

SOCIAL ENTREPRENEURSHIP – ONE OF THE RESPONSES TO MARKET IMPERFECTIONS

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Abstract

Development of organizations driven by entrepreneurial spirit, but concentrated on social needs, occurred in many countries with different levels of economic development, different social policies and legal frameworks. There are several reasons for this, all of which concern the providers and users of social services. As for the beneficiaries of social services, in recent years, we can notice expansion of growth and diversity of needs. It was due to the transformation of the previous social welfare system. On the providers' side, public finance restrictions and bureaucratic obstacles make the expansion difficult, and even the maintenance of social services. Social entrepreneurship to a large extent encourages recognition and solving of social problems.

This paper starts from the hypothesis that in dynamic and modern societies social entrepreneurship emerges as an important driver of innovation and social transformation of various activities (health, environment, education, entrepreneurship development, sports, culture, etc..), which enables it to take over and use the opportunities that others missed, in order to improve systems, to design and expand new approaches and advanced sustainable solutions that create social value.

Key words: *target groups socially vulnerable, social economy, social entrepreneurship.*

JEL Classification: M 13; O 17;

Review

Received: Mart 03, 2012 / Accepted: June 09, 2012

1. Introduction to an update

By increasing the social needs and the necessity to develop additional opportunities to overcome the problems of vulnerable groups, especially of the unemployed and the poor, the modern evolution of the welfare state of the West, as well as an ongoing reform of social policy in post-communist countries, focus on new forms of economic initiatives that can be classified into third sector, and included in the broad definition of social enterprise. Organizations covered by the common conception differ in name, the legal basis on which to set up, internal organization, the status of members (employees and volunteers), target groups and other attributes, and their common feature is that programs include labor and social integration.

1.1 The origin of the concept

The emergence of idea and practice of social enterprise is linked to the time of development of capitalism during the 18th and 19th century when it formed self-help groups and other associations which are guided by the principles philanthropy and charity. Different forms of association in order to achieve common goals and to solidarity with vulnerable groups have been known before. New initiatives have encouraged the rapid impoverishment of the workers' classes during the Industrial Revolution in Europe. Predecessors of modern organizations arise as a spontaneous reaction of new classes of workers to overcome difficult living conditions at the time of the original capital accumulation and to provide an alternative (on the basis of solidarity) for market economy in the form of creating funds for helping the poor people, and to encourage other activities that were not covered by social policies. The first cooperatives as the most

widespread form of social enterprise were formed in Britain in the late 18th and early 19th century, while the socialist ideas of Robert Owen¹, William King², and other theorists have had a significant impact on the emergence and development of this movement.

1.2 The revolution of social entrepreneurship

Even though the terms such as "social entrepreneurship", "social economy" or "social enterprise" were unknown until the last decade, the evolution of the social economy is linked to France, where in the 1970s were founded the organizations presented as cooperatives, mutual-aid societies and associations that formed the national alliance of these organizations - *National Liaison Committee for Mutual, Cooperative and Associative Activities CNLAMCA*³. This document states that these are organizations where "work dominates over the capital, which are established to serve its members and not to make profit, and that in its internal structure have autonomy in management."⁴ The same document states that in 1990s the Walloon Council for the Welfare Economics was formed when this sector began to develop intensively in Belgium, and the document that accompanies this Council shows that they are private organizations which have the following characteristics:

- Serve its members rather than make a profit;
- Have autonomy in managing;
- Democratic decision – making process;
- Dominance of individual needs and work over capital in distribution of income.

New social enterprises are different from traditional cooperatives in their aims, activities, customers and the internal organization. Compared with traditional associations, social enterprises promote interest of a community, have a limited distribution of profits, undertake social programs and keep specific forms of solidarity.

2. The development of the concept of social enterprise in countries of European Union

The increase of social enterprises was encouraged by a political and legal means within national policies, as well as the programs supported by the European Union. In Western Europe there is a large variety of legal forms by which companies with social goals are established, so it's hard to make a unique definition and classification of certain forms of organization. General characteristic of these forms of organization is that organizations within the social economy must be private companies different from the traditional ones, so that all members have the right of ownership. In addition, social enterprises can satisfy the social and economic goals of its members, or to be oriented towards social programs in the community and help the vulnerable groups (children, disabled people, drug users, alcoholics, old former prisoners, and the mentally disabled).

In EU countries the term "social enterprise" refers to entrepreneurial organizations which have limited profit-related, and non-profit-related social goals. Within these organization forms, they provide social services and various types of training in the framework of new conception of social policy.

According to the definition of the European Commission⁵ these organizations are:

¹ Robert Owen (14 May 1771 – 17 November 1858) was a Welsh social reformer and one of the founders of utopian socialism and the cooperative movement;

² William King - Theoretician and social reformer;

³ Source: indicated by "The Social Economy in the European Union 2007", Report EESC;

⁴ Indicated by the above source;

⁵ Downloaded from the website of the European Union: http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/index_en.htm;

- Private - are not a part of the state apparatus;
- Formally organized - have some legal basis on which they are established;
- Autonomous in deciding - can elect and dismiss their governing bodies, and control and organize their activities;
- Free - no membership required;
- Only partly profit-oriented, while profit distribution is not proportional to the capital, but suits their activities;
- Oriented towards satisfying the needs and not towards creating the capital;
- They have a democratic decision-making process ("One man - one vote") which is independent of the capital;
- Members have decision-making control.

3. Definition of social enterprise

3.1 The practical definition of social enterprise

There is no generally accepted definitions of social enterprise, but one of the best definitions is the one given by the EMES (European Research Network)⁶. *"Social enterprises are private organizations which do not operate for profit ("not-for profit") and provide the goods or services that are directly related to their explicit goal to work for the benefit of the community. They rely on the collective dynamics created by several types of stakeholders in their governing bodies, and which highly value the autonomy of these enterprises and bear the economic risks associated with their activities"*⁷.

The key phrase here is "do not operate for profit", which however is not the same as "non-profit" organization. Social enterprises have a goal to make a profit - which enables their financial viability - but that is not their primary goal. Instead, it is some sort of social mission. The following six criteria, listed according to the document EMES "Social Enterprise: A new model of poverty reduction and employment creation" (2008), provide a picture of the ideal type of social enterprise. Although the most social enterprises do not have all of these characteristics, the use of these criteria may be helpful in recognition of new social enterprises and the classifications of older restructured organizations.

3.1.1 Social criteria

Social welfare as an explicit goal. The main goal of social enterprises is to serve the community or specific group of people whose common needs are recognized as public needs, instead of serving to certain individuals.

