the government has been providing more grants to NGOs, and becoming more involved in social problem-solving, not only as performers but also as national- and regional-level consultants.

ing. The absence of a national NGO development strategy, supported by the legislative and government structures at national level, makes this sector intellectually and financially dependent on foreign donors.

In the Lugansk Oblast, according to a survey carried out in 2002 by the DFID project 'Socio-economic regeneration of the Donbas', NGOs had increased by 14 percent between 1991 and 1994, 21.5 percent between 1995 and 1998, and 54.4 percent between 1998 and 2002.

Legal environment

The main laws regulating the voluntary sector are:

- the Constitution of Ukraine: Article 36 indicates that Ukrainian citizens have the right to freely unite into political parties and public organizations (NGOs) to implement and protect their rights and freedoms and to satisfy their political, social, cultural, and other interests;
- the Law on Citizen's Unions adopted in 1992;
- the Civil Code of Ukraine no. 435-IV of 16. 01. 2003 (further CCU) is the main legislative act codifying the norms which regulate civil and legal relations of a property and non-property character, based on legal equality, freewill and material independence of their participants. Chapters 7 and 8 of the CCU give definitions of: legal entity, organizational and legal forms of legal entities, notions of non-entrepreneurial society;
- the Economic Code of Ukraine which provides definitions of not-for-profit and non-commercial activities.

The NGO legal environment is said not to have significantly improved over the past few years.¹⁹⁶ According to expert opinion, there are still serious legal inconsistencies and examples of poor implementation. Several laws, such as the Law on Public Associations, are inconsistent with the new Civil Code, causing confusion and making it more difficult to implement the new rules. Despite fewer administrative impediments, the process for registering NGOs continues to be

complex, and many organizations are said to be unregistered. Though considered progressive, the 2004 Law on Registration of Legal Entities has created many challenges for new NGOs. Specifically, the law requires that all NGOs register with the Ministry of Justice and the regional authorities. Despite these difficulties, the period taken to register an association is now down to one month for national and international organizations, and four days for local organizations.

NGOs are subject to a considerable tax privilege if they have, according to their statutes, a not-for-profit character. The majority of Ukrainian NGOs have this status. Certain kinds of entrepreneurial activities (such as training, provision of advice) can be carried out, legally, by a not-for-profit organization if they are conducted as statutory activities, i.e. activities registered in their foundation statutes. However, in practice, carrying out such activities requires complicated accountancy and very often leads to undesirable difficulties with the fiscal authorities. As a result, payments for statutory services are often received through a system of charitable contributions or through private entrepreneurs as the legitimate subject of trade. At the same time, passive income (for instance from bank interest) is consistent with the not-for-profit status of an NGO.

In 2005, the Government restored all tax benefits and incentives, and tax authorities have allowed companies to deduct between 2 and 5 percent of their taxable income for donations to NGOs. Other incentives, such as the deduction of up to 10 percent of an individual's taxable income for donations to organizations that employ disabled persons, are no longer available.

Regulations on social services remain insufficient. Government funding for procurement of social services and grant programmes has yet to be deployed. Local funding for services, however, has diversified and organizations have generated more income by improving their marketing strategies.

Finally, Ukrainian legislation limits the amount of credit and loan opportunities for NGOs. The latter are not allowed to be the recipients or grantors of interest credits, and can receive an

¹⁹⁶ The 2005 NGO Sustainability Index, USAID.

interest-free loan only if it is granted on a 'no term' condition.

Target groups and service provision

According to a study carried out by the Counterpart Creative Centre¹⁹⁷ (hereafter CCC) on NGOs in Ukraine (for the period 2002 to 2005),¹⁹⁸ the main target groups of NGOs are: youth (45 percent of respondents), organization members (30 percent), children (25 percent), students (23 percent), women (16 percent), and disabled people (13 percent). The data obtained in 2003 and 2005 do not show a significant difference.

NGOs provide a wide range of services as shown in Table 22 below:

According to the CCC survey, advocacy and lobbying have recently taken on much more importance compared to 2002 (when only 16 percent of respondents quoted this activity). On the

other hand, the same percentage of people, in 2002 and 2005, quoted provision of social services (26 percent).

A large proportion of services are provided free of charge, while a smaller proportion is offered for a fee. Organizations advertise their services to the general public and sponsors through the written press, radio/TV (a small proportion of NGOs use this medium), social fairs and their own Internet sites.

Advocacy

Organizations are increasingly able to collaborate with the national and local government. The more developed organizations are capable of identifying key decision-makers and have close relationships with members of parliament. A large number of NGOs lobbied for legal reform at the local, regional, and national levels. Despite improvements, however, NGOs often do not consult with

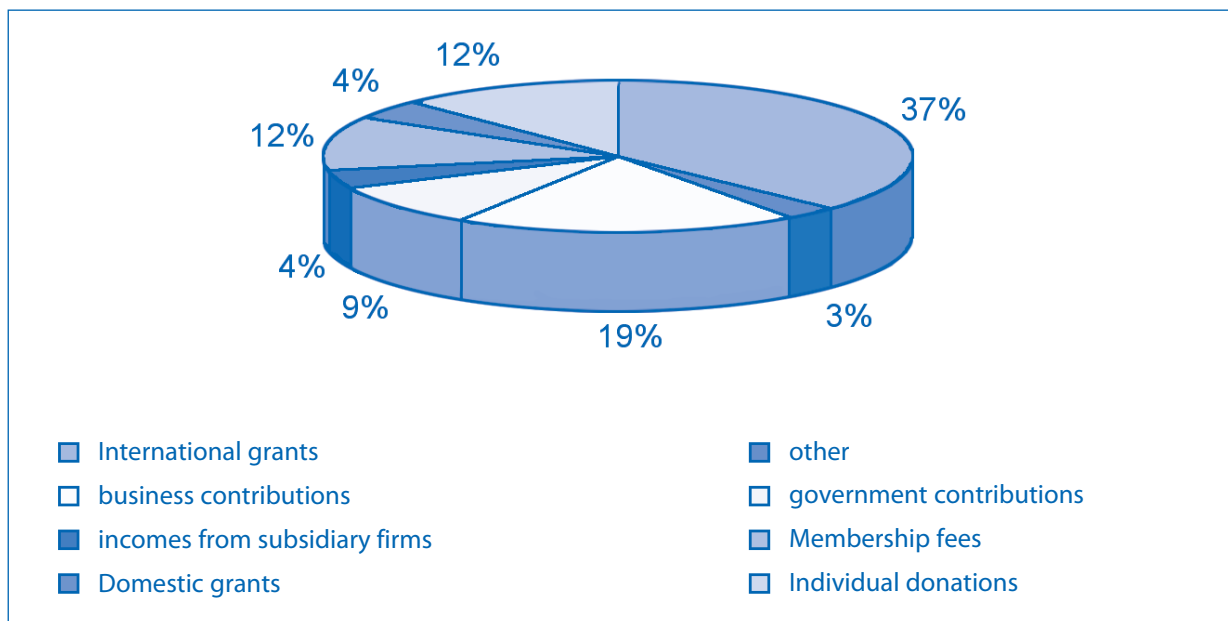
Table 22 - Range of Services Provided by NGOs

	% of respondents
Advocacy and lobbying	44
Education, training and consultation	39
Information dissemination	38
Educational activities	32
Social service delivery	26
Research and analysis	26
Legal assistance	22
Charity	16
Developing policy recommendations	14
Rehabilitation	12
Administration of grant programmes	8
Other	6

Source: CCC – CSOs in Ukraine: The State and Dynamics – 2002-2005

¹⁹⁷ Set up in Ukraine by Counterpart International Inc. in March 1996.

¹⁹⁸ The study is based on a survey conducted among 610 NGOs and charitable organizations throughout Ukraine.

Figure 5 – Typical Budget of an NGO

Source: CCC survey: CSOs in Ukraine: The State and Dynamics – 2002-2005

the public on issues they are addressing, taking the need for their activities for granted.

Income and financial viability

In UCAN's¹⁹⁹ most recent report on the sector's financial viability, some NGOs reported a doubling in domestic funding. In 2004, the National Tax Administration reported that the total of local donations to charitable foundations and associations was approximately US\$ 530 million. This figure does not, however, account for volunteer contributions, in-kind donations or incomes from subsidiary organizations. UCAN and the Civil Society Institute estimate that local support for NGOs throughout Ukraine could possibly be as much as US\$ 1 billion.

The main sources of NGO funding are (by decreasing order of importance):

- membership fees
- international grants
- individual donations
- business contributions
- government contributions
- domestic grants
- funds from subsidiary companies
- other sources

The typical budget composition of an NGO is as follows:

All information sources concur to say that NGOs' financing sources are still undiversified: grants to NGOs come mainly from the international donor community. Local affiliates of international organizations such as the International Renaissance Foundation, Freedom House-Ukraine, and ISAR-Ednannya provide NGOs with grants regularly.

According to the CCC survey, a third of NGOs claimed that they receive funding from the government. Half of them received less than US\$ 1,000. In-kind contributions from the governmental structures were received by a quarter of NGOs (of a value of no more than US\$ 500).

Nearly half of NGOs receive contributions from local businesses of no more than \$500 (either in cash or in kind).

Annual budgets of NGOs range from US\$ 500 to US\$ 20,000 and are broadly broken down as follows:

- 30 percent – US\$ 500
- 20 percent – US\$ 500 to US\$ 1,000
- 20 percent – US\$ 1,000 to US\$ 5,000
- 30 percent – US\$ 5,000+

¹⁹⁹ UCAN means Ukraine Citizen Action Network. It is a five-year project supporting Ukraine's growing civil society. UCAN is funded by the United States Agency for International Development and implemented by the Institute for Sustainable Communities (ISC).

Financial planning is said to have improved within these organizations. However financial oversight is informal and conducted by NGO leaders. NGOs appear to conduct audits only if required by donors or tax officials. They seldom make their financial statements public, even to their members. According to UCAN, a large number of organizations create subsidiary businesses that charge for their services and classify the income generated as donations.

External relations

Nearly all NGOs interviewed by CCC in 2002-2005 confirmed that they have established partnerships or at least good working relationships with governmental structures. According to most NGOs, this collaborative mode of working was initiated by both parties. This collaboration does not, however, necessarily translate into concrete joint projects. The level of implementation of such joint projects during 2005 was considered as low, as a third of NGOs recognized that they were not involved in such projects. During that year, only a quarter of NGOs worked in partnership with governmental structures on three or more projects. NGO representatives note that the key constraints for a good collaboration or partnership with governmental structures were at that time the lack of understanding (by the governmental structures) of the usefulness of such collaboration and a general lack of information on NGOs' activities.

According to the CCC research, all NGOs actively collaborate with other non-governmental organizations, especially at regional or local levels. Collaboration among NGOs of different levels (for instance a regional NGO with an international NGO) is claimed to be more difficult to achieve owing to the scanty information available about these organizations. The most popular forms of collaboration are dissemination of information, consultations, service provision, and project implementation. In general, NGOs recognize that the level of inter-NGO collaboration is still not sufficient. This is attributed to a lack of professionalism of some NGOs and to the ambitions of leaders (who see other NGOs as competitors for funds).

Partnerships between NGOs and businesses are weak: nearly one third of NGOs do not collaborate with businesses at all, a quarter have estab-

lished links with more than five businesses, 20 percent with 3 to 5, and 22 percent collaborate only with one business. NGOs interviewed recognized that the main reason for establishing relations with business is to obtain funding or material (in-kind) assistance. This level of collaboration is judged insufficient, mainly due to a lack of information that businesses have about NGOs' activities. One should note that there is still a general tendency on the part of the business community to consider the work carried out by NGOs as unprofessional and of a rather poor quality. This attitude is bolstered by the government's failure to see the need for close cooperation between the private and third sectors.

One should finally note current initiatives taking place at a regional level (in Donetsk Oblast) to develop more effective partnerships between NGOs and governmental structures:

- a) An Oblast Grant Scheme. A group of NGOs and NGO development 'champions' in the Oblast's governing structures designed a framework and mechanisms for a system for distributing grants among NGOs. This system is still on paper, at this stage, but will be further developed once the Donetsk Oblast authorities finally adopt a regional strategy for third-sector development. There is a strong desire among the newly elected Oblast Council members to design such a strategy with the support of professional consultants;
- b) work on the development of a coordination committee of the Oblast's NGOs has started, aimed at building a bridge between the NGO leaders and the Oblast authorities to design and implement joint projects.

Organizational capacity and employment generation

According to the CCC survey of CSOs, 57 percent of organizations interviewed have permanent (paid) staff. This level has been maintained over the last three years. Some 85 percent of the NGOs that have permanent (paid) staff maintain a level of full-time employment of three persons. Some 66 percent of organizations interviewed claimed that they encourage the professional development of their staff by allotting funds for their participation in conferences, round tables or educational and training courses.

Project survey results

Unwilling or unable to comment on current (and existing) forms of partnership between NGOs and other structures, the project's survey respondents in the Donbas area expressed the idea that there should be partnership relations between the NGOs themselves. This may suggest that the current level of cooperation between these structures is perceived to be low. The majority of respondents indicate that there should be stronger partnership relations between NGOs and government, associated with financial support to help them operate more effectively. The same opinion was expressed concerning the need for partnership between NGOs and business structures.

