

Report on social cooperatives 2016 - 2022.

The benefits of cooperatives cannot be measured only in monetary terms, the relationship between co-operatives and their community is very important and they face the challenge of clearly documenting and describing the benefits they create, not only for their members but also for the wider community (Folsom, 2003).

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ABOUT THE REPORT

The aim of the report is to provide additional information on the achievements and development environment of social cooperatives in Serbia.

The report follows the first 6 years of the development of social cooperatives, in the period from the beginning of the implementation of the Law on Cooperatives of the Republic of Serbia in January 2016 until January 2022.

The beginning of the implementation of the Law on Cooperatives is significant because of the provisions that provide citizens of Serbia with the opportunity to start social cooperatives and use their services. Based on the legal practice and results of a significant number of European countries, Article 11 of the Law on Cooperatives defines the way of forming, working, distributing profits and achieving social goals of social cooperatives as *de jure* social enterprises.

The end of the reporting period in January 2022 coincides with the introduction of a new practice that will increase the transparency of social cooperatives. Data on the achievement of social goals of social cooperatives will be publicly available in the Serbian Business Registers Agency as a part of published conclusions on the cooperative audit.

The terms used in this report imply equal participation of male and female gender.

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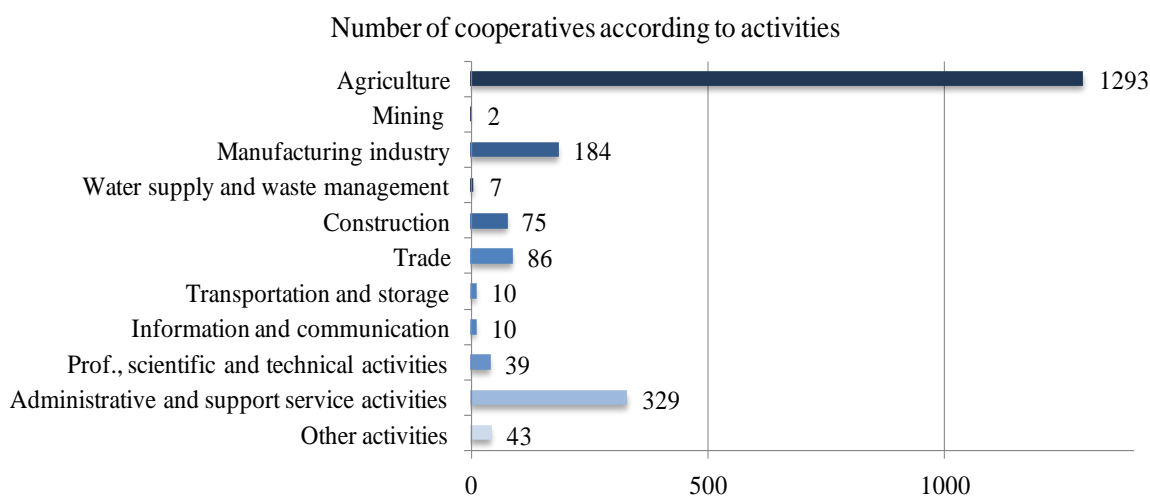
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About the cooperative sector

There are 2,078 cooperatives operating in Serbia in 2020 (2% of the total number of legal entities) with 5,378 employees (0.4% of employees in the enterprise sector).¹

In the total number of cooperatives according to their activities, the numerous are traditional agricultural cooperatives (1,293) with the largest number of employees and turnover. There are 184 cooperatives operating in the processing industry, and 517 service cooperatives providing various types of services.

Social cooperatives are classified in the category of other cooperatives that deal with education, social protection, art and entertainment. In this category, there are a total of 43 cooperatives that employ 77 persons with a turnover of 109 million dinars..²



In the period from 2015 to 2020, citizens' interest in cooperatives increased. New 462 cooperatives were formed, and the growth trend continues in the following 2021 year. Apart from traditional agricultural cooperatives, citizens are also interested in forming social, energy, labour and other specialized cooperatives.