Excluding the organizations that aim to maximizing profits. When it comes to achieving social welfare criteria mentioned previously, social enterprises have the obligation to use part of their profits to achieve certain social mission. Organizations where on the first place come maximization and redistribution of profit (either to shareholders or to employees) are classic ones and not social enterprises.

The influence of individuals in the organization is not proportional to the number of shares owned. Decisions are made jointly, taking into consideration the interests of both clients and stakeholders. Organization is managed in a democratic spirit, and not as in shareholding companies.

⁶ EMES (European Research Network) - European research network engaged to theoretical and empirical study of the problems that belong to the corpus of the "third sector", www.emes.net;

⁷ Defourny, J. Nyssens, M. (2009) Understanding of social enterprise and social entrepreneurship in Europe and the United States: convergence and divergence (Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and divergences). Second EMES International Conference on Social Enterprises. University of Trento, Italy, 1-4. July 2009, p. 12.

3.1.2 Economic criteria

- Economic activity of producing goods and/or providing services. The main goal of social enterprise is not advocating or reallocation of funds. Social enterprise should be constantly engaged in producing of goods and/or providing services.
- Existence of autonomy. Social enterprises are usually created and managed as a autonomous project. They are usually not under the influence (either direct or indirect) of public authorities or private companies. Their owners are entitled to take up their positions and finalize its activities.

3.1.3 Tendency to paid work

In social enterprises should exist organizational commitment to job creation. The activity does not have to include the work of employees who receive a salary. However, organizations that rely on volunteer work are considered to be social enterprises in the early stages of their development.

4. Applying the definition on different types of organizations

The key criteria for recognition of social enterprises are the concrete goals of the organization, assignment of property rights and realization of control. Generally, these criteria can be applied to certain types of organizations:

- Voluntary organizations which provide services (not always in a continuous period of time);
- (Unregistered) self-help groups for people who are experimenting with new, innovative ways of working and social integration, adapted to local potentials and resources;
- Public social bodies (social incubators) which also experiment with new strategies of integration and local development and have become or considering to become social enterprises;
- Cooperatives which act as a community enterprise, related to the local area and dedicated to advancing the interests of specific population groups or communities as a whole;
- Other new forms of organizations that do not operate in order to make a profit engaged in providing social services and perform economic activities in order to collect funds to provide those services;
- Charities, foundations, open foundations or centers;
- Associations or foundations established by the controlled subsidiary Commercial companies whose goal is to earn revenue by performing community service.

5. The development of social entrepreneurial organization

The establishment of social enterprises is the managerial and cultural challenge. Starting this journey requires commitment, skills and expertise. Creating entrepreneurial culture may be threatening for a volunteer organization that has not been earning money as a steady source of income. Organizations considering engaging in commercial business activities should assess its readiness and be certain that the board of directors, managers and employed internal stakeholders are well prepared for cultural and organizational implications of such decisions. Organizations which are well prepared, already have a chance to successfully conduct business.

Having the right product is the essence of every business, whether social or corporate one. Once a viable product (or service) is defined, it is essential to thoroughly go through phase testing of product and business planning.

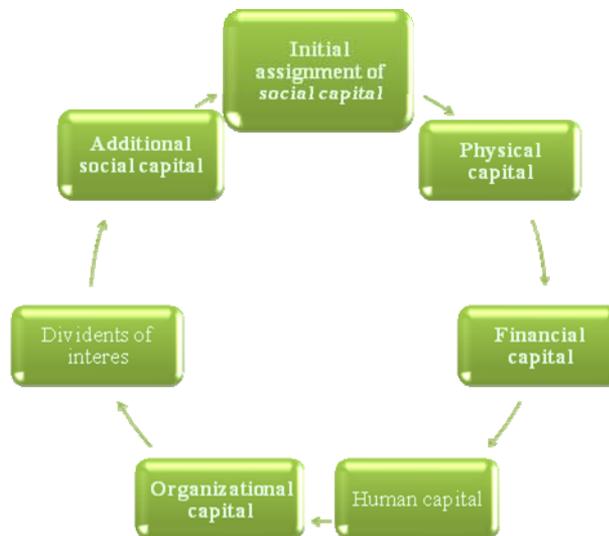
There are six steps in development of social entrepreneurial organization⁸:

- Debit;
- Physical capital;

⁸ Indicated by the above source;

- Financial capital;
- Human capital;
- Organizational capital;
- Payment of dividends.

Picture 1: The process of creating of social capital



Source: "Introduction to Social Entrepreneurship," Briefing for Civil Society in Serbia, Project of the EU Delegation in Serbia, 2010. year;

In order to reduce the risks, it is important to maintain organization commitment to its goals. The goal, of course, is to provide necessary changes in organizational culture, which is critical for sustainable business activities. In order to ensure organizational readiness and ability to create successful social organizations, i.e. companies, it is necessary to take care of the basic elements of the organization.

These, among others, include the following⁹:

- **Leadership** (volunteers and staff);
- **Policy - the vision, mission, values and culture.** This refers to the totality of the conduct, opinions and beliefs that are transmitted to people in the organization. They are the core concern of the organization and guiding principles, goals and aspirations. In the case of social enterprises, politics and culture of the company including business;
- **Strategy - Strategic and business plans.** They relate to the activities of the organization intended to achieve their objectives and anticipated changes in environment;
- **Structure** - refers to how the organization achieves its goals. For example, an organization can have a powerful, multi-disciplinary management team and cooperation with similar organizations;
- **Human Resources Management** - organization requires certain skills and adequate human resources. Skills are specific abilities possessed by the employee;
- **Systems of human resources,** which include assessment, training and not-measurable values (motivation, morale and attitudes);
- **Resources:** investments that support business growth and enterprise;

⁹ Raymond Firth, "Elements of social organizations", Publisher: Beacon Press. Place of Publication: Boston. Publication Year: 1961, page. 3;

- **Processes and systems:** procedures, both formal and informal, through which the organization operates and collects information, including data on management and information about the competition;
- **Accent on results and evaluation.** Estimation of the total level of development helps to create a company that effectively meet its business plan objectives, satisfy customer needs and accomplish the mission of the organization.

6. The role of social entrepreneurs

Social enterprise encourages positive social change and social inclusion. It supports civil society, the economic emancipation of the disadvantaged groups and environmental and economic development, enabling communities to take responsibility for themselves. Social enterprises can improve the community economy, create jobs and solve social problems. They re-evaluate some of the current government policies and assist governments to improve the organizations and public service. They also can raise the level of ethical business standards and corporate social responsibility. Social entrepreneurs are proof that financial success does not include the socially responsible and environmentally friendly behavior towards the community and the environment.

Social entrepreneurs are individuals who offer innovative solutions to significant social problems. The social component is the most important element of their business. Business of social entrepreneur is to recognize when a part of society does not work, and to solve this problem by changing the system, spreading the solution, convincing the whole society to make a breakthrough.