In the Crimean Autonomous Republic, the same pattern of responses was found (no comments on the current cooperation level). The suggestion was made that a special body should be organized to coordinate all NGO development. While recognizing that NGOs and government partnerships exist, many respondents said that some form of social contract should be created, by which NGOs could be legitimately asked to fulfil contracts on behalf of the state structures focused on the implementation of specific social projects. The Crimean respondents, as in the Donbas area, see an important role for governmental structures in supporting civil society organizations financially. As regards partnerships between NGOs and businesses it was pointed out that these should be two-way relationships, but with constant financial support from the business side.

In Zhitomirskaiia Oblast, NGO experts indicated their experience of partnership with other local NGOs, national structures and private enterprises, against a background of lack of experience and interactions with social enterprises. Here also, NGOs would like to receive financial support from private enterprises and to continue teamwork project implementation with state bodies and other NGOs. The majority of experts in this region point out that the government now has a more attentive attitude to NGO sector development. This is expressed in the budget allocation to NGOs and in the fact that NGOs have a greater involvement in local problem solving.

At the national level, the experts interviewed expressed similar views. However, they stressed that, despite the existence of partnerships between the NGO sector and other organizations and structures, the system of interaction is still ineffective.

From 2002 to 2005, 77 percent of organizations also used the services of volunteers (unpaid full-time or part-time persons). The most common number of volunteers in one NGO is five to eight. On average a volunteer spends eight working hours a week in the organization. In some organizations, they work for only two or three hours per week. In 31 percent of the organizations surveyed, the number of volunteers had increased. In 35 percent, it remained the same and in 10 percent it decreased.

Among the people who come forward as volunteers 56 percent NGOs reported students as their main category, followed by programme beneficiaries (30 percent of respondents), unemployed people (15 percent), elderly people (11 percent) and housewives (11 percent). Noteworthy is the increase in the percentage of NGOs that attract service beneficiaries to volunteering.

Experts note, however, that so far NGOs have not yet realized the potential of the community and do not attract the public sufficiently into their activities. They tend to focus only on those members of the community who are the easiest to attract and motivate.

UCAN conducted in 2002-2005 an NGO organizational systems study which showed that the organizational capacity of these organizations had generally improved. More organizations, especially those funded by international donors, engage in strategic planning, conduct audits, and are improving management capacity. The majority hold regular staff meetings, while some are promoting the leadership and independence of their staff. Numerous organizations, however, limit strategic planning to specific projects or activities; and while NGOs exercise participatory leadership, management remains concentrated

in a few staff members. Many organizations are very informal and fail to clearly define the roles and responsibilities of both their paid and volunteer staff. Few have formal administrative rules that govern their employees or organizational procedures. According to this study, the technical capabilities of these organizations are now more accessible, as organizations increasingly cooperate with businesses that provide them with modern equipment. Regional NGOs are now able to purchase office space using bank loans.

Employment generation potential of non-governmental organizations and charitable organizations

It emerges from the above analysis that the level of employment generation by NGOs is still low (equivalent to that of a micro or small enterprise) and has not changed significantly since 2002. There is moreover no evidence that NGOs are specifically attracting representatives of vulnerable groups as paid members of their staff. The latter are most likely to be drawn into the activities of NGOs as volunteers.

Project survey results

The majority of respondents of the project survey conducted at the national level negatively assessed the suitability of NGOs for creating employment opportunities, in particular for vulnerable groups. This was attributable to their perceptions that the effectiveness of these organizations is weak in the sphere of employment service delivery and also to their belief that NGOs do not have the capacities to be an important source of employment. In order to ensure the effective job placement of vulnerable groups, the experts interviewed strongly believe that there should be a real partnership between NGOs, government and business structures.

This opinion was shared by the regional respondents. In Zhitomirskaia Oblast, the respondents pointed to the State Employment Centre as an optimal structure for placing vulnerable groups in jobs.

The employment generation capacity of an NGO is for the time being very much linked to its ability to fundraise. Other (more stable) types of income, such as those which could come from the fulfilment of 'social contracts', are not a possibility yet, since the legislation on social contracts has not been adopted.

In the current legislative context, Ukrainian NGOs have to work as non-commercial not-for-profit organizations. Only a few manage to create income sufficient for their sustainability without involving commercial partners. The task of creating jobs or working for the benefit of vulnerable groups of people forces NGOs to look for more effective and efficient functioning models which involve businesses or private entrepreneurs as subjects responsible for commercial activities.

3.1c Main problems and challenges facing the Third Sector

Organizations of the third sector in Ukraine are currently facing a number of key challenges. Among these challenges, the need to identify and obtain continuous financial support comes first. Such a challenge remains real, at the present time, for a large number of NGOs and is very much linked to the potential for these organizations to develop strong analytical and fundraising skills. Given the fact that such types of organizations operate with moderately paid staff or volunteers, the likelihood of them developing such skills in-house appears remote. The almost exclusive reliance of NGOs on international donor organizations' funding is unhealthy. The private sector is only just starting to show some inclination to financing NGOs, but until the law on taxation in relation to charity donations by businesses is amended, little will change. Local authorities which could sub-contract NGOs to provide specific social or community services are constrained by tight funding in this sphere and under-developed legislation on social contracting.²⁰⁰

The key external challenge faced by these organizations is the fact that the legislation on NGOs' activities and on taxation is not sufficiently developed. Progress on moving the current legislation towards a more finished state in relation

²⁰⁰ Social contracting: see social contracts – footnote no. 23.

to the third sector's activities is sluggish. The political instability caused by the recent parliamentary elections (September 2007) is currently putting an additional brake on this process.

The NGO sector in Ukraine has still to build strong relationships with the private sector and local authorities. The challenge is to be heard and understood but also, importantly, to present clear information on their activities and results to their communities. Some NGOs have been successful in doing so but their number remains small.

3.2 Social enterprise development trends in Ukraine

3.2a Concepts and definitions

In the context of this study, EMES's criteria of social enterprises²⁰¹ are taken as relevant benchmarks to measure the development of the social enterprise sector in Ukraine. There is in Ukraine a conceptual 'black hole' of what social enterprises really are. The term 'social enterprise' was first introduced into the Ukrainian context by Counterpart International in the late 1990s when it launched its Social Enterprise Programme. This initiative has later been supported and developed by other international organizations, notably USAID, UCAN and DFID. Outside the parlance of international grant-givers, the term 'social enterprise' is rarely used, although Ukraine has a long tradition of workmen's cooperative associations for the disabled.²⁰²

Contemporary Ukrainian legislation, while providing certain grounds for social enterprise development, does not refer to social enterprise explicitly. Similarly, mass media very rarely employ the term, although, according to expert opinion, many NGOs in Ukraine carry out socially entrepreneurial activities (i.e. activities aimed at improving their sustainability, and many organizations of vulnerable groups work to create jobs for the members of these groups). In this situation, different understandings of social enterprise have emerged.

The Eurasia Foundation distinguishes, in a somewhat controversial manner, four functional models of social enterprises currently operating in Ukraine:

- the NGO purist model: it emphasizes the entrepreneurial activities of NGOs themselves aimed at improving their sustainability, without involving businesses or private entrepreneurs as subjects responsible for commercial activities;
- the cooperation model of commercial enterprises and NGOs: this kind of social enterprise carries out its activities through close partnership with businesses;
- the NGO working with private entrepreneurs: NGOs exercise entrepreneurial activities through private entrepreneurs and in particular through their own members if they are registered as private entrepreneurs;
- the complex model of cooperation between enterprise(s), NGO(s) and private entrepreneurs. This model emerges in NGOs when they lead several successful projects simultaneously, each in partnership with subjects responsible for entrepreneurial activities.

There are **three important conclusions** to be drawn at this stage on the issue of accurately defining social enterprises in the Ukrainian context:

perceptions: despite the general low awareness of social enterprises among the experts interviewed by the project, social enterprises are currently seen as having a dual aim: to create jobs (especially for those groups of the population experiencing work integration problems) and to contribute to the third sector's financial sustainability and social missions (through profit redistribution);

reality: social enterprises currently exist in the form of commercial enterprises attached to a CSO/NGO. It is clear that they are conceived and developed outside the concept of community and related only to NGO development. They are,

²⁰¹ Study on Promoting the Role of Social Enterprises in CEE and the CIS – EMES, April 2006.

²⁰² In Ukraine, cooperatives of the disabled were and are set up mainly as profit-making production organizations to address the economic and social needs of their members (disabled people). The profits of these organizations are distributed among these members. No mechanisms exist for the community to control the activities of such a cooperative. The majority of such organizations exist for blind, deaf and dumb and physically disabled people.

Project survey results

The results of the surveys carried out by the project indicate a varying level of awareness of social enterprises. Whereas in Donetsk and Lugansk Oblasts, the majority of respondents are aware of such an enterprise and can offer some definition of it ('a social enterprise is an enterprise which redistributes all or part of its profits to finance measures to solve the problems of its community'), in the Autonomous Republic of Crimea more than 70 percent of people interviewed (representatives of the regional or local authorities and NGOs) were unable to define what social enterprises are. The most common definitions that could be given by a small number of interviewees were: (a) a social enterprise is an enterprise that offers job opportunities to representatives of vulnerable groups, and (b) it is a commercial enterprise that invests all or part of its profits in its community. In Zhitomirskaia Oblast, NGO representatives indicated that in their areas the main social enterprises are territorial centres and the local offices for the social protection of the population.²⁰³

At the national level, in the opinion of experts, social enterprises are defined by their ability to provide a wide range of social services and to redistribute a significant part of their profits to finance the needs of the community at large or specific target groups.

de facto, projects that can be delivered anywhere regardless of whether they can be embedded or not into local contexts;

evolving concept: a Ukrainian social enterprise concept has not emerged yet. It is only when social enterprises start developing and capturing the attention and imagination of communities that a clear concept will emerge. The authors of this publication would therefore propose to Ukraine's regional and local communities and decision-makers that they adopt the EMES concept of social enterprise. This would let a Ukrainian concept of social enterprise develop naturally.

3.2b Current legislative framework

As noted earlier, Ukrainian legislation does not provide a definition of social enterprise and does not include any specific normative acts regulating the activities of such enterprises. However there are elements of Ukrainian law which provide norms defining the possibilities and limits of commercial activities of non-government organizations:

- Articles 85 and 86 of the Civil Code of Ukraine (hereafter CCU) regulate the activities of non-entrepreneurial organizations set up with or without the goal of making a profit which would later on be redistributed among its shareholders, if those activities correspond to the goals in pursuance of which the organization was created and facilitate their implementation.
- Articles 168-169 of the CCU specify that the government and territorial communities can create public legal entities (state, communal enterprises) and private legal entities (entrepreneurial organizations etc.) under the conditions laid down by the Constitution of Ukraine and the law.
- Enterprises of citizens' unions can be formed in accordance with Article 112 of the CCU and with Article 20 of the Law on Citizens' Unions for the realization of economic activities with the purpose of fulfilling their statutory goals. Non-governmental organizations of disabled people, set up according to the Law on Principles of Social Protection of Disabled people in Ukraine can have commercial and non-commercial activities.
- Articles 52-54 of the Commercial Code of Ukraine specify that subjects of the state and communal sector of the economy can carry out non-commercial economic activities in the spheres where entrepreneurship is forbidden by law. This concerns particularly:
 - State enterprises, created on the basis of Article 76 of the Commercial Code of Ukraine (CCU), and operating in the spheres of the national

²⁰³ Territorial centres are centres funded by the state budget to deal with the delivery of social services to lonely elderly people (childless pensioners) and invalids. The local offices for the social protection of the population are state structures whose purpose is to provide social benefit payments and social benefits to households qualifying for this (income-based) support.

- economy where the majority (more than 50 percent) of their production (work, services) is of public interest and cannot, by nature, be delivered on a profit basis;
- Communal non-commercial enterprises²⁰⁴ created in accordance with Article 78 of the CCU. The organ, managing the communal non-commercial enterprise is composed by representatives of a territorial community, and fulfils its functions, presupposed by law.
- An important element contained in Ukrainian law is that the state, territorial centres and the public have the opportunity to control the statutory social activities of communal (non-commercial) enterprises and the way enterprises' profits can be used for socially significant goals.

According to the opinion of legal experts, there have been recent changes introduced in the legislative environment of the third sector which could be seen as promoting the development of this sector. In particular:

- The Civil and Commercial Codes both now give the regulatory definition of 'non-entrepreneurial society' and state that the characteristics of the legal status of a non-entrepreneurial organization are established by law. There was no such common law regulating the activity of similar societies in earlier Codes.²⁰⁵
- At present a bill 'On non-entrepreneurial societies' (no. 909 dated 25.05.2006) has been submitted to parliament and is meant to determine the legal status and conditions for creating non-entrepreneurial societies. This law represents in essence the codification of norms regulating all existing non-profit organizations, including NGOs.
- the Law on Citizens' Unions allows NGOs to establish commercial enterprises whose income is reinvested in the NGO;

- the Law on Social Services defines the main organizational and legal foundations for providing social services²⁰⁶ and is the base for the new draft of the Law on Social Labour no. 0958 dated 25 May 2006 which is now being considered in the Ukrainian parliament. If this law is adopted, regulative definitions will be given to such concepts as 'social sphere', 'social labour' and 'subjects of social labour'.