The emergence of the first social cooperatives

The beginning of the implementation of the Law on Cooperatives³ in January 2016 created conditions for the formation and operation of social cooperatives. The intention of the legislator was to follow the experiences and results of numerous European countries, and to include new actors in the provision of social services at the level of local communities. Citizens are offered the traditional cooperative form of business association and the opportunity to contribute to the sustainable development of the communities in which they do their business.

Quotation from Article 11 of the Law on Cooperatives:

"Social cooperatives perform various activities in order to achieve social, economic and work inclusion, as well as to satisfy other related needs of members of vulnerable social groups or to satisfy general interests within the local community.

¹ Statistical Office of the Republic of Serbia

² Report on small and medium enterprises and entrepreneurship 2020, Belgrade, April 2022.
<https://ekonsultacije.gov.rs/topicOfDiscussionPage/59/1>

³ The Law on Cooperatives ("Official Gazette of RS", No. 112/2015)

The social goals of the social cooperative are determined in more detail by the cooperative rules.

Social cooperatives are obliged to invest at least half of the realized profit, i.e. excess income over expenses, which they achieve by performing their activities, in the improvement and achievement of set social goals.”

The implementation of the new legal solution without accompanying incentives contributed to the registration of only 5 social cooperatives during the first four years (until January 2020). During 2020, in cooperation between the civil and cooperative sectors, the "Analysis of the effects of the four-year implementation of Article 11 of the Law on Cooperatives on social entrepreneurship in Serbia"⁴ was prepared and presented. As part of the project of the same name⁵ a campaign with important information about the project was carried out and the manual "How to form a social cooperative"⁶ was published.

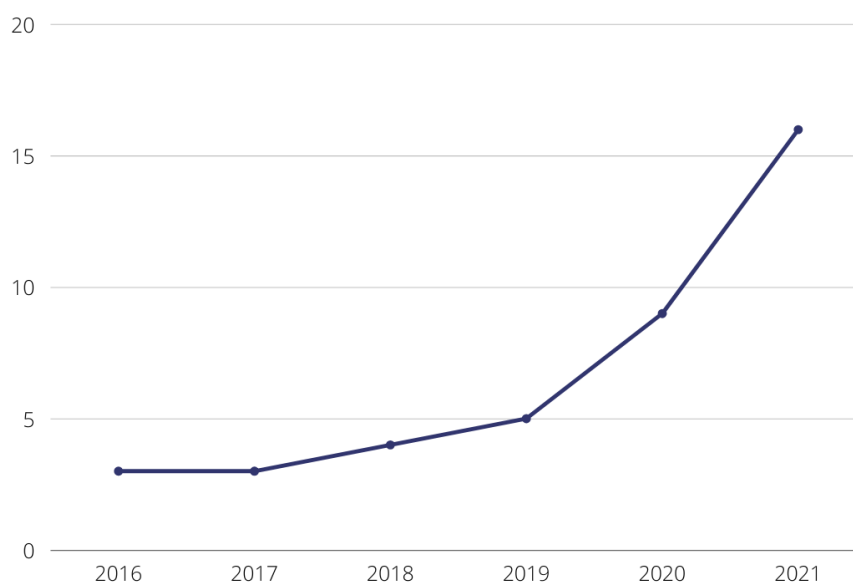
Thanks to better information of citizens, 4 more social cooperatives were formed during 2020.

In October 2020, a group of cooperative unions, media and civil society organizations signed a Memorandum for the Development of Social Cooperatives and initiated a dialogue with the Ministry of Economy and the newly formed Ministry for Rural Care.

The Ministry of Rural Care included social cooperatives in the "500 cooperatives in 500 villages" cooperative renewal program. For the first time, social cooperatives operating in rural areas were given the opportunity to apply for non-refundable state start-up funds in the individual amount of up to 7.5 million dinars.

Thanks to incentive funds, 7 new social cooperatives were formed during 2021.