Accordingly, we differentiate seven types of social entrepreneurs¹⁰:

- **Social business entrepreneurs** - Creating a new business to overcome disadvantages and failures in the market;
- **The social entrepreneur as a citizen** - Identify disadvantages and failures in the market that can be solved through the creation of new institutions or developing the current ones;
- **Social Entrepreneur of the public sector** - Identify entrepreneurial approaches to use of public resources to achieve goals much more successful;
- **Corporate social entrepreneur** - Manage corporate behavior in order to focus the activities of social entrepreneurship;
- **Social entrepreneur environment** - working in the public, private or the third sector, or in all of these sectors;
- **The social entrepreneur** - a new philanthropist - supply the organization with money and experience to enhance the social impact;
- **Potential social entrepreneur** - Realizing that they can be social entrepreneurs too, so they speak out and become involved.

Necessity of entrepreneurship within the company results from the reaction to three existing problems:

- Rapidly increasing number of sophisticated new competitors;
- The feeling of inconfidence in traditional methods of managing the corporation;
- Escape of individuals who leave the corporation in order to continue as an independent small entrepreneurs.

7. Social entrepreneurship - from two angles

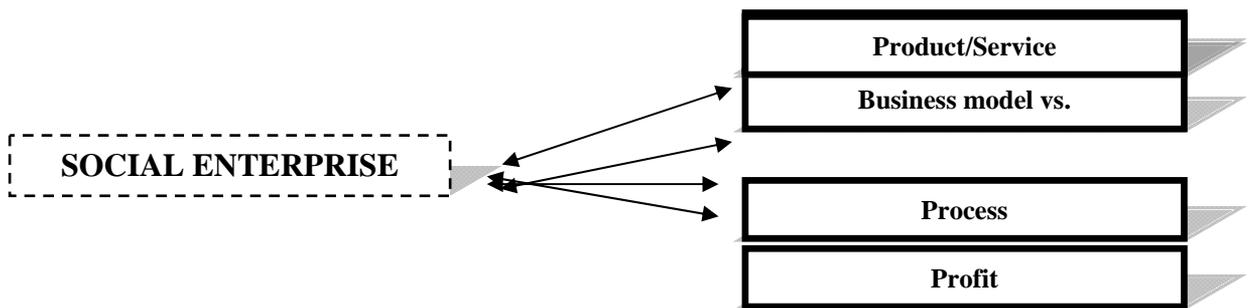
The ability to create, to break the mold and cliché and to engage in entrepreneurship is one of the most important attributes of humanity. Although its roots are deep in our history, in the last three decades we have witnessed an explosion of innovation, experimentation, caused by

¹⁰ Source: <http://www.socialenterpriseportal.org/files/Library/Social-Entrepreneurship-Felipe-Santos.pdf>;

rising international community of individuals with various approaches to implement a basic idea: market and business, trade and capital can be "harnessed" not just for the sake of creating individual wealth, but also for the sake of creating the most comprehensive, community values. One of these approaches, and also one of the most innovative explosions is certainly a social enterprise. However, social entrepreneurs have created wealth of different strategies to experiment with, and which are now recognized in a unified, global parade of social entrepreneurship.

The increasing popularity of social enterprises is accompanied by less clear image about what exactly social enterprise is and what it does. There are too many debates about whether the term "social enterprise" (noun) is given to business or organization, or involves the action (verb) taken by an organization or individual. The truth is that it can be both. Social enterprise is often seen primarily as an activity, while some organizations may want to be called that way. On the other hand, social enterprise is often described as a business model, rather than an activity. Either which, the idea behind this concept is that the products (or services being sold), the process (how it is produced and sold) and profits (what happens to the income produced) by organizations engaged in social entrepreneurial activities, are called to be "social". Social enterprise does not only involve the provision of salaries, but also safe and wide spread socially useful activity, or social value. Social enterprise does not only involve the provision of salaries, but also safe and durable socially beneficial activity, and social value.

Picture 2: Social enterprise and entrepreneurial activity



Source: http://evpa.eu.com/wp-content/uploads/2011/06/Social-Enterprise_From-Definitions-to-Development-in-Practice1.pdf;

1.2 Social entrepreneurship # Socialist self-management

It is the value itself that makes the so-called "line of distinction" between the social and commercial entrepreneurship. It should be noted that the difference between them is the economic versus the social plane. The difference is in their focus on the creation, i.e. keeping the value. Unlike the commercial i.e. profit companies, social enterprises are motivated by creating value, i.e. social impact of what they do. Social entrepreneurs are happy if the value overflows to the micro community, but also the entire society. Given our political heritage and the former Yugoslav model of self-management socialism, "public property" as a feature of modern social enterprise is certainly eye-catching. One might even say that now, through social entrepreneurship, we are trying to prove that we can be communists in capitalism uniforms. No, we are just trying to imply that social entrepreneurship is a serious attempt to change the world. We're talking about small and medium entrepreneurs and democratic decision-making process, the managers who seek the establishment and exercise of social responsibility in their companies, the enterprises philanthropists, foundations and various micro-finance institutions and instruments. What is becoming increasingly clear is that we are all part of a mutual effort to create effective instruments to maximize overall value for the entire global community.

At this moment, it is important to realize that we all make the social entrepreneurship, that it is not mere intellectual speculation of those who have not succeeded in mainstream business, and to be aware of the thousands of social entrepreneurs around the world that have pro-

ved to be valuable and attract not only grants but also investments that have proven themselves not only as an initiative, but as a permanent program areas of major foundations and governmental agencies for funding.

In most EU countries, this understanding has led to a bloom of social entrepreneurship. Many charity organizations, associations, companies and groups at the community level, in order to reduce substantial dependence on grants, began to change their income through trading, manufacturing and services. In developed countries, this development was largely provoked by the desire of governments to encourage citizens' groups to enter into contracts with public sector agencies to provide public services within the health, hygiene, sports, culture, education ...). Of course, social entrepreneurship in countries such as Great Britain, Italy, Belgium, France, and Spain, took such an important place on the agenda thanks to the successful branding, and certainly due to the existing legal framework and regulations. Specifically, referring to the relevant legal framework, it must be noted that there is no single legal model for social enterprise. It is important to remember that the concept of social enterprise does not define a specific type of legal structure. Do we have enough strength to build communities, while also striving to expand our organizations and we follow our individual strategies?