Despite these positive elements and developments, there are still some important legal constraints on the development of the social enterprise sector in Ukraine. In particular:

- the absence of a special law on or at least a legal definition of a 'social enterprise', its organizational and legal forms, the aims and tasks, spheres of activity, procedure of creation and functioning etc.
- the absence of legally stipulated state support that would meet the current operational requirements of a social enterprise: for instance, relief from state taxes and duties, provision of soft (preferential) bank credit, advantageous rights to take part in tenders (only NGOs for disabled people currently enjoy some state support in the form of tax privileges).

The majority of the project's survey respondents (at the regional level) indicated the need to improve the legislative base regulating the activities of non-governmental organizations and to develop and adopt a specific law on social enterprises. This view is shared by the government organization experts interviewed by the project. However, the views on the necessity for a separate law on social enterprises are not shared by representatives of international organizations. Proposed alternatives included: to amend the civil code and tax code. In general, the majority of respondents highlighted the need to introduce tax privileges to stimulate the development of social enterprises.

²⁰⁴ The majority of communal enterprises in Ukraine are organizations working on a for-profit (commercial) basis. Their activities include: water management, electricity management, waste management, etc., i.e. all activities that are linked to the provision of communal services. The decision to set up a communal enterprise is under the control of the local members of parliament and through them that of citizens. There are no concrete examples of communal enterprises working on a non-commercial basis, although the law envisages this legal form.

²⁰⁵ Non-entrepreneurial societies are entitled to gain non-taxable income in the form of: funds or property which are received free of charge or as irrevocable financial aid or else voluntary contributions; passive revenues – interest, dividends, insurance indemnities and payments as well as royalties; subsidies or grants received from the state or local budgets, state target funds or as a result of charitable activities including humanitarian relief or technical assistance, which are provided to such not-for-profit organizations according to terms of international agreements with the consent of the Verkhovna Rada of Ukraine, funds or property received as a result of the primary activity.

²⁰⁶ Social services represent a wide range of services provided to assist persons suffering from social, economic or medical hardships who are not able to overcome them, using means and funds available to them.

Box 27. Zhitomirskaia Oblast – Kovcheg Café

Mercy Charitable Foundation is a Christian faith-based non-governmental organization (NGO) founded in 1997 by Natalya Prokhorenko to provide humanitarian assistance to the most vulnerable people in the Zhitomir region, one of the poorest areas of Ukraine. Zhitomir's unemployment rate has resulted in a high incidence of substance abuse, homelessness and depression among its population. Zhitomir also lies within the 'Chernobyl zone' affected by the disaster of 1986. Cancer is prevalent among the residents – 2001 was the first year since 1986 that the birth rate was higher than the mortality rate in the region.

In April 2000, Mercy set up a social enterprise in the form of a café (Kovcheg Café). It is located centrally in Zhitomir and has a well equipped kitchen and a large dining area. It prepares and serves free meals for the homeless and sells low-priced but good-quality meals to other members of the community. Mercy, as an NGO, renders counselling services to addicts, helps young people to quit smoking and teaches them to avoid drugs and alcohol by engaging in sports and other activities. It was decided that the café should perpetuate the behaviour of the NGO and it therefore does not serve alcohol and has a no-smoking policy. With the exception of McDonald's, Mercy's café is the only place where people can enjoy a meal in a smoke- and alcohol-free environment. The demand for a family-style restaurant removed from boisterous drunks and unhealthy air was wholly underestimated.

With the café's first-year profits, Mercy expanded its operations to include a dinner service and increased dining space. Mercy has plans to open another café across town, with a vision of franchising the concept all over Ukraine. Since launching Kovcheg Café, Mercy has started three more social enterprises: thrift shops that sell second-hand goods donated by the public and collected through churches.

3.2c Typologies and dimensional aspects

Number of social enterprises in Ukraine

The notion of social enterprises exists and is used but so far on a limited scale. Research carried out by the Eurasia Foundation in 2004 indicates that about 50 subjects of social entrepreneurship existed at that time.

Project survey results show that according to respondents at the national level there are currently about 200 social enterprises operating in Ukraine.

Social enterprises are concentrated in Kiev, Kharkiv, Odessa, Donetsk Oblast, Lviv Oblast, Zhitomirskaia Oblast, and Kherson Oblast. These are target regions for a number of international donor projects focused on the third sector (and social enterprises).

Legal forms

According to the Eurasia Foundation, social enterprises are either enterprises (30 percent), NGOs (60 percent) or a combination of enterprise and NGO (10 percent). The foundation's research indicates that about 60% of organizations can be qualified as cooperation units (NGO + enterprise).

Commercial activities

According to research conducted by the Eurasia Foundation in 2004, the key commercial activities of social enterprises included:

- providing legal, marketing, management, financial and public-relations advice;
- carrying out sociological research, translation and printing, and information services;
- providing computer classes, design services, creating computer programs for people with impaired vision;

Project survey results

Project survey results indicate that social enterprises can take different legal forms, including NGOs, enterprises established by NGOs, commercial enterprises and private entrepreneurs. Experts pointed out, however, that the legal status does not have any important impact on the effectiveness of social enterprises.

At the regional level the following information was collected:

- In the Donbas area, according to respondents, the main legal form of social enterprise is the 'enterprise of the citizens' union'. However, it is worth noting that representatives of NGOs who took part in this survey were not aware of this legal form. Interestingly, a small number of business representatives interviewed consider their enterprises to be 'social enterprises' because they help to realize social aims, they are governed by the community, and because all the profits are reinvested into the social enterprise. Furthermore, 80 percent of their employees are people with disabilities. The main aim of these enterprises is to earn a profit from their activities. It should be noted that the businesses interviewed in the context of this survey had been set up as 'standard' businesses (their founders are 'pure' entrepreneurs) and appear, for reasons unexplained in the survey, to have evolved in a specific direction focused on social needs.
- In Zhitomirskaia Oblast, according to half of the respondents, social enterprises can assume the following legal forms: non-governmental organizations, enterprises of citizen's unions, cooperatives, and private enterprises. The other half were unable to comment.
- In the Autonomous Republic of Crimea, interviewees were not aware of social enterprises. Only 30 percent of respondents could define the legal forms of regional/local/municipal social enterprises. Their answers included cooperatives, citizen's union associations, privately owned enterprises and NGOs.

- selling stationery, household equipment, newspapers and foodstuff for children;
- making furniture and clothes;
- running cafés, stationery shops, hairdressing salons, etc.

Notably, the research conducted by the Eurasia Foundation suggests that social enterprises focus on job creation for people with mental and physical disabilities, as well as for homeless and unemployed people in rural areas. It is not clear, however, whether this activity is meant to 'support the integration of vulnerable groups into the labour market' (an activity that is rendered as a social service) or whether it is meant as a service to develop the skills of these groups.

Project survey results

The project survey at the national level indicates that social enterprises should carry out commercial activities such as integrating vulnerable groups into the labour force and providing social services. At present, according to experts, social enterprises are offering a wide range of social and educational services or are manufacturing goods for vulnerable groups.

3.2d Main sectors of activity and recipients

Social enterprises as employers

There is no precise information available about the number and kind of jobs created by social enterprises in Ukraine. Counterpart International's case studies²⁰⁷ indicate that in 2002 job creation (within social enterprises themselves) amounted to between 5 and 15 (permanent or contract jobs)

per enterprise, remunerated at or slightly below the market wage. (Some examples include Kovcheg Café in Zhitomir, Alisa Society for the Disabled in Kiev, Creative Workshop in Kherson.) Research by the Eurasia Foundation provides details of known social enterprises across the country but does not analyse the job creation impact that they have had. Types of jobs offered by social enterprises range from enterprise manager to waiter, including sales persons, trainers and teachers, software programmers, etc.

Box 28 – The Social Enterprises of the Alisa Society

'Alisa' – Alice in English – is the namesake of Lewis Carroll's Alice in Wonderland. The Alisa Society embodies the courage and imagination of Carroll's main character and represents a 'wonderland' of possibility for people with disabilities.

The NGO was conceived in 1991 at the time of *perestroika* when its founder, herself disabled, saw an opportunity to help people with physical disabilities. She observed that disabled people were being marginalized. They were not being fully integrated into the workforce or educational institutions, and they had limited access to public services.

Initially, the Alisa Society sought to clothe and feed this population, but quickly learned that humanitarian efforts created dependence on handouts. The rapidly deteriorating economic environment and diminishing state support exacerbated clients' needs, and as a result, the founder decided to refocus the organization's activities on economic development.

In 1997 the Alisa Society changed course and reformulated its mission as the 'social and economic rehabilitation of people with disabilities.' The idea was to offer vocational training programmes with the intention of training people with disabilities to integrate them into the workforce. However, the country's dire economic situation also affected the Alisa Society's ability to raise funds and cover its operating costs. This setback galvanized the NGO to launch three private companies to underwrite the organization's operating costs.

The NGO started to recruit disabled people with business ideas who wanted to start and run a social enterprise. Three of Alisa's clients took the challenge of starting a business based on their ideas and credentials. Each received basic business training and a small amount of start-up capital before taking their ideas to market. Alisa's first enterprises are in computer training and software; appliance manufacturing and sales; and architectural design. Today, two of the three original businesses are successful and continue to be operated by their founders. The third entrepreneur closed the appliance business due to high production costs and slim margins, but then opened an advertising and design firm.

Since 1997, the Alisa Society has established six successful social enterprises of its own: the Alisa Stationery Shop; Café Posadena; Etit, a trading company; Instorm, an architecture firm; Monostat, an advertising agency; and a sports training facility that teaches martial arts to children. All of Alisa's social enterprises are run by disabled entrepreneurs and staffed by disabled people, except the sports facility, which relies on non-disabled people to teach its courses. The businesses' main objective is to teach skills, create jobs, and train disabled people. The second objective is to generate funds to subsidize the non-profit activities.

²⁰⁷ Counterpart International: Cases Studies of Social Enterprises, September 2002 – Sutia Kim Alter.

In the majority of cases, social enterprises tend to employ the clients of their social activities. Thus the Kovcheg Café recruited unemployed people with low incomes. The Alisa Society for the Disabled began to recruit disabled people who wanted to start and run a social enterprise. Three of Alisa's clients started a business based on their ideas and credentials. Each received basic business training and a small amount of start-up capital before taking their ideas to market. The Alisa Society joined forces with other NGOs to create the Social and Vocational Rehabilitation Centre, a for-profit organization that runs several businesses that help people with disabilities obtain vocational skills, such as sewing, carpentry or meat processing. This Centre employed in 2002 over 350 people with disabilities, who represent 90 percent of its total workforce.

Some social enterprises offer work integration to students (part-time or temporary work), which enables these enterprises to minimize their personnel costs while providing work opportunities to young people.

Project survey results

The project survey was unable to generate any information on the scale of job creation and modes of job integration offered by social enterprises in Ukraine as the great majority of respondents had no knowledge of concrete social enterprises.

Social aspects of social enterprises

All case studies provided by Eurasia Foundation and Counterpart Alliance emphasize that social enterprises are created to ensure the financial sustainability of their founding entities – the NGOs. Profits made by social enterprises are channelled back to the NGOs to allow them to fulfil their social mission.

Counterpart Alliance's case studies suggest that in 2002 social enterprises redistributed on average \$10,000 per year to their NGOs. The key targets of these profit redistributions were:

- disabled people
- children with learning disabilities
- homeless children

- youth with incomplete education
- women with young children
- unemployed women
- orphans

Redistributed profits were used to provide a wide range of social services to vulnerable groups. For instance:

- selling medical supplies to the disabled at lower prices
- providing free meals to the homeless and people with low incomes
- rehabilitating women, victims of violence or oppression
- providing vocational training and rehabilitation to former drug addicts and alcoholics

Box 29. Kharkiv, Creative Workshop of Peace Beauty Culture Association

The Peace Beauty Culture Association (PBC) is an NGO established in 1996 to invest in the social and cultural education of young people as a means to contribute to the development of Ukrainian society. In 2001 it founded the *Creative Workshop* to produce and sell exclusive clothes for children and young people, using natural fibres decorated with traditional Ukrainian art in contemporary designs. Profits are used to promote national pride, culture and the arts through theatre events and schools, while training youth in sustainable job skills.

Most of the Creative Workshop's clothes are debuted at the 'S' Theatre, which is attached to the NGO. The rationale for pursuing this business over other more lucrative opportunities was to ensure that the mission of the social enterprise and the NGO be intertwined. A second advantage is that the Creative Workshop leveraged Peace Beauty Culture's existing human, material and financial resources and turned them into productive assets. The founders of The Creative Workshop showcase their endeavour to educate other NGOs about the benefits of socially oriented businesses.

The profits are not only redistributed to the founder of the social enterprise – the NGO – but also can be used to set up other social enterprises to ensure the financial sustainability of the NGO and its social programmes. For example, in 2002 the Alisa Society was running no fewer than six social enterprises.

Key success factors

According to experts from the Eurasia Foundation and Counterpart Alliance, the key factors that determine the success of social enterprises are:

- the presence of a champion who understands the purposes and goals of social enterprises;
- the commitment of the individuals involved, the quality of the leadership, the discipline of, and trust within, the team;
- the willingness and ability to take risks and teach others to do the same;

- the commitment to transparency;
- good business planning and a commitment to developing quality products or services;
- strong relationships with community stakeholders, the involvement of private entrepreneurs, partnerships with other NGOs and governmental structures.