Social cooperatives registered between January 2016 and January 2022



Achievements of social cooperatives

There are 16 active social cooperatives in Serbia. According to the number of employees and turnover, all 16 cooperatives belong to the category of micro legal entities.

⁴ <https://kamenica.org.rs/wp-content/uploads/2020/10/ANALIZA-efekata-%C4%8Detvorogodi%C5%A1nje-primene-%C4%8DI.11-Zakona-o-zadrugama-RS-na-socijalno-preduzetni%C5%A1tvo-u-Srbiji.pdf>

⁵ <https://javnozagovaranje.bos.rs/partneri/show/31/udruzenje-za-lokalni-razvoj-kamenica.html>

⁶ https://kamenica.org.rs/wp-content/uploads/2020/12/Prirucnik_Kako-formirati-socijalnu-zadrugu.pdf

Social cooperatives were founded by 113 cooperative members. On average, seven founders (cooperative members) participated in the formation of a social cooperative, which is at the level of the average number of founders of other types of cooperatives. Observed by gender, slightly more than half of the persons who participated in the founding of social cooperatives are male (59 founders, i.e. 52.2%) with an average age of 46.5 years, while the rest are women (54 or 47.8%) with an average age 49.3 years.

In 7 social cooperatives only one person is employed, mostly the director, and only in one social cooperative there are 4 employees.

The number of users (associated members) in practice is 4 to 5 times higher than the number of cooperative members, so it can be assumed that the number of users in social cooperatives ranges 450 - 550 people. Although a significant number of associated members can be interpreted as an indicator of the interest of persons for participating in the work of social cooperatives, it is necessary to plan and implement measures that would result in the transfer of associated members into cooperative members. Namely, in international cooperative practice, it is common for persons who cooperate with cooperatives only for a short period to be in the status of associate member, after which, if the cooperation between the person and the cooperative is mutually beneficial, the person becomes a member of the cooperative and thus becomes a full-fledged cooperative member.

Looking at the geographical location, social cooperatives were founded equally by citizens in urban (9) and rural areas (7), which indicate that this cooperative model is universal.

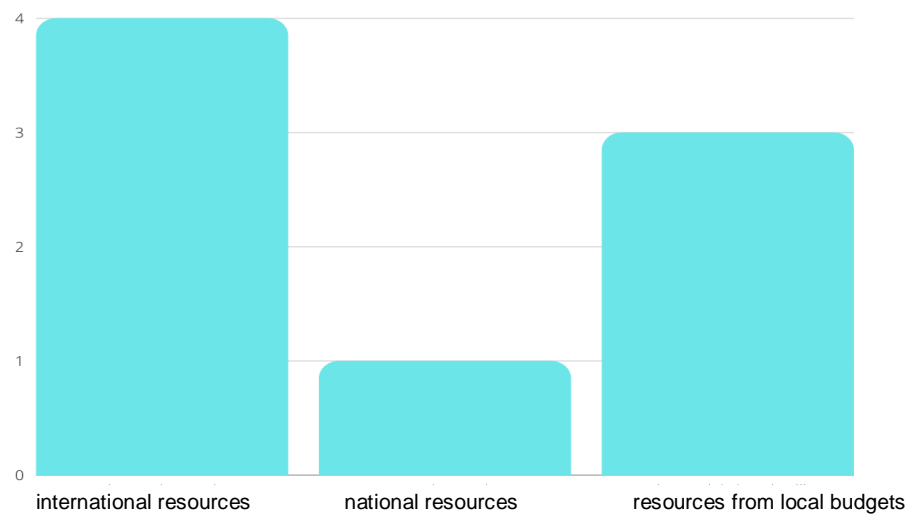
According to the registered predominant activity, 12 social cooperatives are engaged in production, and 4 in providing services. Social cooperatives operate in rented facilities and on equipment that is not their property.

The majority of social cooperatives achieve social goals in the field of employment of vulnerable social groups (women and youth in rural areas, Roma in urban areas, young people with disabilities), while one deals with the improvement of general living conditions in the local community.