8. Social enterprises in the spectrum of the nonprofit sector

Terminological confusion was the constant companion of social actors who are not state, nor private or profit organizations. Even before the concept of social enterprise has become a major determinant for third sector¹¹ organizations in Europe, Salamon and Anheier¹² in 1992 in their comparative studies note that organizations which enter into a wide range of non-profit sector are defined differently depending on the political, cultural and economic development. Thus, according to their research this sector in the United States often called - "nonprofit sector", in England - "voluntary sector", in France - "economie sociale" in Germany - "Verein" in developing countries largely as - "nongovernmental organization ". They may also use other terms such as those that describe the nature of the sector as the third sector (third sector), the charity sector (charitable sector), civil society (civil society), not – dependent sector (independent sector), the sector association (Associational sector) or sector is exempt from tax (tax-exempt sector).

Researchers have shown that the difference in terminology is not just of linguistic nature, but the title indicates the scope of different activities, different regulation in the nonprofit sector. In the U.S., where usually use the term "nonprofit sector", the role and importance of this sector is different from the role in France where for that sector uses the term "economie sociale", the "voluntary sector" in the UK or the "Foundation" as a common term in Central Europe and "NGOs" in developing countries. Salamon and Anheier also show that each of these terms emphasizes individuality of the sector in the country of origin and illuminates an aspect of reality these organizations, and ignores others. "Nonprofit Sector", a term that is commonly accepted in the United States, points out that this organizations are not primarily profit-oriented. However, this term does not define the sector entirely, because the non-profit organizations can realize a profit, but it is not their primary goal, earned profit is not distributed among members, it is already used for programs and activities. The "third sector" shall not identify a way of organizing and mission sectors, but it implies that in addition to state and private enterprise there is a third area, which operates in an open society, dependent and interconnected with other sectors. The term has also emerged in America in order to isolate this type of organization from the first two sectors - government and market, while the term "charitable sector," emphasizes the support and assistance that these organizations receive from private charities, donors and sponsors.

¹¹ The third sector – sector which actions are based on the social, cultural and environmental goals;

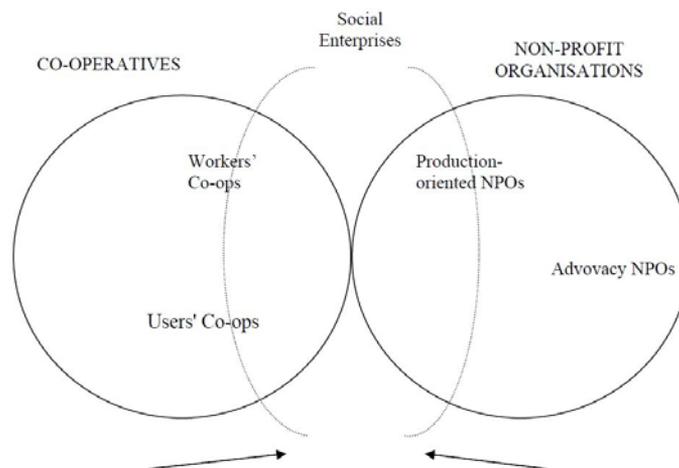
¹² Salamon, L. and Anheier, H. (1999), *The Emerging Sector Revisited*, The Johns Hopkins Comparative Nonprofit Sector Project, Phase II, Baltimore Institute for Policy Studies;

In addition to the term "nonprofit" sector¹³, the following terms are also used: (i) "independent sector", which stresses that these organizations operate independently from state or market, (ii) "voluntary sector", which highlights the importance of voluntary activities that do not require the payment or involvement in management and implementing activities and programs in this sector as their main feature, (iii) "sector exempt from tax," which emphasizes only one characteristic of this sector and that is the fact that in many countries, this sector is exempt from tax, (iv) "nongovernmental organizations" as a term that emphasizes the separation of these organizations from government and state influence, and increasingly (v) "civil society" which is one of recent terms and refers to a wider range of organizations and civic initiatives that exist outside of government institutions.

Historical periods are often critical to the preferences of the names of these organizations, as well as the different terminology used in legal solutions of certain countries. So in the 1950s was a leading term "philanthropy", in the 1960s - "citizen participation" (citizen participation), in the 1970s it was "volunteering", and since the 1980s, which marked the beginning of the crisis countries welfare state and withdrawal from social welfare programs, the most used term - "nonprofit sector", especially for researchers who deal with the contemporary role and importance of these organizations. Only recently, as part of the third sector, the following terms are used increasingly: "social economy", "social enterprise" and "cooperative"¹⁴, to indicate the state actors and the business sector, particularly in the European Union.

The term "social enterprise" is linked to certain countries of Europe, and mostly for the way of organizing the third sector in France and northern Italy, while in other countries like in Germany, the use of this term is associated with the acceptance of EU legislation. As social enterprise concept sets together cooperatives, associations, societies for mutual help and highlights the specific mission of these organizations to contribute to the welfare of its members or the community rather than to generate profit, the focus is placed on discussion over profit and nonprofit relation. The relative isolation and overlapping of social enterprises from cooperatives on the one hand and the nonprofit sector on the other hand, are represented graphically in the figure below, showing the coexistence of cooperatives and associations and interactions among these actors.

Picture 3: Social enterprises between cooperatives and nonprofit sectors



Source: "Social Enterprise in an Enlarged Europe: Concept and Realities", Jacques Defourny, p. 18.

¹³ A nonprofit organization (NPO) is an organization that uses surplus revenues to achieve its goals rather than to distribute them as profit or dividends;

¹⁴ A **cooperative** ("coop"), **co-operative** ("co-op"), or **coöperative** ("coöp") is an autonomous association of persons who voluntarily cooperate for their mutual social, economic, and cultural benefit;

In contrast to traditional cooperatives, social enterprises can be oriented to the community or the general interest, as opposed to non-profit sector, which covers the entire range of organizations many of which are engaged in advocacy and lobbying, social enterprises have a specific mission to act to the welfare of its members or community. Compared with the "third sector" or "non-profit organizations," social enterprises are in a range of organizations, because they have important common characteristics - voluntary association, the formal organizational structure and autonomous decision-making system. Their specific characteristic is to undertake economic activities which not only develop entrepreneurship, but social capital as well, i.e. they are aimed at improvement the quality of life.

9. Social enterprises and third sector in Central and Eastern Europe

Similarly as in Western Europe where the recent evolution of social enterprises is linked to the filling of gaps in welfare programs offered within the welfare state in Central and Eastern Europe on social enterprises begins debate when to look for new opportunities to solve problems of unemployment, poverty eradication, or in general when it comes to reforms in the social policy. The high level of long-term unemployment, high share of youth, women and unskilled workers in the structure of unemployment, large regional differences in economic development, are almost a common feature of the region and creating employment especially for vulnerable groups becomes an important issue that needs to be solved.