3.2e Potential of social enterprises in Ukraine

The embryonic activities of social enterprises in Ukraine have tended to focus on services for the community at large or for specific vulnerable groups. As highlighted in 2.3.3, social enterprises currently provide a wide range of commercial services: they offer computer classes, create computer programmes for people with impaired vision, sell stationery, household equipment,

The majority of project survey respondents agree that social enterprises have the potential to further develop in Ukraine.

At the national level, experts noted that the number of social enterprises needs to be increased. According to these experts, the government should be given this responsibility. A wide public information campaign together with specific organizational, legislative, and financial initiatives, was cited as the most important method to further stimulate social enterprise development. More concretely, some respondents cited the need to reduce VAT rates on goods or services produced by social enterprises and the need to develop an effective microcredit programme for this type of enterprise.

At the regional level, experts expressed the following opinions:

- in the Donbas area and the Autonomous Republic of Crimea, respondents stressed the necessity to increase the number of social enterprises. They believe responsibility for this lies with legislative bodies. Several respondents, however, indicated that this responsibility also lies with NGOs themselves. According to experts, in order to stimulate this sector efforts should be made to adapt the legal framework (in particular the law on social enterprises) and to disseminate the positive experiences of social enterprises and models of partnership with local authorities and businesses.
- in Zhitomirskaia Oblast, experts also agreed on the need to expand the social enterprise sector. They also see the need to develop coordinating committees to develop this sector. These committees would include representatives of local administrations, businesses, and the community. In addition, national experts cited the need to launch effective public information campaigns and to make legislative changes, mainly concerning tax incentives. All experts are in favour of a special law on social enterprises.

Survey respondents tended to see the main niche for this new sector in the provision of those social services that the state, business and the traditional NGO sector do not currently offer.

second-hand clothes, newspapers, foodstuffs for children, make furniture and clothing, run cafes, stationery shops, hairdressing salons, bus routes linking villages in remote areas (offering cheap or free transportation services to elderly people), etc. It is likely that these types of enterprises will continue operating in these areas in the future, especially since they require relatively little investment at the outset.

3.2f Organizations supporting the development of social enterprises in Ukraine

The key organizations that have been supporting the development of social entrepreneurship in Ukraine over the last five years are:

- *Counterpart International* which in September 2002 completed a Counterpart Alliance for Partnership Social Enterprise Programme. This programme provided training, loans and technical assistance to 45 NGOs to support the start-up and development of new business ventures;
- *Eurasia Foundation*, privately managed with support from the US Agency for International Development and other sponsors, implements programmes to support the development of civil society and private enterprise in Ukraine. In 2004, it commissioned a research study of social enterprise in Ukraine;²⁰⁸
- the *Ukrainian Citizen Action Network (UCAN)*, a four-year project supporting Ukraine's growing civil society. Funded by USAID and implemented by the Institute for Sustainable Communities (ISC), this programme helps Ukrainians take responsibility for determining the kind of society they live in by increasing citizen participation in all aspects of public life. UCAN provides grants, training and networking opportunities;
- *DFID Ukraine*, through its project 'Socio-Economic Regeneration of the Donbas', provides support (small grants and technical assistance) to NGOs and businesses wishing to set up social enterprises (Lugansk Oblast). The approach of this project is interesting in as much

as it started working on improving the local environment for businesses (in six pilot areas: Severodonetsk, Krasnodon, Perevalskiy and Kremenskoye raions in the Lugansk Oblast, and Torez and Telmanovskiy raions in the Donetsk Oblast), and went on to help these local communities to develop their own capacities and 'weight' in the decision-making process, before starting considering the economic and social contributions that social enterprises can make to these communities. The project has just helped set up one social enterprise (the Social Bus) in Telmanovskiy raion (Donetsk Oblast), the development of which will be monitored and captured for experience sharing. It is anticipated that this social enterprise will become fully operational and profitable within a year if provided with suitable training and consultancy.

Within another project 'Democratizing Ukraine', DFID provides support to communities and community-based organizations in strengthening the democratic voice in selected sites and promoting the interests of vulnerable groups and individuals. One direction of its Small-Grant scheme is the development of social enterprise concepts in local communities (Donetsk and Lviv Oblasts);

- the *Canadian International Development Agency (CIDA)* finances a Community Economic Development (CED) Project, started in 2004 and to be ended in 2007;
- the *European Union (TACIS)* has a number of projects focused on the development of the third sector, but no project specifically focused on social enterprise development.

²⁰⁸ *Research into Social Enterprise in Ukraine* by Jo Lucas, Geoff Cox, Olga Vasylychenko, Andrei Vasylychenko.

3.3. SWOT analysis of social enterprise development in Ukraine

Key problems

The main problems emerging from the analysis above can be placed in three categories:

■ *legislative and regulatory*

Ukraine does not have a legislation directly promoting the development of social enterprise. There are controversial views among the experts interviewed by the project as to the need for a dedicated law 'On Social Enterprises'. In any case, all experts interviewed expressed the view that the current legislation concerning the activities of third sector organizations, although not constraining the setting up of social enterprises, requires substantial improvements.

The issue of the provision of tax incentives for social enterprises (and other types of organizations, whether for the third sector or the private sector) as employers of vulnerable groups of the population should also be addressed. The lack of legislation concerning social contracts²⁰⁹ is a key issue, flagged by all experts, which should be addressed urgently by the legislators. This issue not only hampers the third sector's activities in general, but could constitute a constraint to the development of the social enterprise sector.

Despite the activities of a small number of international organizations to help develop the social enterprise sector in Ukraine, and despite the evidence that exists not only in Ukraine but in countries of the European Union concerning the large potential that such enterprises have in terms of employment generation and their contribution to the missions and goals of the third sector, the Ukrainian government and legislators at the national and regional level do not seem to have yet 'appreciated' this potential. A lobbying force for the development of this sector is lacking.

■ *conditions and capacities to set up and manage social enterprises*

The registration of social enterprises, *per se*, should now constitute less of a problem, as long as the social enterprise is considered a small business, given the legislation in place for the small business sector (simplified and shorter registration system). This said, if, as suggested by the above analysis, NGOs start creating a bigger number of subsidiaries (social enterprises), the registration process of NGOs themselves, as well as their liquidation, should be significantly simplified.

The difficulty in accessing start-up and development funds (credit and, to an extent, grants) is considered by all experts to be a key constraint on the development of social enterprises. A specifically tailored credit scheme taking into account the issue of collateral and providing a repayment holiday period should be introduced. Whereas credits could be provided to new social enterprises to finance their equipment or working capital needs, grant schemes could be developed to focus on the improvement of the social enterprise environment (for instance, access to information, know-how transfer, market surveys, etc.).

The above analysis clearly highlights the lack of awareness of experts regarding social enterprises, their goals and activities. This is an issue that needs to be addressed through well-designed public information campaigns. There is a need to clearly explain at the community level the purpose and role that such enterprises could play in its locality. Communities have needs that are not fulfilled. Taking into consideration the communities with whom the DFID project (Socio-economic Regeneration of the Donbas) worked in Lugansk Oblast, they are ready to find ways to address these needs. There is an 'unused' social capital which exists in these communities which could/should be encouraged to experiment with this model. What comes out of the above is that communities need to be 'prepared'. To launch such a model on an 'unprepared' community might lead to less positive (or no) results.

The problem of skills and competencies for setting up and running such types of small businesses is an important one and is referred to by all experts. The extent to which, for instance, a social enterprise can attract a good (and qualified) manager, who is however likely to be

²⁰⁹ Social contracts are contracts given and funded by local authorities to organizations of the third sector to provide, more appropriately and cost-effectively, a specific range of social, educational and other services to their communities.

offered a lower rate of pay than in a conventional commercial organization, is questionable. If social enterprises recruit their staff among their own target groups (vulnerable groups), such a category of people will require good quality and adapted business training and support to fit into their position and be able to work effectively. This leads on to the more general issue of the lack of adequate business support structures in Ukraine, that can provide good quality information and advice, effective business training, assistance in drawing up good business plans, etc.

Finally, the issue of market niche²¹⁰ identification for such enterprises is an important one. This is not only linked to the competence of the managers of the social enterprise to identify such a niche and evaluate its prospects, but also to the costs possibly involved in carrying out effective market surveys (see above on access to finance).

- *partnerships between social enterprises, NGOs, local government structures, and commercial businesses*

De facto, partnerships exist between social enterprises and NGOs since the latter are, in all cases, the founders of the social enterprises. The Eurasia

Foundation and Counterpart International research has highlighted, however, that partnerships between social enterprises and local government structures are still weak. The project's survey respondents indicated that partnerships between local government and social enterprises (and NGOs) would automatically be developed if the legislation regulating social contracts were put in place.

Partnerships between social enterprises and medium-to-large businesses do not appear to exist at this stage. This could however be a possibility which could be realized through a financing arrangement between an existing (medium/large) and successful business 'investing' in a social enterprise (a 'godfather' or mentor arrangement). This business could provide not only financing but also support to business planning, market positioning etc.

Cause and effect and SWOT analyses

On the basis of the above problem analysis, the following cause and effect and SWOT analyses can be drawn up, which will help clearly identify the main strategic goals for the development of the social enterprise sector in Ukraine.

²¹⁰ in relation to both public and private markets.

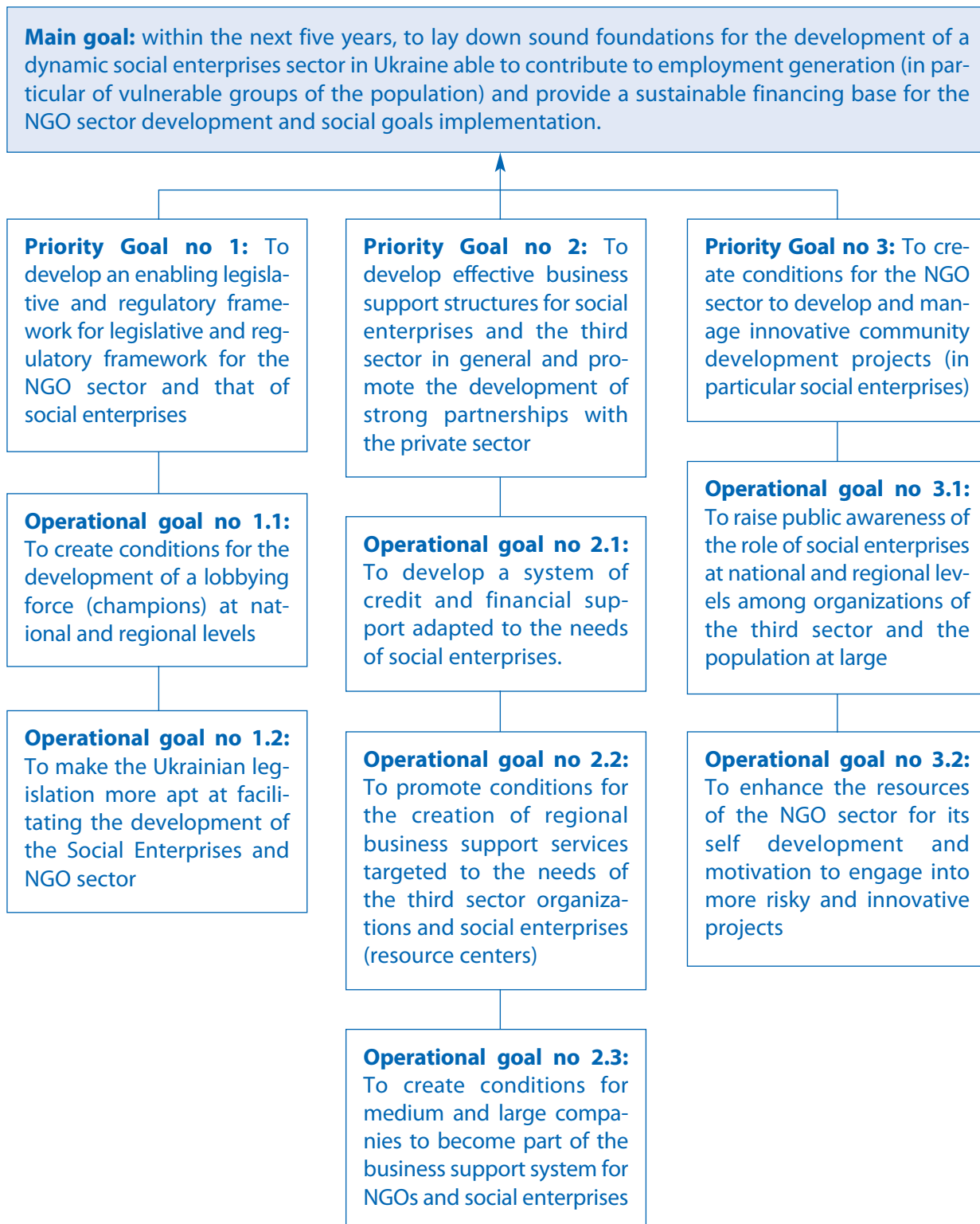
Cause & effect analysis				
Effects	Potential for employment generation for vulnerable groups of the population is limited. Skills amongst these target groups are undeveloped.	The NGO sector can only count on financing from the government and international organizations. The former is very limited, the second depends on fund-raising abilities of the NGO and might, in time, cease.	Local communities are not triggered to take part in the Decision-making process (social and economic)	The market gaps, primarily linked to the social needs of a community, are currently neither filled in by the State, nor by NGOs nor by the business community at large.
Key problem: the sector of social enterprises in Ukraine is under				
Main causes	Lack of an enabling legislative and regulatory framework for the NGO sector and that of social enterprises	Lack of effective business support structures and strong partnerships with the private sector		The third sector is not yet fully developed to generate and manage innovative community projects (such as social enterprises)
Root causes	There are no national and regional champions (lobbying force) for SE development in the legislative organs	The system of crediting small businesses is not user friendly. NGOs are constrained in their ability to access credits. The issue of collateral is an important one.		International donor agencies have not so far coordinated actions to raise awareness and understanding of this new sector. The concept of social enterprise is practically unknown
	The Ukrainian legislation on the third sector is still incomplete in particular as far as the following is concerned: tax incentives, NGO and SE registration, social contracting, redistribution of profits	Business support services (information, advice, training) are, still, of a mediocre quality. There are no local networks of effective business centres. Medium and large companies are not drawn into this support process		The NGO sector has limited resources for its self development and is adverse to risks