The majority of social cooperatives (11) were formed at the end of 2020 and during 2021, which is why the first financial indicators of business are modest, while the financial report for part of the social cooperatives formed in 2021 has not yet been published.

According to the available financial indicators, it can be concluded that most of the income of social cooperatives (93%) consists of donations and subsidies from different levels. This development assistance to social cooperatives comes from different sources. Part of the social cooperatives (4) was created as a result of various international projects aimed at the improvement of local social services and the transfer of practice, which were supported by the EU, GIZ/De and SDC/Ch. One social cooperative received support from the national level for the purchase of equipment (a program of the Ministry of Rural Care), while 3 cooperatives receive financial support from the local governments in which they are active (within Local Action Plans).

Sources of development aid for social cooperatives



The ratio between the funds received on the basis of support from different levels and the income from business in social cooperatives is unfavourable. The share of business income from the sale of products and services in total income is at the level of only 7%.

It is not unusual for cooperatives in the initial stages of development to show dependence on external sources of financing. This is especially true for social cooperatives, which often have support even in later stages due to pronounced social goals in business.

However, the achievement of economic results from business and the balance between economic and social goals are extremely important for the vitality of social cooperatives and the sustainability of the services they provide to vulnerable citizens.

Due to the short period of operation and limited business activities, social cooperatives in Serbia have not achieved the profit that they would have invested in the realization of social goals.

In the absence of financial resources from profit, social cooperatives achieve social goals through volunteer work engagement, providing equipment and premises for the needs of users (associated members).

The contribution in the goods (in kind) of social cooperatives, as a special aspect of the contribution in the local community, is not included in this report. The report was realized within the project "Installation of social cooperatives", which is entirely dedicated to the implementation of system solutions for social cooperatives. In this regard, starting in 2022, the assessment of in-kind contributions will be performed by trained cooperative auditors. Information on the achievement of the social goals of social cooperatives will be publicly available on site of the Serbian Business Registers Agency as part of the published conclusions on the cooperative audit.

Social cooperatives in the context of cooperative and public sector dialogue

The dialogue on social cooperatives is implemented in the context of a wider dialogue on cooperatives. The dialogue on cooperatives is not only important for employees in cooperatives, but also for over 35,000 cooperative members and about 100,000 associated members (small producers).⁷ If family members of cooperative members are added to this number, there are almost half a million Serbian citizens connected with cooperatives.

⁷ Gulan Branislav (2019). Ruralne sredine u Srbiji - Spasavanje sela i države. Prometej, Novi Sad.

When assessing the importance of the dialogue on cooperatives, it should be noticed that cooperatives involved in food production and processing are the largest group within the cooperative sector. This implicates that the outcome of the dialogue on cooperatives concerns all Serbian citizens who care about food security.

At the very beginning, it is important for the dialogue to be argumentative and structured in a way that leads to a certain goal. Bearing in mind that it is important for a large number of citizens, the dialogue on cooperatives should be both democratic and transparent.

Unfortunately, there is no structured and constant dialogue on issues that can lead to a systemic improvement of the conditions for the operation of cooperatives. This is indicated by the fact that the Law on Cooperatives is in force for seven years, and the state support promised in Art. 12 of this law has not yet been implemented.

Pursuant to Article 12, cooperatives enjoy special protection from the Republic of Serbia, the Autonomous Province and local governments, which is reflected in the encouragement of cooperatives through economic and other development measures, the provision of benefits and the establishment of development funds at all levels.

Until the preparation of this report, cooperatives and the public sector had not mapped out a path for cooperatives to enjoy special state protection in the near future. So, it is still unknown whether it is necessary to first adopt the Strategy and/or Program for the Development of Cooperatives and follow up action plans, on the basis of which the support to cooperatives from Article 12 of the Law on Cooperatives would finally be enforced.