Based on comparative research summary reports (Les, Jeliazkova, 2005)¹⁵, it can be concluded that entrepreneurial opportunities within third sector in the first phase of transition are rather neglected in many countries, and disabled with legal restrictions. However, in recent years new employment programs emerged for employment and social services in the alternative economy similar to those that are called social enterprises in the West. Many of these organizations occur within the international aid program or as part of a strategy to reform social policy.

Social enterprises as a working model of integration through productive activity began to organize increasingly in the area of disabled people. Sheltered workshops, which employ different categories of the disabled, were founded during communism, and their operation is protected by the state, in which the different groups of disabled people had a monopoly in the production of certain goods and other benefits that followed the appropriate fiscal policy.

Research statements also testify a new type of cooperatives often arise as credit unions, cooperatives in housing, agricultural cooperatives, consumer cooperatives, or cooperatives for employment of vulnerable groups to mitigate the problems of unemployment. Unlike traditional cooperatives in which members have the same characteristics (farmers, consumers, workers), the social co-op members can be volunteers, community members, local authorities, parents of disabled persons, or the beneficiaries themselves. New cooperatives operate similarly to traditional cooperatives, and achieve recognition by having a non-profit distribution of goods, work to improve life in the community and do not belong to political parties. Examples are local companies that promote the economic potential, ecological farms, which include organic farming and promotion of healthy foods such as rural social cooperatives, for example, in Czech Republic¹⁶.

Often in new cooperatives there are developed other activities traditionally atypical for cooperatives such as tourism, education, scientific research, or even some forms of production. Examples show that the third sector can have a productive role, especially when their projects are operating as innovative actors in the local economy when helping vulnerable groups to participate in the labor market, to organize further education, training, and generally when you contribute to medical and social rehabilitation. In some countries, like Slovenia and Poland, specific training programs are encouraged that train leaders for the social economy. In Poland, there is a pilot tra-

¹⁵ Les E, Jeliazkova M, (2005), „The Social Economy in Central East and South Europe in OECD“, *The Social Economy as a Tool of Social Innovation and Local Development*, Background paper 22-24, September, Trento, Italy;

¹⁶ Jacques Defourny, Marthe Nyssens (eds.), "Social Enterprise in Europe: Recent Trends and Developments", WP no. 08/01, page 15;

ining program for managers in social economics at the University of Warsaw and the Institute for Social Policy and a new post-graduate program in social entrepreneurship. These programs are financed by ministries, local governments, foundations, international agencies and funds of the European Union.

The above comparative study on the state of social economy in this region show that a network of new companies with social goals does not have adequate institutional framework that would stimulate the economy and alternative programs meet social actors economy generally result only in pilot projects.

Picture 4: Analysis of benefits and lack of social enterprises in the countries of Central and Eastern Europe

- STRENGTHS	- WEAKNESSES
<ul style="list-style-type: none"> - The strong communist tradition of philanthropy and the cooperative movement in all countries; - High level of education of the third sector leaders in all countries; high interest of researchers in social enterprises in all countries; - Good prospects for local initiatives especially in self-help groups and religious groups undertake programs to the disadvantaged in all countries; - Strong social capital in rural areas (in some countries). 	<ul style="list-style-type: none"> - Poor institutional recognition of third sector organizations terms of their ability provide services; - The role of advocacy and promotion of human rights is considered to be the main function of third sector organizations, particularly in the Balkan countries; - Poorly networking capacity among various stakeholders within the third sector (associations, cooperatives, foundations) in all countries; - Poor capacity of third sector organizations ensure continued service delivery; - Poor legal framework to support third sector organizations; - Inconsistent legal and tax systems in all countries; - Lack of fiscal incentives for social enterprises in all countries and tax exemption for donations.
- OPPORTUNITIES	- THREATS
<ul style="list-style-type: none"> - High potential for production in framework nonprofit Sector's; - The processes of European integration; - The revival of philanthropy; - The high employment potential framework third sector organizations; - Cooperatives and enterprises for the disabled as a legacy of communism in all countries; - Re-establishment of cooperatives in different areas including housing and credit cooperatives. 	<ul style="list-style-type: none"> - The high dependence on international donors; - The mistrust towards economic activities carried out by third sector organizations; - Distrust of cooperatives; - Overly complicated regulations and strict conditions of use of social funds of the European Union; - Small social capital; - High administrative centralization particularly in Balkan countries; - Corruption, especially in some countries; - The inability of foreign donors to understand local needs; - Authoritarian regimes in some countries; - Suspicion and distrust of foreign donors in some countries.

Source: "Social enterprises and the role of alternative economy in the process of European integration," European Movement in Serbia, Belgrade, June, 2008. , p. 35.

10. The system of support for social economy

The role of social economy in a given society and its contribution to improving the socio-economic status of vulnerable groups depends on several factors, particularly the existing system of values, in terms of responsibility and solidarity, and community support systems. Valid system of determines the value of interaction with people at risk of social exclusion, or have been in this status, which is a crucial factor in establishing an efficient system of support for social economy. The most influential factors in the system of support for social economy are state, local communities and employers - commercial and nonprofit organizations and networks of professional and non-profit institutions, nongovernmental organizations, which act as generators of ideas, technical support and new employment¹⁷.

¹⁷ Source: Project "Social economy in Montenegro"; Employment Agency of Montenegro, Podgorica, Dec., 2006. year;

Government with its policies in different areas determines the legislation, various measures, public procurement, subsidies, concessions and the like, which crucially affects the conditions for the modeling and development of social economy.

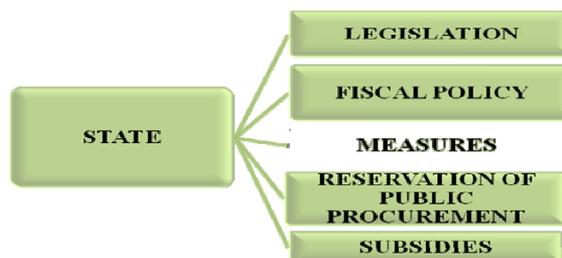
In case that the introduction and development of social economy in a society becomes the goal, it should be created the appropriate legislation and other requirements in this regard. This, in particular, means that we should establish an adequate tax system, as well as the public procurement system, in which employers who employ a certain number of persons from vulnerable groups will be in better position. However, as one of the most important conditions proved to be the law that regulates public procurement system. With properly directed law that promotes employment of vulnerable groups in relation to public procurement and, simultaneously, for them, the book provides specific activities that could be achieved faster development of social entrepreneurship. It is understood that with it there is a special law that determines the social enterprise, social economy and the target group.

The local community is an important segment of the social economy, where social entrepreneurship is implemented and where certain benefits can be realized. Creating a proper system at the local level it can be achieved, in addition to hiring the most vulnerable segment of the population and the increased level of total employment by including a new work force, the effective stimulation of growth and development of other activities.