SWOT Analysis	
Strengths	Weaknesses
<p>Social capital exists at community level</p> <p>Local communities are more organized (self help groups, initiative groups), less passive</p> <p>Some Oblasts in Ukraine have had positive experience of social enterprises activities</p> <p>Other Oblasts, which have not had this experience, are willing and prepared to develop this sector</p> <p>Strong legislative leaders (possible champions) in some Oblasts (Donbass area)</p> <p>Bigger recognition of NGOs value among governmental structures</p>	<p>Strong restrictions for NGOs to access credits (for SE set - ups)</p> <p>Lack of a legislative base which would regulate the social enterprise sector</p> <p>Lack of fiscal incentives</p> <p>Weak business support structures</p> <p>Low awareness of the concept of social enterprises</p> <p>Low level knowledge of the legislation by NGO leaders</p> <p>Fear of risks taking</p> <p>Lack of business management skills</p> <p>The system of 'social contracts' is not activated</p> <p>Partnerships between third sector organizations, local authorities and local businesses are insufficiently developed</p>
Opportunities	Threats
<p>Simplified registration and taxation system for small businesses</p> <p>Untapped niche market for social enterprises</p> <p>Emerging philanthropic behaviors from the business community</p> <p>Experience of other countries, in particular EU countries and the USA</p>	<p>Current business environment is not 'enabling' in Ukraine</p> <p>High dependency of the third sector on international funding</p> <p>A number of donor organizations will leave Ukraine and cease to support the NGO sector</p> <p>Uncoordinated actions from international donors</p> <p>Lack of political will and government support to develop this sector</p> <p>Legislation on the third sector is incomplete</p>

3.4. Recommendations

Strategic recommendations

On the basis of the above analysis, a series of strategic recommendations are made, and summarized in the diagram below:



Detailed recommendations

Main Goal: within the next five years, to lay down sound foundations for the development of a dynamic social enterprise sector in Ukraine able to contribute to employment generation and provide a sustainable financing base for the development of the NGO sector and the implementation of social goals.

The achievement of this main goal is foreseen over a five-year period. Given the current development trends observed in the Ukrainian third sector and evidence of changes in civil servants' mentality towards these types of organizations, this time-frame seems realistic. The main assumptions made here are that the democratic principles endorsed by the Ukrainian president will continue to be implemented and that political stability will prevail. The main goal will be achieved through three Priority Goals which have equal importance and should be implemented in parallel.

Key indicators for monitoring the main goal implementation results will be (at a minimum):

- number of social enterprises in Ukraine created over the reference period
- number of social enterprises active and generating profits
- number of people employed in social enterprises over the reference period (with a breakdown between the main vulnerable groups)
- volumes of financial contribution and trends in the third sector's social projects

Priority Goal no. 1: To develop an enabling legislative and regulatory framework for the NGO sector and that of social enterprises.

In order to enable this priority goal to be successfully implemented, national and regional members of parliament should form a strong force to lobby in favour of the development of the social enterprise sector (*operational goal no. 1.1*). Parliamentarians should be made aware of the potential of such enterprises, by being provided

with demonstration examples from Europe or the United States. The responsibility for this intensive and clearly focused information campaign should lie with international donor agencies, and in particular on UNDP which will act as the main coordinator of these actions. In addition, once Ukraine's senior leaders are committed to the principles of social enterprises, they will have to clearly state this commitment and policy direction in their public discourses.

On the other hand, Ukrainian legislation needs to be improved (*operational goal no. 1.2*) so as to contribute to the development of social enterprises and the third sector in general. The issue of having a special law on social enterprises (as emphasized by all the project's regional respondents) should be considered but should not be regarded as a 'must' at this stage of development. It is more important to ensure that all relevant laws do not contradict each other and contain specific 'enabling' elements (such as, possibly, tax incentives, simpler registration procedures, norms for profit redistribution, access to credit, etc.). It should be the initiative of the parliament and the government to set up special commissions and working groups at the national and regional level (which will necessarily include representatives of the third sector) to develop concrete proposals for legislative development. The international donors' community (led by UNDP) should engage in these processes as consultants.

The key monitoring indicators for this priority goal implementation will include:

- senior leaders in national and regional parliaments and government should publicly acknowledge the potential of social enterprises and the third sector in general for employment generation
- necessary amendments to the relevant laws are prepared and adopted during the reference period (with clear implementation mechanisms)
- at least one national and six regional champions of social enterprise should emerge (at a regional level, in the Oblasts of Lviv, Donetsk,

Lugansk, Zhitomirskaya, Kharkiv and Kherson, as well as the Autonomous Republic of Crimea).

Priority Goal no. 2: To develop effective business support structures for social enterprises and the third sector in general and to promote the development of strong partnerships with the private sector

This priority goal will be implemented by tackling three different but equally important problems: the first one, as seen earlier, is the need to develop a system of credit and financial support adapted to the needs of social enterprises and NGOs (*operational goal no. 2.1*). The needs of these organizations should be reviewed and detailed. Credit policies (including policies on interest rates, collateral, repayment periods and holidays, etc.) of banks, credit unions, and international donors for this particular type of enterprises should be considered and developed, taking into account their respective possibilities and limitations. In this context, a particular role should be envisaged for credit unions as credit providers for social enterprises. The role of grants provided by donor organizations should also be reviewed. Grants reinforce dependency. **This type of financing might not be the best suited for social enterprises.** Eurasia Foundation suggests that grant giving could be used as part of 'strategies for reducing risk' and should target research needs and capacity development (for instance: business planning, risk evaluation and management courses). Credits force social enterprises to think through the level of investment required to maximize both social and financial returns. The responsibility for implementing this operational goal should be jointly shared by international donors' organizations (led by UNDP) and representatives of the third sector.

The second problem is the need to develop an effective business support service structure able to respond to the special requirements of social enterprises and organizations of the third sector (*operational goal no. 2.2*). The project's survey respondents have suggested the setting up of resource centres which could provide not only information and advice, but also training, business planning, marketing, and advertising services. The value of regional or local resource centres should be considered carefully. International donors (in

particular TACIS) have in recent years invested in such types of structures and their effectiveness should be reviewed before proceeding further. Instead, the advantages of further developing (and enhancing the capabilities of) a network of existing business centres serving 'standard' small businesses could also be considered. The responsibility for implementing this operational goal should, here again, be jointly shared by the international donors' community (led by UNDP) and representatives of the third sector.

Finally, the role that medium- and large-sized business could play as both a financing source and a 'mentor' needs to be investigated and developed (*operational goal no. 2.3*). There is evidence in Ukraine that larger business is now adopting a more socially responsible attitude than before. In implementing this operational goal, the work of the DFID project on Economic and Social Regeneration in the Donbas on business social responsibility should be taken into account. In any case, high quality awareness campaigns to cover the business community in selected regions of Ukraine should be envisaged. Responsibility for implementation will fall onto the international donor community (led by UNDP).

The key monitoring indicators for this priority goal implementation will include:

- number and size of credits obtained to set up social enterprises, and their trends, over the reference period (broken down by credit sources)
- percentage of social enterprises positively assessing access to credit (and trends)
- percentage of social enterprises positively assessing business support structures (and trends)
- percentage of social enterprises receiving mentorship programmes from larger businesses
- percentage of social enterprises positively assessing the mentorship programmes

Priority Goal no. 3: To create conditions for the third sector to develop and manage innovative community development projects (in particular social enterprises)

The necessary conditions for NGOs to be more innovative not only in terms of social service delivery but also in terms of diversifying their financing sources are twofold. On the one hand they need to raise their awareness of the key concepts and role that social enterprises might play in society, including with respect to employment generation for vulnerable groups of the population (*operational goal no. 3.1*). On the other hand, they need to tackle their 'non-business' risk-adverse and dependence mentality (*operational goal no. 3.2*). Both operational goals emerged clearly from the results of the project's survey in the regions and are supported by the findings of Eurasia Foundation's and Counterpart International's researches. There is still a significant lack of information among NGOs about new concepts and innovations in the social economy. This is caused by their limited resources to access such information, but, one could also say perhaps by their lack of 'curiosity' or even fear of being diverted from their main goals. The conservatism of NGOs in Ukraine is still very much latent and as a consequence it prevents them from envisaging the creation of more 'risky' structures such as social enterprises. Well-targeted public information campaigns on social enterprise models in Europe and elsewhere, possibly 'internship programmes' in one or several European social enterprises, and training programmes focused on key entrepreneurship principles and challenges should be set up and delivered for NGO leaders. These are crucial for their effective self-development and their ability to set up and manage social enterprises.

The responsibility for fulfilling this priority goal lies with the international donor community led by UNDP.

The key monitoring indicators that will be used to assess the goal's results will include:

- percentage of NGO representatives aware of the social enterprise concept (and trends over the reference period)
- percentage of NGOs equipped with internet facilities (and trends)
- percentage of NGO leaders trained in entrepreneurship principles (and trends)
- percentage of trained NGO leaders who have created and managed a social enterprise (and trends)

PART III. GENERAL RECOMMENDATIONS ON HOW TO SUPPORT SOCIAL ENTERPRISES

1. Preliminary conclusions

The analysis carried out so far brings to light wide differences in the way that social enterprises are treated in different countries. However, they are becoming gradually recognized, and particularly in the new member countries. The study conducted across the old EU member countries indicates that:

- the economic dimension of social enterprises does not necessarily mean that they achieve economic sustainability only through resources generated by commercial activities. Indeed, social enterprises' financial viability depends on their members' efforts to secure adequate resources to support the enterprise's mission, but these resources have a hybrid character. Moreover, the resource mix varies from one type of social enterprise to the other, in accordance with their specific social mission. However, one of the most visible effects of the institutionalization of social enterprises in the different EU countries is that it incites them to position themselves, most of the time, in the market economy. Regardless of the given resource mix of social enterprises, the role of voluntary resources tends to be underestimated. This type of approach puts social enterprises in 'boxes', overlooking one of the fundamental characteristics of these organizations: namely, the fact that they are located in an intermediate space between the market, the state and civil society. In the mobilization of resources, purchases motivated by social criteria constitute an important way for public bodies to support social enterprises. The evolution of European legislation and the possibility of taking social dimensions into account in public procurement are currently being debated at the European level. The directive on the coordination of procedures for the award of public contracts, published in 2004, explicitly allows social and environmental criteria; however, European legislation still appears unclear on this issue and allows for different interpretations. The latitude that national legislation implementing the new European directives

will leave or not to the diversity of national practices in this matter is also an important issue for the future development and sustainability of social enterprises;

- umbrella structures play a key role in the development of social enterprises. These consortia, federations and other second-level organizations play a vital role in a number of different ways. First, they foster the sharing of resources derived from a variety of sources in a territory. They can negotiate contracts with private enterprises and public bodies, for example, as just mentioned, in public procurement with a social dimension. Umbrella organizations could develop special know-how in negotiating this type of contract on behalf of social enterprises. Secondly, the history of the field shows that these umbrella organizations interact with public bodies to create specific public schemes. In other words, public schemes are not the result of top-down processes only, but are created jointly by representatives of social enterprises and those of public bodies. Umbrella organizations ensure a lobbying of public bodies, with the aim of bringing the latter to recognize the complex set of goals of social enterprises. Finally, these intermediate organizations are used to exchange best practices, not only at the national level (within an umbrella organization or between umbrella organizations) but also among different countries. Creating bridges between cooperative movements could be a valuable way whereby international actors and development practitioners could favour the exchange of good practices and experiences among social enterprises.

In general, in all the CEE and the CIS:

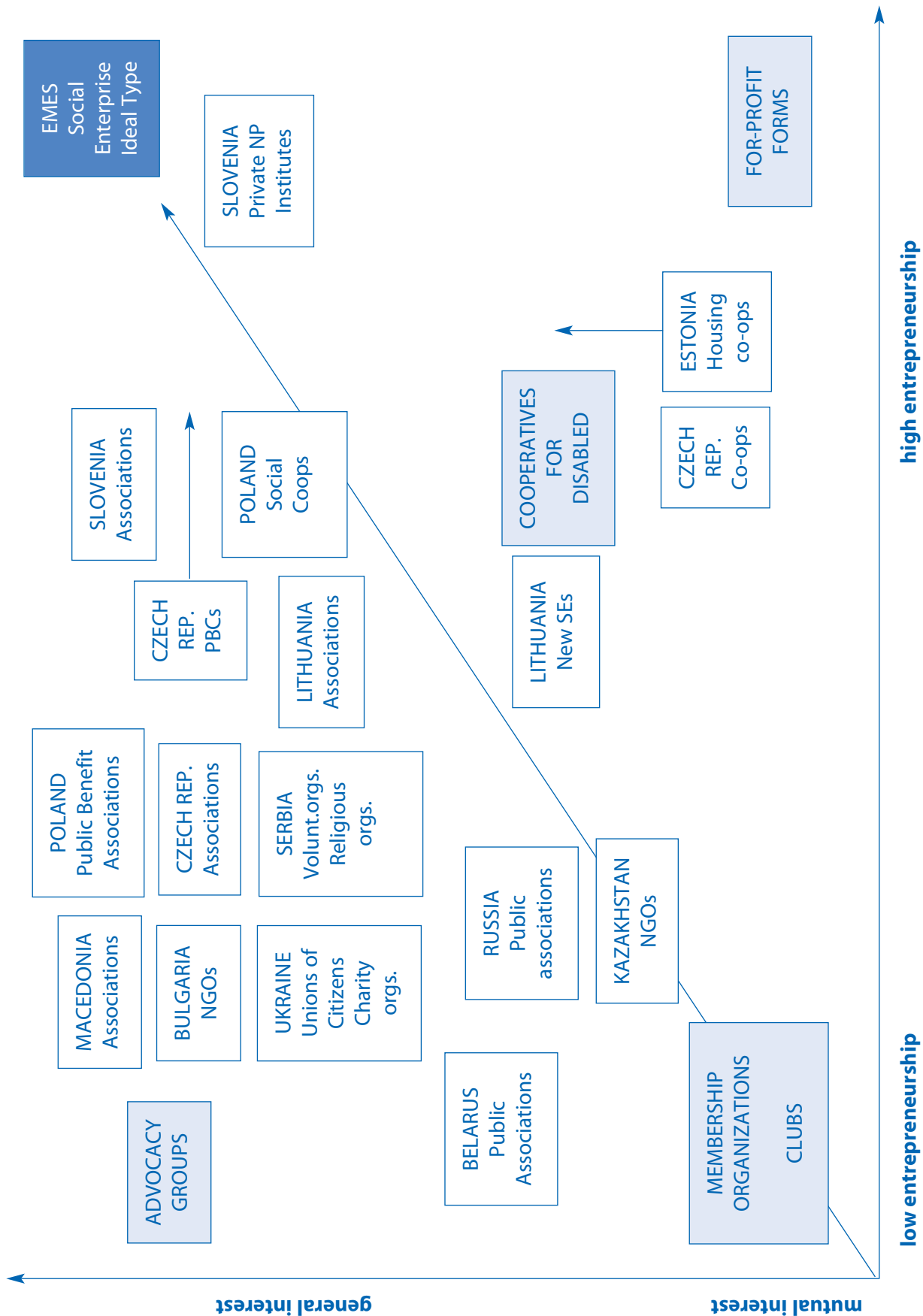
- third sector organizations' political recognition and institutionalization are still modest;
- the perception of the role of social enterprises as being marginal continues to prevail, coupled with a general mistrust towards economic activities carried out by third sector organizations;

- the legacy of the past continues to have a strong and continuous impact on the development of the various forms of third sector organizations;
- existing legal frameworks are still not adequate for the effective functioning, fundraising and sustainability of third sector organizations;
- policies aiming to reform and strengthen cooperatives are still insufficient or totally lacking – even donors' programmes exclude cooperatives;
- cooperatives are underestimated and the recognition of the potential of associations and foundations as producers of goods and services is still lacking.

More specifically:

- a legal and political environment more favourable to the development of social enterprises is to be noticed in the new EU member countries, although this environment remains characterized by severe legal inconsistencies and deficiencies that hamper the development of social enterprises;
- in the Balkans and CIS countries, the political and legal environment is not conducive to the development of social enterprises. Third sector organizations are not allowed to engage in economic activities and are still heavily discriminated against, donor-driven and politically oppressed (through harassment and strict regulations that heavily restrict their sphere of action and prevent their development into social enterprises). Where not deliberately aiming to penalize third sector organizations, severe inconsistencies in the legal frameworks further hamper their action. This is the case, for instance, in Ukraine, where a large number of regulations set forth procedures that are in conflict with the law itself.

Figure 6 - Social Enterprises in CEE and CIS Countries with Respect to the EMES Ideal-Type of Social Enterprise



2. Assessing the potential for social enterprise development in CEE and CIS countries

In an attempt to gauge some aspects of the potential of social enterprises in the countries under analysis, three analyses were completed.

The first one, a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, aimed to identify both the main bottlenecks that prevent social-enterprise development in the region and the still unrealized potential of social enterprises (see Figure 7).

Figure 7 - SWOT Analysis of Social Enterprise Development in CEE and CIS Countries

Strengths	Weaknesses
<p>Strong pre-Soviet tradition of charitable organizations and cooperatives (all countries)</p> <p>High level of education of third sector leaders (all countries)</p> <p>Interest of the researchers involved in the social enterprise topic (all countries)</p> <p>Capacity for creation of grassroots initiatives (self-help and religious groups) to satisfy unmet needs (all countries)</p> <p>In rural areas, strong social capital and local links</p>	<p>Modest recognition of third sector organizations as goods producers and service providers</p> <p>Ascription of a mainly advocacy role to third sector organizations (especially Balkans and non-Baltic former Soviet Union countries)</p> <p>Low networking capacity among the various families of the third sector (associations, cooperatives, foundations) and within families (all countries)</p> <p>Incapacity/low capacity of third sector organizations to guarantee the supply of services in a continuous and stable way</p> <p>Inadequate legal frameworks (especially in the Balkans and non-Baltic former Soviet Union countries)</p> <p>Inconsistency of the legal and fiscal systems (all countries)</p> <p>Lack of fiscal exemptions for social enterprises (most of the countries) and of tax reliefs for donors</p>
Opportunities	Threats
<p>High unexpressed potential of productive non-profit organizations (all countries, albeit to various extents)</p> <p>European integration (ESF/policy recommendations of the EU enhancing the role of social economy organizations in addressing problems of social exclusion and unemployment)</p> <p>Promotion of cooperative societies in Europe (European Commission's Communication of 2004)</p> <p>Emerging philanthropy (especially in new member countries)</p> <p>Untapped stocks of different categories of social capital in organized civil society as well as in informal networks</p> <p>High potential of third sector organizations as employment tools (all countries, especially relevant issue in the Balkans)</p> <p>Existence of cooperatives/companies for the disabled (all countries)</p> <p>Re-emergence of cooperatives in specific sectors, including housing (Estonia) and credit (Lithuania, Poland)</p> <p>Egalitarian feeling and tradition of solidarity – a positive legacy from the Communist and pre-Communist eras – manifest in the general public</p>	<p>High dependency of local organizations upon western donors</p> <p>Financial weakness of third sector organizations</p> <p>Mistrust towards economic activities carried out by third sector organizations</p> <p>Mistrust towards cooperatives</p> <p>EU over-regulation and rigidity of EU Structural Funds</p> <p>Low stocks of social capital (especially Balkans and former Soviet union countries)</p> <p>High administrative centralization (especially in the Balkans and non-Baltic former Soviet Union countries)</p> <p>Corruption (especially in the Balkans and non-Baltic former Soviet Union countries)</p> <p>Neo-liberal paradigm – espoused by the media, elites and politicians – dismissive of collective/egalitarian/solidarity values</p> <p>Incapacity of foreign donors to boost locally situated development processes</p> <p>Authoritarian regimes (Belarus) that suffocate third-sector development</p> <p>Suspicion towards local organizations funded by foreign donors (Belarus, Russia, Serbia)</p>

The second analysis carried out aimed to understand the main barriers to the development of social enterprises; such analysis is necessary to design adequate policies for social enterprises. Barriers against social enterprise development are grouped into the following categories:

Table 23 - Barriers to the Development of Social Enterprises

	EXTERNAL BARRIERS	INTERNAL BARRIERS
General barriers	<p><i>Political barriers</i></p> <ul style="list-style-type: none"> - overestimation of the role of the market in replacing the state - political underestimation of social enterprises as economic and welfare actors (mainly advocacy role) - corruption <p><i>Environmental barriers</i></p> <ul style="list-style-type: none"> - mismatch between growing demand for services and existing or developing social policies - high dependency of social enterprises upon donors <p><i>Institutional barriers</i></p> <ul style="list-style-type: none"> - unfavourable legal environment - lack of appropriate legislation on contracting-out procedures - low decentralization at the administrative level 	<p><i>Managerial barriers</i></p> <ul style="list-style-type: none"> - lack of a labour supply possessing the managerial and professional skills needed to manage social enterprises <p><i>Co-ordination/competition-linked barriers</i></p> <ul style="list-style-type: none"> - lack of coordination among social enterprises and third sector organizations <p><i>Cultural barriers</i></p> <ul style="list-style-type: none"> - insufficient awareness of the relevance of social enterprises as service providers
Specific barriers	<p><i>Cultural barriers</i></p> <ul style="list-style-type: none"> - lack of a 'social enterprise' culture in society as a whole <p><i>Institutional barriers</i></p> <ul style="list-style-type: none"> - lack of adequate legal frameworks - bureaucratic barriers imposed by public bodies <p><i>Competition-linked barriers</i></p> <ul style="list-style-type: none"> - competition by the informal economy (when institutional and legal barriers jeopardize the formalization of economic entities) 	<p><i>Cultural barriers</i></p> <ul style="list-style-type: none"> - lack of a social enterprise culture within social enterprises <p><i>Managerial barriers</i></p> <ul style="list-style-type: none"> - lack of managerial skills and competences of social enterprise leaders - prevalence of an authoritative managerial approach - difficulties in finding financial resources <p><i>Co-ordination/competition-linked barriers</i></p> <ul style="list-style-type: none"> - lack of a system of second-level social enterprises (for organizational, technical and financial support)

The third analysis that was completed concerned the evolutionary path followed by third sector organizations in the countries under study, with an eye to facilitating the identification of relevant developmental trends. The data collected in this framework are summarized in the following table. As in prior parts of the study, the countries have been grouped as follows: new EU member states, Balkan countries and former Soviet Union countries.

Table 24 - Challenges to and Constraints on Social Enterprise Development in the New EU Member States

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
BULGARIA	<p>Law on social assistance and service provision of 2003 enhanced the development of service-providing NGOs and enforced partnerships among state and local authorities and NGOs</p> <p>High education level of some of the workers employed in the third sector</p> <p>Informal pressure to change the law regulating NGOs towards increased economic freedom for the latter</p> <p>Intensive financial support from international donors</p> <p>NGOs are beneficiaries of EU Structural Funds.</p>	<p>In order to produce market goods and services, NGOs have to establish companies</p> <p>High dependency on financial streams, carrying out of activities on a project basis, and strong rivalry within the sector</p> <p>Weakness of NGOs' networking capacity</p> <p>Absence of sustainability</p> <p>Scarcity of bottom-up initiatives</p> <p>Exclusion of cooperatives from donors' programmes</p> <p>Withdrawal of international donors</p> <p>Suppression of tax exemptions owing to high corruption levels</p> <p>Need for independent monitoring and social impact assessment</p>
CZECH REPUBLIC	<p>Existence of a specific legal framework for social enterprises – the Public Benefit Company (PBC) – which are service-providing organizations committed to the supply of services aimed at the public interest</p> <p>Possibility for associations and PBCs to conduct economic activities if these are defined in their statutes</p> <p>Economic activities (which have to be of public benefit) are theoretically subject to tax rebate</p> <p>In rural areas, strong social capital and local links</p> <p>Prominence of many small and stable municipalities/villages that could be interested in supporting social enterprises</p> <p>Additional funding stream through EU Structural Funds</p>	<p>Associations do not normally produce goods/services for the market</p> <p>PBCs are still heavily dependent on grants</p> <p>Unclear tax rules</p> <p>Mistrust of cooperatives</p> <p>Withdrawal of donors (for instance US foundations)</p> <p>Lack of capital accumulation</p> <p>Discrimination against locally rooted organizations in public procurement procedures</p> <p>Rigidity of EU Structural Funds, which penalizes small organizations</p>

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
ESTONIA	<p>Enormous number of registered non-profit organizations, including housing associations, which are single-stakeholder organizations aiming to promote the interests of members</p> <p>Approval, by the Estonian Parliament, of the Concept of Development of Estonian Civil Society (EKAK)</p> <p>Relevant social function played by housing cooperatives</p> <p>Third sector organizations are allowed to carry out economic activity</p> <p>Possibility, for third sector organizations, to legally compete for government contracts and procurement procedures at the local and central levels</p> <p>Interest in venture philanthropy is increasing, and corporations have become more strategic in planning their community investments</p>	<p>Associations and societal organizations typically lack resources to remain viable (funding is usually still allocated on a 'project-to-project' basis)</p> <p>Low government recognition of the possible value of the social services rendered</p> <p>Contracting-out practices are still scarce</p>
LITHUANIA	<p>A specific law on social enterprise (2004) allowed the rescue of 30 companies for the disabled, inherited from Communist times</p> <p>Contracting-out of services to third sector organizations envisaged</p> <p>Emergence of new local donors</p>	<p>Lack of by-laws prevented the setting up of new social enterprises according to the 2004 law</p> <p>Requirement for a turnover similar to that of a small- or medium-sized enterprise hampers the bottom-up development of new social enterprises</p> <p>EU Structural Funds serve first and foremost governmental institutions</p>
POLAND	<p>Recognition of social enterprises in the form of social cooperatives</p> <p>New law on social cooperatives (2006)</p> <p>Associations, foundations and public benefit organizations are allowed to carry out economic activities but the legal system is inconsistent and ambiguous</p> <p>For public benefit organizations, economic activity implies a remuneration for the production of goods and services that is higher than the costs of goods/services</p> <p>Associations, foundations and public benefit organizations are subject to tax exemptions</p> <p>The biggest source of revenues of foundations and associations is public subsidies</p> <p>Foreign donors gave a specific impetus to third-sector development</p> <p>Earned income from economic activities is increasing</p> <p>Corporate donations are increasing</p>	<p>Economic activities allowed up to the level covering the costs of goods/services</p> <p>No tax incentives based on legal forms</p> <p>The largest organizations received most of the public funding ('oligarchization' of third sector organizations)</p> <p>Only 4% of organizations benefited from foreign donations</p> <p>Persistence of a bias against cooperatives</p>