More intensive employment and development of social entrepreneurship can contribute significantly to a favorable public procurement system, with existing, often underused infrastructure managed by local communities. It should not be neglected the network of support from the category of non-profit non-governmental organizations and professional institutions - the concessionaire, which may assist in creating favorable conditions for employment of vulnerable groups in all areas.

Employers, business and nonprofit organizations, are extremely important factor. Suitable legislation should motivate them to create new jobs, and developing and initiating new activities that will contribute to increasing the quality of employment of vulnerable groups in the long run.

Picture 4: Structure of support for social economy



Indicated by the above source

11. The development of social entrepreneurship in Montenegro

*"Services of social enterprise represent business services with social or environmental objective. Social purpose is in the heart of what social entrepreneurs do, and its profits are re-invested in achieving this goal."*¹⁸ The application of this concept is not yet fully realized in Montenegro, and its promotion demands comprehensive action of organizations of civil society.

Social entrepreneurship promotes programs, products and services that provide new sources of revenue for the organization, promote the sustainability of the organization, but also stimulate the creation of social capital and economic development of the entire society. Given the fact that

¹⁸ Downloaded from Studies that was conducted by the PR Center - Center for Public Affairs NGO, founded in 2003. year;

this income is not provided by the donor, the organizations that implement these services have greater independence in the implementation of project activities and in ensuring its commercial viability. Social enterprises are increasingly recognized as a key factor in addressing social exclusion, it may provide services to neglected, impoverished communities that are not of interest to the private sector. By organizing the daily activities, such organizations do not have to create extra income for shareholders, so in that way, social entrepreneurship encourages sustainability of social change and organizations of civil society.

Employing socially marginalized groups, corporate social responsibility of companies and environmental protection are the three segments which the social economy and entrepreneurship rely on, and none of them is sufficiently developed in Montenegro. The biggest obstacles for the development of social economy, i.e. eco-responsible economy in Montenegro, but also in regional countries, are the lack of education and leadership in this area, but also the lack of adequate institutional and legal framework.

In Montenegro, undeveloped social economy and social entrepreneurship are accompanied by the lack of legislation in this field. Not only that there is no specific legislation regulating frames, forms, status, establishment, operation and other characteristics of subjects and activities in the field of social economy and social entrepreneurship, but in the existing legal regulations, there is no law that deals with this issue. Law on NGOs is the closest to this area and it could be the basis for the establishment of some form of social enterprise. However, it is given little space to issues that define the action and encourages the development of social economy.

Law on Vocational Rehabilitation and Employment of Disabled Persons of the Republic of Montenegro should regulate a significant portion of this issue. However, in addition to this there are a significant number of marginalized groups that can and should be included in issues of social economy, it is also defined a special legislative environment that regulates this area (through amendments to a significant portion of the existing legislation, or through Law on Amendments to the Law on Vocational Rehabilitation and employment of Persons with disabilities).

Finally, we should know that the social economy is not referring only to the vulnerable groups registered with the Employment Agency, but has a much broader dimension and includes all population groups that are disadvantaged by poverty, unemployment, social exclusion, as well as the elderly and poor farmers, pensioners and other population groups with low incomes, the RAE population, refugees, displaced persons and others.

Therefore, initiatives for development of social economy in our community represents commitment to an economic efficiency, greater employment, reducing social exclusion, in a word a just, humane and harmonious society.

The need to adjust policy development and employment policies with international standards and requirements of the integration process, particularly the process of EU accession.

11.1 Social entrepreneurship in Montenegro

Picture No. 5: Social entrepreneurship in Montenegro - SWOT analysis

- STRENGTHS	- WEAKNESSES
<ul style="list-style-type: none"> - A small country - Flexibility - Expressed national interest - The willingness of unemployed to work - The notion that employment is a key factor of development and stability - A significant number of employment programs with elements of social economy 	<ul style="list-style-type: none"> - Vulnerable groups are not officially defined - Fiscal and tax policies are not enough in function of stimulate of social entrepreneurship - The negative connotation associated with all that socialism - There is not enough incentive legislation - There is not enough skilled human resources - There is not enough specialized institutions for the professional treatment of vulnerable groups - No extensive network of partnership - Lack of interest of local governments for self-development and employment

- OPPORTUNITIES	- THREATS
<ul style="list-style-type: none"> - The adoption of adequate legislation - The possibility of establishing an effective system of implementation and functioning of social economy - Support state and local governments and other sectors and institutions - Social promotion and recognition - A commitment to enter the EU - Possibility of using EU funds - A significant number of donors - Creating new jobs - Activation of local communities - Using the tradition - The introduction of the social economy through pilot projects - The positive attitude of the NGO sector 	<ul style="list-style-type: none"> - Underdeveloped economies - Lack of readiness of local communities to introduce the social economy - Underdeveloped cooperation partner in the establishment of the social economy - The reluctance of employers to hire individuals from vulnerable groups - Insufficient financial resources to support and develop the social economy - Availability of funds for subsidies to unemployed - Insufficient understanding of the concept of social economy

Source: <http://greathumancapital.wordpress.com;>

11.2 SWOT analysis of social enterprise - Weaknesses and Threats

The term "third sector" includes a *variety of organizational forms*: cooperative / cooperatives, associations, societies, associations, foundations and social enterprises. In some systematization we can find non-governmental organizations as a separate organizational form, while governmental and non-profit, organization includes essentially all of these organizational forms.

Comparative studies on the status of social economy in this region show that a network of new companies with social goals does not have *adequate institutional framework* that would encourage alternative economy and programs to suit the actor's social economy generally result only in pilot projects. In Montenegro, there is no *greater interest of political actors* for the new organization within the "third sector", leading alternative forms of employment and service provision is monitored to misunderstanding and ignorance of the practices of similar organizations in other parts of the world. In many post-communist countries, as well as in our economic activities of nonprofit organizations are *legally disabled*, so it is provided that such activities are concerned only with profit companies.

11.3 SWOT analysis of social enterprise - Benefits and opportunities

Having in mind *benefits and advantages of the social economy*, there is no longer any doubt that the social economy is possible and whether it should be developed, but the basic question is *how to develop it and how to encourage it*. This especially in regard of specific objectives and principles that it is based on. Namely, the social economy is based on traditional moral values such as trust, solidarity, dedication, fairness, honesty, openness, responsibility, democracy. This means that an important social system of value, which is created in a longer period, then the history, culture and tradition. These elements are more important than the availability of funds and other incentive mechanisms. Because there are large differences in the extent and degree of development of social economy, not only between countries but also between regions and narrower communities of the same country, and there are very different organizational forms and models of development of social economy. This is the reason that the successful models and examples of social economy from one country to another cannot be copied and transmitted easily.