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
SLOVENIA	<p>Associations are allowed to carry out economic activities/act on the open market and pursue activities consistent with the public interest</p> <p>Existence of specific legal framework for income-generating non-profit organizations (Private Not-for-profit Institute)</p> <p>Extensive tradition of vocational training and employment programmes for people with disabilities</p> <p>Tax system offers reliefs for donations to third-sector organizations</p> <p>Legislation which envisages the possibility of contracting-out services to social enterprises</p> <p>State and municipalities support the third sector by annual subventions</p> <p>Indirect source of state funding by lottery means in favour of organizations of disabled and humanitarian.</p> <p>New law proposal on balanced regional development explicitly requires Regional Development Councils to define the role of third sector organizations in regional development programmes</p> <p>Draft of Development Strategy of Slovenia introduces new focus on the development of social enterprises</p>	<p>Social enterprises are not yet considered as serious partners by local authorities</p> <p>Laws and regulations mutually inconsistent</p> <p>Tax reliefs for donors – individuals and companies – are relatively low and do not represent a sufficient financial stimulus</p> <p>Absence of an adequate support system to promote the development of social enterprises</p> <p>Amount and method of funding considered inappropriate by one half of the organizations</p> <p>Access to financial resources selectively limited only to some organizations.</p>

Table 25 - Challenges to and constraints on Social Enterprise Development in the Balkan countries

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
MACEDONIA	<p>The law of 1998 is up for amendment; the intention is to establish a clearer distinction between public benefit and private benefit groups, with only the former being eligible for government funding</p> <p>A government office for cooperation with associations, an NGO-Parliament liaison office and a government working group have been set up</p> <p>Changes have been introduced in the law on social protection that enable associations to act as contractors for services</p> <p>Significant presence of foreign (governmental and non-governmental) donors (confirmed by the existence of a specific form of associations for foreigners)</p> <p>Very incipient involvement of government and business</p>	<p>Social enterprises are outlawed: organizations wishing to carry out economic activities need to do it through a separate joint stock company or limited liability company</p> <p>Prevalence of emergency and relief aid over long-term structural aid</p>
SERBIA	<p>Self-help and religious groups are active in the delivery of innovative services at the local level</p> <p>Third sector organizations have started to attract the attention of government and trade unions as tools for generating employment</p> <p>A new law will most likely be enacted, with a view to improving administrative practices for third sector organizations, inter alia through the introduction of a low-threshold registration process and of tax deductions aimed at fostering corporate and charitable giving</p> <p>Fundamental role of donors in the start-up phase; foreign donations are the main source of funding</p>	<p>Full potential of the third sector as partner not yet fully exploited by public authorities</p> <p>Lack of legal and financial recognition</p> <p>Self-help groups are often forced to set up cooperatives when engaged in the production of services</p> <p>The legal surrounding is not appropriate for successful functioning, fundraising and sustainability of self-help groups</p>

Table 26 - Challenges to and Constraints on Social Enterprise Development in the CIS Countries

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
BELARUS	<p>Associations for the disabled created during the Soviet times continue to receive governmental support</p> <p>Churches of various confessions provide support to their religious organizations</p>	<p>State's suffocation of third-sector institutions</p> <p>Procedural framework for third sector organizations has become more complicated since 1996</p> <p>Financial aid has come across obstacles</p> <p>Most aspects of third sector organizations' activities have become subject to licensing</p> <p>Time-, money- and effort-consuming registration is prescribed for public associations</p> <p>Since 2005, Belarusian public associations are practically not allowed to run entrepreneurial activities, which were previously admitted as long as they aimed to achieve the goals defined in the organizations' charters</p> <p>Third sector organizations are increasingly politicized</p> <p>Only organizations listed as being loyal to the regime are recipients of domestic governmental support</p> <p>The severe conditions under which public associations operate provoke negative reactions inside the third sector</p>
KAZAKHSTAN	<p>In rural areas, the level of trust among communities and grassroots initiatives is quite high</p> <p>Existence of self-help groups, as well as agricultural and water-users' cooperatives in rural areas</p> <p>International donors promoted the development of agricultural and credit cooperatives</p> <p>The carrying out of economic activities by non-profit organizations is allowed</p> <p>A 'social business corporation' (SEC) model was presented in the annual President's Message (2006)</p>	<p>Strong governmental control over third sector organizations' activities through the request for time-consuming financial reporting</p> <p>When engaged in economic activities, non-profit organizations are treated as ordinary business structures</p>
RUSSIA	<p>Public and religious associations are legally recognized as welfare actors</p> <p>Public associations have the right to take part in the elaboration of decisions taken by state organs and local government bodies</p> <p>Third sector organizations are allowed to carry out economic activity</p> <p>Importance of consumer cooperatives in rural areas</p> <p>A Law on Autonomous Non-Profit Organizations is being developed in the State Duma</p>	<p>Restrictions on third sector organizations' activities: unfavourable fiscal law and negative attitude of international donors towards organizations engaged in economic activities</p> <p>The time-consuming and demanding reports recently introduced by the law result in higher managerial costs for third sector organizations.</p> <p>Governmental mistrust towards domestic donors results in a lack of Russian donors</p>

Country	Favourable conditions/Potential for social enterprise development	Negative conditions/Constraints on social enterprise development
UKRAINE	<p>Since the Orange revolution the third sector has enjoyed more freedom and been subject to less harassment</p> <p>Delivery of public services by third sector organizations is allowed by law</p> <p>The law on social services allows third sector organizations to receive compensation for the services supplied</p> <p>Promising improvements have been introduced by the 2004 Civil Code</p>	<p>The third sector is not yet fully recognized by the general public, government and for-profit enterprises</p> <p>The registration process for unions of citizens is more time-consuming than that for for-profit companies</p> <p>Unnecessary requirements in the Law on Social Services can be seen as discriminatory against third sector organizations</p> <p>Lack of resources for third sector organizations and limited access to available ones</p> <p>Practically, the only way whereby unions of citizens can generate income through economic activity is through commercial firms</p>

3. Characteristics of an optimal policy and legal framework for social enterprise development

Prerequisites for a full exploitation of the important social, economic and employment-generation roles of social enterprises include a number of basic policy and legal measures which are important for creating an appropriate environment for social enterprise development.

In broad terms, the first important requirement is to create a legal context that does not disadvantage social enterprises in comparison with business organizations – this means a legal framework that is not over-restrictive or over-regulated, but allows flexible entrepreneurial activity.²¹¹ In order to avoid criticism of unfair competition, the measures implemented to facilitate the entrepreneurial activities of social enterprises vis-à-vis unsubsidized SMEs should be based on the merit character of the products and/or services delivered, and an overall evaluation of externalities for the community. Secondly, the social dimension of the activities carried out by social enterprises should be supported through fiscal measures. Thirdly, the institutional context should be adapted to ensure that social enterprises can have access to equivalent (financial, products and services) markets as SMEs, despite the different goals pursued and different modes of operation. In particular, access to public procurement markets should be developed (these first three types of measures are dealt with in points A, B, and C below). Fourthly, the institutional context in which social enterprises operate should be supported so that self-regulatory federal bodies can represent the interests of the sector, and financial and business support bodies can be developed to increase the capacity and effectiveness of social enterprises. Such self-regulating federal structures might also take on the task of taking

measures to reduce corruption (this fourth type of measure is the subject of point D).

The following appear as the most important issues (since they are outside the scope of this study, only a short summary is provided for each point):

A. Legally recognizing the various organizational forms appropriate for social enterprises. The existence of institutional structures adequate for social enterprises should be ensured; these structures ought to be flexible enough, as rigid frameworks have been shown to hamper the development of social enterprises.²¹²

In addition:

A.1. Social enterprises ought to be legally bound to the pursuit of their statutory goal;

A.2. The statutory goal should aim to promote the general interest;²¹³

A.3. An adequate governance model presupposes the involvement of the stakeholders affected by the organization, including beneficiaries, workers and volunteers;

A.4. The organization ought to comply – at least to some extent – with the non-distribution constraint;²¹⁴

A.5. Limitations on economic activities should be reduced.

B. Establishing fiscal exemptions for social enterprises. These measures may vary according to national preferences, but could include:

B.1. Fiscal and social security deductions for the disadvantaged workers employed (temporarily or permanently);

B.2. Reduction of indirect taxes wherever market income is insufficient to support the social activity;

²¹¹ It is worth emphasizing that although many third sector organizations enjoy tax-exempt status (or at least a less burdensome fiscal status), social enterprises are not always granted this status despite the internalization of externalities that they bear.

²¹² This is the case with the French legislation on the cooperative society of collective interest (SCIC), but also of the Lithuanian legal framework for social enterprises.

²¹³ Adequate social audits should be devised in order to make sure that this is really the case, i.e. that the social enterprise is really producing goods/services that are of public interest.

²¹⁴ Social enterprises are not profit-maximizing organizations, although some of them can distribute profits to a certain extent.

²¹⁵ As for indirect taxes, this measure should be applied only in the cases where market income would be insufficient to support the social activity.

B.3. Granting of aid to social enterprise development through tax reductions²¹⁵ on donations received and/or consumers' purchases.

It is worth mentioning that, when dealing with social enterprises that produce goods for the market in the EU context, advantages should be designed in such a way as to avoid unfair competition, as defined and prohibited by the EU competition law.

C. Implementing favourable modalities of interaction with public agencies, especially in the production of general interest services.

This implies:

C.1. Establishing consistent and coherent policies towards social enterprises at all levels of government and with all public bodies;

C.2. Ensuring that social enterprises have access to business-support services, so that business and management skills can be improved;

C.3. Ensuring that social enterprises have access to procurement markets similar to those accessible to SMEs;

C.4. Allowing social enterprises to enjoy independence of operation;

C.5. Allowing a certain degree of competitiveness, with a view to strengthening efficiency;

C.6. Recognizing the social importance of the activities carried out;

C.7. Giving consideration to government funding schemes to support the development of social enterprises where they serve government policies (e.g. low-interest loans for creating rural enterprises).

D. Supporting the development of an institutional context favourable to social enterprise.

D.1. Developing self-regulatory federal bodies representing the interests of the sector and assuming the task of taking measures to ensure the transparency of how foreign donations are used;

D.2. Developing financial and business support bodies to increase the capacity and effectiveness of social enterprises;

D.3. Establishing best practices in matters of business and governance;

D.4. Promoting the image of social enterprises.

4. Recommendations for national governments

Making realistic recommendations, with the same degree of relevance for all the targeted national governments, is not possible. Indeed, recommendations should always take into account the existing context, national legislation, and role already played by the third sector at the national level.

However, despite the specificity of the national contexts, it is important to underline the general features that national policies should follow, with respect to:

a) the legal and fiscal framework:

- national policies should nurture a new and enabling legislative framework and fiscal measures allowing a full recovery of the third sector and development of social enterprises (cooperatives and other types of social enterprises);
- national policies should implement measures whereby opportunistic behaviours could be limited. To this end, advantages should be associated with the social goal pursued (i.e. the services supplied) rather than with the non-profit legal status;

b) interaction with public agencies:

- national policies should promote welfare pluralism, welfare partnerships, the co-production of services and local development partnerships with social enterprise actors;
- national policies should ensure that social enterprises are dealt with in relevant policy documents and that they are taken into account in the framework of measures related to the aforementioned socio-economic activities;
- national policies should allow state and local authorities to grant compensation for the production and delivery of goods and services by social enterprises that are of public interest;

c) the institutional context for social enterprises:

- national policies should promote administrative decentralization as well as policy consistency and coherence between levels;
- national policies should support the start-up stage of social enterprises;
- national policies should support, both organizationally and financially, grassroots third sector organizations;
- national policies should support capacity-building for social enterprises, sustain their growth and foster networking among them (consortia, financing bodies, education/training etc.), preferably through a joint venture between local government and social enterprises.

5. Recommendations for international actors and development practitioners

A specific strength of international organizations is their ability to provide credit and help which can in turn increase the recognition of realities that are not yet fully recognized in national contexts. International organizations can *inter alia* increase the awareness of national authorities and allow the full expression of the potential of private initiatives to contribute to the public good.

Many CEE and CIS countries are not yet in a situation to acknowledge the potential of third sector organizations. The insufficient exploitation of the potential of third sector organizations is evidenced, for instance, by the employment share of the latter in the countries from the region; this figure remains markedly lower than in most developed countries, where third sector organizations currently account for 5 to 15 percent of total employment.²¹⁶

Possible ways for international actors and development practitioners to sustain the development of social enterprises in the countries under study are the following:

1. Taking the leading role in supporting the political recognition of the socio-economic value of third sector organizations by:

- a. increasing the awareness, among national and local authorities, of the importance of third sector organizations in welfare systems. Within the latter, third sector organizations can act as providers of services of general interest and as effective tools of work integration for disadvantaged people – and not simply as sheltered-employment tools for people affected by physical disabilities. For this purpose, the notion of the ‘disadvantaged worker’ should be (re)defined in a broader way in the countries of the region, so as to include the various types of disadvantages that may affect a worker and to

make it consistent with the definition used at the EU level.²¹⁷ In addition, third sector organizations can act as local development tools, including through local development pacts and local employment policies (this goal can be achieved through seminars and training programmes);

- b. increasing the awareness, among national and local authorities, of the importance of third sector organizations for the creation of social capital;
- c. increasing the awareness, among third sector organizations, of their potential role in different sectors (such as welfare provision, work integration and local development). This can be achieved through seminars and training programmes addressed to policy-makers and third-sector volunteers and workers;
- d. enabling the re-emergence of historical continuity by facilitating research and publications on the pre-Soviet third sector/cooperative history.²¹⁸

2. Promoting appropriate support for a better understanding of social enterprises and growth of the latter in the region by:

- a. developing an institutional context allowing capacity-building within social enterprises:
 - setting up a standing conference on the promotion of cooperation between local government and third sector/social enterprises in the region;
 - setting up development agencies specifically designed to support social enterprises: consortia, incubators, national federal bodies representing their interests;
 - developing a number of instruments to support the development of social enterprises, including: ‘seed money’, small grants, feasibility-study grants, low-interest loans schemes, social-enterprise funds aiming to sustain local innovative third sector organizations in each of the sub-regions, and microfinance initiatives;

²¹⁶ EMES Working Paper series, num. 08/02 (2008).

²¹⁷ See the entry ‘disadvantaged worker’ in the Glossary (Appendix 1).

²¹⁸ Knowledge of cooperative traditions is very limited in the general public. A better knowledge of this subject (“it worked here in the past and our forebears knew how to do it”) would generate more self-confidence, which in turn would lead to a greater willingness to participate in the creation of social enterprises.

Box 30. Italian Consortium CGM and Polish ZLSP

CGM is an Italian national-level consortium with 73 local consortia and about 1,200 social cooperatives in membership. Its strategic role is to promote social cooperation and support the action of local networks through qualified services. CGM also acts as a social policy actor at the national level.

The goal of the project *Work without Borders* was twofold: first, to match the demand for specialized nurses in the northern regions of Italy and with the supply of Polish nurses; secondly, to promote exchanges between Italian and Polish cooperative organizations, through the transfer of good practices from Italian to Polish partners that are members of the ZLSP umbrella organization and that operate in the social and health care sector.

In particular, training, consultancy and tutoring activities have been offered to managers of Polish cooperatives. The selected managers were provided with new tools to analyse the local market and plan a supply strategy, both for the consortium and for individual cooperatives at the local level, and to develop and consolidate managerial systems (marketing, planning etc.) capable of supporting the growth and consolidation of single entrepreneurial units and a support network.

In addition, the project aimed to favour the exchange of views on Polish cooperative experiences and Italian social enterprises, by improving:

- the specificities of social enterprises;
- the capacity to organize and manage services for disadvantaged people in an entrepreneurial way;
- the systemic vision of social enterprises (internal and external factors);
- the capacity to position local entrepreneurial action in the framework of public policies for the third sector and the evolution of local welfare systems.

The methodology adopted has been that of the 'twin-practice'; each Italian consortium or cooperative 'adopted' a Polish cooperative or cooperative group.

b. developing good business and governance practices:

- developing managerial skills of social entrepreneurs and local development leaders (through training/university courses);
- organizing regular regional and sub-regional panels for social enterprise managers/workers, public officials, local media, business communities;
- facilitating research projects on social enterprises, especially in the countries outside the EU, and promoting best practice exchanges;
- promoting networking activities among the various components of the third sector (cooperatives, associations etc.).

3. *At the international level:*

- a. building bridges with international organizations – i.e. the ILO, the OECD, the World Bank – and international NGOs to create an awareness of the role and potential of social enterprises;
- b. establishing models of good practices for NGO intervention (establishing links with civil-society organizations, avoiding corrupt organizations, helping to create infrastructure – loan funds);
- c. helping to start up new social enterprises;
- d. supporting established social enterprises;
- e. building capacity within the social-enterprise sector (consortia);

- f. building bridges between national cooperative movements in the EU-15 and the cooperative movements of CEE and CIS countries. Indeed, EU cooperative movements are often keen to develop projects abroad, but they lack in most cases the required skills and contacts. There are valuable examples of fruitful cooperation projects promoted by the *Raiffeisen* movement, the *Desjardins* movement and by the Italian Consortium of Social Cooperatives *CGM* in Poland (see Box 29). New research in this field could allow the most valuable cooperation projects developed so far to be mapped and replicated;
- g. creating learning networks with the aim of sharing best practices.

6. Closing remarks

The added value of social enterprises stems from their capacity to deal with crucial economic and social problems at the local level that are overlooked or simply not dealt with by public agencies and traditional for-profit providers (e.g. inaccessibility of basic services of public interest and high unemployment rates among certain vulnerable groups of the population). Against this background, the role of social enterprises is considered of utmost importance for the transformation of the economic and welfare systems of the countries of the region. As such, social enterprises are essential in the evolution of the former socialist and communist systems towards a modern structure in which public agencies and social enterprises provide welfare functions in an inclusive and innovative way.

As emphasized by this research, social-enterprise development depends upon the availability of a number of enabling conditions, including adequate legal and fiscal frameworks, supporting public policies at the national level, and proper institutional contexts. Hence, the need to raise the awareness of relevant institutional actors (public agencies at all levels, the international donor community, traditional for-profit enterprises, and traditional third sector organizations) of the potential of social enterprises in complementing the economic and social roles already displayed by public, for-profit, and third-sector actors, thanks to their capacity of combining the pursuit of an explicit social goal through a participatory arrangement of economic activities.

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Appendix 1 – Glossary of terms

Cooperative

According to the definition of the International Cooperative Alliance²¹⁸ of 1995, the term cooperative means an ‘autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise’. This definition was also adopted in ILO Recommendation 193 of 2002, para. 2.

Credit Union

Credit unions are member-owned, voluntary, self-help democratic institutions that provide financial services to their members. They are based on the Raiffeisen model of financial organization owned and operated by its members on a not-for-profit basis. They are financial, cooperative institutions and their cooperative credentials encompass a number of attributes including open voluntary membership, within the limits of a common bond defined by the members (e.g. employment, church or community), and democratic management and control. Limited returns on share capital are also indispensable features. Credit unions especially developed in the United States and Canada.²¹⁹

Foundation

Foundations are philanthropic organizations, organized and operated primarily as a permanent collection of endowed funds, the earning of which are used for the benefit of a specific group of people or of the community at large. The main classification is between grant-making foundations and operating foundations. The latter provide social, health, and educational services.

General interest

It refers to the benefit of the public in general or of an unspecified group of beneficiaries. Counterpart is self-interest.

Third sector

This term is mainly used in the scientific literature to overcome the differences between the many national models. It refers to organizations other than the public owned (the ‘State’) and the private for-profit ones (the ‘market’). This term emphasizes the intermediary nature of the belonging organizations.

Non-governmental organizations (NGOs)

The definition ‘non-governmental organization’ typically refers to organizations that are independent of governments. This expression came into use with the establishment of the United Nations in 1945 with provisions in Article 71 of Chapter 10 of the United Nations Charter for a consultative role for organizations that neither are governments nor member states. It is a very general term, used to refer to both transnational and local organizations. In some countries it is used as a synonym of association, often to refer to organizations that specifically operate in the field of international cooperation.

Disadvantaged workers

There are two main definitions of disadvantaged workers. The first one is more specific and depends upon the specific socio-economic context it refers to. The second one is more general. According to the Commission Regulation No 2204/2002 of 12 December 2002 (on the application of Articles 87 and 88 of the EC Treaty of State aid for Employment), ‘disadvantaged worker’ means any person who has difficulty in entering the labour market without assistance, namely a person meeting at least one of the following criteria:

- any person who is under 25 or it is within two years after completing full-time education and who has not previously obtained his or her first regular paid job;
- any migrant worker who moves or has moved within the community or becomes resident in the community to take up work;
- any person who is member of an ethnic minority within a Member State and who requires development of his or her linguistic, vocational training or work experience profile to enhance prospects of gaining access to stable employment;

- any person who wishes to enter or to re-enter working life and who has been absent from both work and from education for at least two years; and particularly any person who gave up work on account of the difficulty of reconciling his or her working life and family life;
- any person living as a single adult looking after a child or children;
- any person who has not attained an upper secondary educational qualification or its equivalent, who does not have a job or who is losing his or her job;
- any person older than 50, who does not have a job or who is losing his or her job;
- any long-term unemployed person, i.e. any person who has been unemployed for 12 of the previous 16 months, or six of the previous eight months in the case of persons under 25;
- any person recognized to be or to have been an addict in accordance with national law;
- any person who has not obtained his or her first regular paid job since beginning a period of imprisonment or other penal measure;
- any woman in a NUTS II geographical area where average unemployment has exceeded 100 percent of the Community average for at least two calendar years and where female unemployment has exceeded 150 percent of the male unemployment rate in the area concerned for at least two of the past three calendar years;
- 'disabled worker' means any person either:
 - a) recognized as disabled under national law; or
 - b) having a recognized, serious, physical, mental or psychological impairment.

Non-profit

The most known definition is provided by the Johns Hopkins University. According to this definition, the sector includes organizations that are: voluntary, formal, private, self-governing, and which do not distribute profits. The term 'non-profit' refers to the organizations that have to comply with a non-distribution constraint. The term not-for-profit is more general and refers to the goal pursued (which is other than profit).

Social economy

The term first appeared in France at the beginning of the 19th century. This approach indicates that the major goal of this type of organization is to serve members of the community rather than to seek profit. Moreover, the social economy relies on democratic decision-making processes, which represent a structural procedure to control the pursuit of the organization's goals. Among the organizations belonging to the social economy one can find associations, cooperatives and mutual organizations and, more recently, also foundations.

Voluntary sector

This definition also fits in the non-profit approach. The term is mainly used in the United Kingdom and connotes the reliance on volunteer boards of directors to govern the activities of organizations committed to pursuing goals of public interest.

²¹⁸ See: <http://www.ica.coop/>.

²¹⁹ Worldwide representation by the World Council of Credit Unions (WOCCU). See: <http://www.woccu.org/>.

Appendix 2 – Matrix of laws relating to social enterprises in Serbia

	Law	Ministry in Charge	Date of enactment	Goal
1.	Company Law	Ministry of Economy	November 2004	Reduces the level of foundation capital
2.	Business Registration Law	Ministry of Economy	April 2004	Simplifies the procedure of company formation
3.	Law on Foreign Investments	Ministry of International Economic Relations	January 2002	Provides national treatment to foreign investors and the right to transfer profits abroad
4.	Law on Social and Economic Council	Ministry of Labour and Social Affairs	November 2004	Regulates formation, incorporation, field of competencies, methods of work, financing and other issues significant for the work of the Social and Economic Council
5.	Law on Financing Local Self-governance	Ministry of Public Administration and Self-Government	Law to be adopted soon	Regulates provision of funds to municipalities, towns and the city of Belgrade to perform their primary activities and entrusted tasks
6.	Law on Investment Funds	Ministry of Finance	May 2006	Regulates the types, establishment and operation of investment funds
7.	Labour Law	Ministry of Labour and Social Affairs	March 2005	Prohibits direct or indirect discrimination against persons seeking employment, as well as employed persons, on the basis of any personal feature
8.	Law on Employment and Unemployment Insurance	Ministry of Labour and Social Affairs	January 2003	Regulates the activities of employment, the measures of active employment policy, rights and obligations of persons seeking employment
9.	Law on Compulsory Social Insurance contributions	Ministry of Labour and Social Affairs	January 2003	Stipulates the amount of contribution for compulsory social insurance (retirement and disability insurance, health insurance and unemployment insurance)
10.	Law on Personal Income Tax	Ministry of Finance	January 2001 Amendments to be enacted soon	Exemptions and contribution reductions

	Law	Ministry in Charge	Date of enactment	Goal
11.	Amendments to the Law on Refugees	Ministry of Finance	Law to be enacted soon	Expands support to refugees (to integrate them into society)
12.	Law on Preventing Discrimination against Persons with Disabilities	Ministry of Public Administration and Self-Government	Law to be enacted soon	Regulates the general regime of the prohibition of discrimination on the basis of disability, special cases of discrimination against persons with disabilities, procedures to protect persons exposed to discrimination
13.	New NGO Law	Ministry of Public Administration and Self-Government	Law to be enacted soon	Regulates the process of founding and the legal status of associations, registration and deregistration, membership and bodies, changes in status, cessation of work, as well as other issues important to the work of associations
14.	New Law on Cooperatives	Ministry of Economy	Law to be enacted soon	Regulates the operation of cooperatives and legal successorship of the property of cooperatives which have ceased to operate



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