When deciding about the development of social economy, it is particularly important to know the *experience of other countries*, especially those in which the social economy is developed, and opportunities in their community.

11.4 The advantages of social enterprise in the long term

Social enterprises can *strengthen the economy, create jobs and solve social problems*. They re-evaluate some of the current policies and assist the Government in improving the organization and public service. Social enterprises also can *elevate the level of ethical business standards and corporate social responsibility*. Social entrepreneurs are a proof that financial success does not exclude responsible relations towards society and the environment. Modern social enterprises are a *response to social problems* to which the state has not responded. Field of activity of social enterprise may be the provision of social services that were not adequately regulated by public authorities or offer specific products on the market, with the intention of its profits to *focus on achieving social goals*. *Development and application of knowledge and support programs for the development of social entrepreneurship* on the experience of Great Britain and other countries. The network of partners in the UK and host country shall make available its knowledge and expertise to develop training programs, support and reward systems; *Connections and partnerships between social enterprises, governments and communities in UK and Eastern Europe and Southeast Asia and China* in order to develop and share new approaches to solving social, economic and environmental problems through social entrepreneurship.

12. Legal aspects of social entrepreneurship in EU and neighboring countries of Montenegro

Cooperatives are legal form which has the most common characteristics of social entrepreneurship from all other forms that we analyzed in this paper. There are several reasons for this:

- Historically, unions are the legal form that allows people to organize by the principles of democracy, equal share and the joint distribution of profits;
- Sociologically, cooperative principles correspond to motives of solidarity and inclusiveness that are the basis for social entrepreneurship;
- Economically, cooperatives have targeted distribution of profit, which is important for social enterprises.

Therefore, it is not surprising that the first social enterprises in the mid-seventies in Italy operated using the form of cooperatives, and the first law which introduced the discussion on social entrepreneurship into European debate was the Italian Law on Social Cooperatives from 1991¹⁹.

Unlike commercial companies, cooperatives can be established only by individuals, to achieve their economic, social and cultural interests, based on the principles of solidarity, democracy, economic participation, equal management rights, independence, co-operative education and the cooperative collaboration.

Cooperatives can be general and specialized farming, housing, consumer, trade, health youth, student, students, and can be organized for other types of services. In addition, depending on the act establishing the rules of the cooperative, the cooperative may be with or without equity stakes. In the legal system, the cooperatives act in their behalf and for their own account, in their name and on behalf of its members, or in behalf of its members. On the firm, office and business cooperatives shall apply the rules that apply to the company. Cooperative is managed by its members, by the principle "one man - one vote". Each member has an equal share in the cooperative. For their liability, cooperative guarantees with all its assets, while the cooperative jointly and severally liable, at least to the extent of their shares if the agreement establishing the cooperative or the rules is not anticipated that correspond to the larger amount.

Legal regulations in EU countries with active social entrepreneurship, by fiscal policy, offer benefits to companies that operate on the principle of social entrepreneurship.

¹⁹Source:<http://www.grupa484.org.rs/Socijalne%20zadruga%20%20korak%20bli%C5%BEE%20socijalnom%20preduzetni%C5%A1tvu%20u%20Srbiji.pdf>;

For example:

- In Slovenia, the reduced tax rate on personal income for employees in these companies;
- In Denmark, provided grants related to environmental protection and employment, recycling, entrepreneurial cooperation and social cohesion;
- In Italy, the anticipated benefits of development projects, innovation and quality of economic activities of social enterprises.

In our conditions, the part of the NGO sector is recognized as the embryo of social entrepreneurship. A number of non-governmental organizations in their strategic program goals and activities remind of social enterprises. In addition, the systemic response to market imperfections (specific labor market) may be the establishment and development of social entrepreneurship. It will be a change in value systems and ways of thinking from entrepreneurial profit mission of each entity in a corporate responsibility to the community, people and nature.

13. Conclusions and recommendations

13.1 Conclusions²⁰

- *There is no generally accepted and uniform definition of the third sector or social economy.* The concepts of the third sector and social economy are very close, and these terms are often used interchangeably, although essentially and formally may not be the same. Therefore, for practical purposes, the most rational to accept a commitment by which the third sector or social economy, composed of all the organizational forms of non-profit private or public sector.
- The term third sector includes a variety of organizational forms: cooperatives, associations, societies, associations, foundations and social enterprises. In some systematizations, we can find non-governmental organizations as a separate organizational form, even though non-governmental i.e. non-profit, organizations include essentially all of these organizational forms. For the development of social economy in EU the most important are cooperatives and social enterprises.
- Social enterprise is a modern form of organizing the social economy, and was created as a direct result of intensive development of social economy. In some countries, such as Italy, social enterprise is more or less equalized with the concept of cooperatives.
- *The main difference between the private (market) companies and social enterprises is that the main objective of the business profits of private companies belonging to the owner (owners), and with social enterprise for the benefit of member companies or communities.* However, private for-profit company, under certain conditions, can be granted the status of social enterprise. These conditions are the employment of persons from vulnerable groups (e.g. 30% or more) or the provision of services for members of these groups.
- The most important quality and, simultaneously, the most important condition for the development of social economy has developed social capital (knowledge and interconnectivity). High levels of social capital to social entrepreneurship a high degree of creativity and openness to the design of new products and services. It is possible to successfully meet those needs of individuals and community that can not be met by any public sector or private sector profit-oriented.
- The third sector or social economy, generates high quality employment and improve quality of life, provides a framework for new forms of entrepreneurship and work, and play an important role in local development. It also promotes social cohesion and contributes to stability

²⁰ Charles Leadbeater , "Social enterprise and social innovation: Strategies for the next ten years", November 2001, page 14.;

and plurality in the economy. It is deeply rooted in the local economy and contributes substantially to its development. The key to its operation is the network structure, which enables growth and development. This is possible because the cost of traditional welfare state is extremely high, on the other hand, products and services that can create more participation of the population in various forms of social entrepreneurship bring added value.

- *The factors that influenced the most development of social economy in the developed market economies:*

- Changes in the concept of welfare economics;
 - Failures in the functioning of the market in some areas and activities (market filers);
 - New forms of employment and encourage cooperation between economic and social factors;
 - Growing demand for social and local services.
- There is still no adequate statistical data on the development of social economy and social entrepreneurship in these countries. However, in the last decade, especially in recent years, this sector has experienced rapid expansion. The number of projects to the general public supports the fact that this is the most innovative and fastest-growing sector. They are trying to rebuild or upgrade earlier successful forms of social economy and develop a new model of the EU.
- Circumstances which are most affected by the need to develop the social economy in transition countries are:
- The need to strengthen the market power of vulnerable population groups;
 - The need to increase the number of new enterprises;
 - The need to reduce poverty;
 - The need to increase employment and reduce social exclusion through a system of social innovation;
 - The need to diversify the services meets the needs of special group.
- Given the social economy *benefits for society as a whole*, especially for individuals from vulnerable groups, on the one hand, and the additional difficulties in work and business, all countries are developing special incentive measures. The range and scope of the stimulus measures are different in different countries. Usually related to the adoption of specific legislation governing the operation and business, employment, taxation, financing, setting up special funds and banking organizations.
- The need for faster development of social economy in Montenegro is the same as in other countries in transition. Realistically, these needs are more pronounced than in most of them, because Montenegro did not avoid "transition myth", i.e. euphoria that prevailed in the former socialist countries, where it was thought that privatization and the market can solve all social problems.
- In Montenegro, there are no official figures on which one could reliably talk about the expansion of the third sector or social economy. The third sector, and especially a new type of cooperatives and NGOs began to develop by adopting new legislation in the mid 90's of last century. The actual development, however, begins in late 90-ies, even though the number of registered NGOs and cooperatives is impressive, the third sector is underdeveloped and, consequently, its contribution to solving important social problems is modest. The sector is fragmented, disorganized, poorly equipped technically, with scarce resources to work and too dependent on foreign donors. It is more focused on political and humanitarian rather than development issues and problems - employment, particularly the disadvantaged groups and income generation.

- The social economy, i.e. *new forms of co-operatives and social enterprises* are at an early stage of development. It is difficult to expect that cooperatives and social enterprises develop rapidly, so that when it comes to the future development of social economy it should be considered the active employment policy programs that are directly aimed at the development of social economy, as well as other programs to help its development.
- The development of social economy in the future will mostly depend on:
 - Creation of appropriate social climate, and moral norms and values;
 - The success of the implementation of the basic concepts of socio-economic development of the state and
 - Special incentive measures.
- At this moment, in Montenegro, *there are no favorable conditions for faster development* of social economy. Historical experience, tradition and culture are such that it is difficult to build on its development. The previous system has contributed to the fact that majority of the population formed a view that all issues of socio-economic character should be solved by the state. The transition went to the opposite extreme of exaggerating the importance of the market, private property, profit and individualism. At the same time, there were significantly devalued the ideas of cooperatives, common interest, solidarity, fairness and equality of opportunity.
- In spite of dominant negative experiences from the distant and recent past in relation to modern social economy, however, the Montenegrin society has for the past 7-8 years created important conditions for the organization of the third sector and social economy. This is especially true of the experience gained in the implementation of various programs, projects and measures of active employment policy implemented by the Employment Agency, alone or in cooperation with other partners from public, private and civil sectors. This includes significant social capital created through the training of a fairly large number of persons working in the NGO sector and local communities. This also includes significant resources that are local and international development organizations, associations and NGOs have invested in local community projects and self-employment.

13.2 Recommendations

- The concept of *social economy entails* the harmonization of economic, social and environmental requirements for the benefit of both present and future generations. In this sense, we should respect the tradition, but also use successful models from other countries compatible with European standards. In doing so, it is necessary for a short time to train entrepreneurs and managers who will know to show in practice how social economy can function successfully in our conditions.
 - The *domain of social economy* refers not only to vulnerable groups registered with the Employment Agency, but has a much broader dimension. It applies to groups that are disadvantaged by poverty, unemployment and under-employment, social exclusion, as well as the elderly and poor farmers, pensioners and other categories of the population with low incomes, RAE population, refugees, displaced persons.
 - *The development of social economy* is an expression of unified purpose and can not be treated as a partial project, but must be an integral part of overall development strategy of Montenegro. This practically means that the rapid development of social economy is not only an important corpus of special measures and incentives, but even more the strategies for overall socio-economic development.
 - *The Constitution and policy documents:* Agenda of Economic Reforms, Development and Poverty Reduction Strategy, Development Strategy of Agriculture, Regional Development Strategy and the Sustainable Development Strategy, outlined the objectives and priorities that favor the development of social economy. However, it is not enough, so more concrete
-

specific policy measures must be taken, as well as programs that will enable the achievement of defined objectives.

- Special incentive measures include *legislation* to regulate the conditions for the establishment and operation of organizations of social economy and financial support measures. The intentions of the new legislation in this area are aimed at simplifying and speeding up the process of forming new units of the third sector, while respecting the principles generally accepted in the world. The existing legal framework, especially the Law on Cooperatives and the Law on NGOs, providing enough space and favorable conditions for the formation of organizations whose work is wholly or partly directed at the development of social economy. Hence, the development of legislation should focus on changes and amendments to existing laws more strictly regulated and precise operation of cooperatives and NGOs.
- To increase the employment rate of the total population, and thus to solve the problems of vulnerable groups, it is necessary to allocate more funds. That means it is necessary to raise funds and develop a network of incentives for individuals and entrepreneurs who are focused on solving these problems. However, for active employment policy and solving the unemployment problem in the current economic situation, significant resources are allocated, relatively higher than in neighboring countries. Therefore, one can not expect a significant increase in funds from local sources. What can be done in the next stage is more focused stimulus measures on vulnerable groups. In addition to these features, it is necessary to establish a special fund which would be, under favorable conditions, received funding for various programs and projects that lead to faster and greater employment of persons from vulnerable groups. Focusing attention on vulnerable groups is also significant because such a concept would have a better chance of attracting foreign aid - donor funds of the European Union, international financial institutions and humanitarian organizations.
- From these sources and with small percentage of banks that operate in the territory of Montenegro there should be established some sort of ethical banks. Especially in a situation where rising household savings deposited and when there is a large spread between lending and deposit rates. You should also consider the idea of forming credit cooperatives.
- The rate of unemployment, poverty and exclusion rate of the population are important indicators and standards in the process of EU accession. At the same time, these are priority areas in the EU system of incentives and hence the possibility of obtaining grants and other assistance through the inclusion of Montenegro in joint projects that are intended for member states and candidate countries. What is missing, which is especially important to emphasize, is that it is possible to connect a wider range of individuals, institutions, partners and international donors, to rationally use all the resources and create synergies.
- Advocating for the development of social economy means a commitment to: efficiency, greater employment, smaller social exclusion, justice, humanity and harmonious society. Therefore it should be allowed to social enterprises to develop where the private sector has no interest, and the public sector is not efficient enough, and so fill the gaps in the supply of goods and services which are very important for certain population categories, particularly vulnerable groups.
- Regional development is a special field of interest for social entrepreneurship especially in Montenegro, where the formal amount and structure of resources is devastated in an integral sense, especially the lack of human resources which is becoming an issue.

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