Overview of results and initiatives to improve the business environment

- **New access to information and democratization of the decision-making process in cooperatives**

Starting in 2020, the Cooperative Union of Serbia, the Cooperative Union of Southern Serbia and the Cooperative Union of Vojvodina have adopted an analytical approach and started joint surveys of the views of citizens, cooperatives, associations and local governments on important cooperative topics. The research of the opinion of a large number of actors is carried out through questionnaires, interviews and focus groups. After the field work, the results are analyzed and defined as development recommendations with the support of the independent academic sector. These recommendations are then actively advocated in communication with the public sector.

According to this methodology, in 2021 the cooperative sector successfully advocated the inclusion of social cooperatives in the cooperative revival program "500 cooperatives in 500 villages" implemented by the Ministry of Rural Care. This is an example of good practice in which the cooperation of the ministry with cooperative associations is implemented from field work to working with expert groups and commissions.

- **The conditions for the responsible business of social cooperatives have been improved**

The cooperative sector and the Ministry of Economy share common goals in the field of improving legality and responsibility in the cooperative sector. A special role in achieving these goals is entrusted to the cooperative audit, which is performed within the cooperative sector in accordance with the principle of cooperative autonomy. In this regard, the Ministry of Economy issues work permits to auditing cooperative unions that perform regular two-year and extraordinary audits of cooperatives in accordance with the Law on Cooperatives.

The complex role that the cooperative audit plays in the protection and development of cooperatives is regulated by 25 articles of the Law on Cooperatives (Art. 80 to Art. 105). Cooperative auditing performs a complex instructive (educational) and control function in cooperatives, whereby cooperative auditors monitor the legal and economic aspects of cooperative business.

With the development of social cooperatives, there was a need to evaluate the social aspects of business. During 2021, the knowledge of three audit cooperative unions was improved for the needs of a better assessment of the achievement of the social goals of social cooperatives and support for the founders of social cooperatives, in order to use the full capacities of the cooperative form of organization and work.⁸

- The transparency of social cooperatives has increased

In cooperation with the Ministry of Economy, at the beginning of 2022, the last technical and content deficiencies related to the preparation and publication of the individual conclusion on the audit of social cooperatives were eliminated.

Data on the achievement of the social goals of social cooperatives will be publicly available online on the portal of the Serbian Business Registers Agency as part of the published conclusions on the cooperative audit (section 16).

- The availability of information about cooperatives and social cooperatives has increased

In order to better inform the professional and general public about the results of the dialogue and other important cooperative topics, the cooperative union launched a newsletter "Cooperative & Social Cooperative" in 2021. With the launch of electronic newspapers, specialized cooperative publishing, which had 38 specialized editions in its rich history, was renewed and modernized after several decades. The mixed editorial staff of the newsletter, which consists of representatives of the civil and cooperative sectors, collects from various sources, processes and monthly distributes information about cooperatives to over 3,000 email addresses.

The newsletter is a useful tool for conducting online research in the cooperative sector. In addition to the needs of cooperative unions, the newsletter served the Ministry of Agriculture, Forestry and Water Management as a platform for researching the satisfaction of cooperatives with the services of agricultural professional services on a sample of 205 active cooperatives.

- The Law on Social Entrepreneurship was adopted⁹

Cooperative unions participated in the working group in charge of drafting the Law on Social Entrepreneurship. The needs and specifics of social cooperatives as *de jure* social enterprises formed in accordance with the Law on Cooperatives are recognized in the new law, the implementation of which began in February 2022.

Social cooperatives in accordance with Article 18 of the Law on Social Entrepreneurship can count on support intended for social enterprises, including development support within the Social Entrepreneurship Development Program.

⁸ <https://dijalogpromena.bos.rs/sr/partneri-2021-22/18/47/udruzenje-za-lokalni-razvoj-kamenica.html>

⁹ The Law on Social Entrepreneurship, "Official Gazette of RS" no. 14 of February 7, 2022, <https://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/skupstina/zakon/2022/14/7>

- An initiative was launched to establish funds for the development of cooperatives

In accordance with the recommendations from their own research¹⁰, in mid-January 2022, three cooperative unions launched the first joint advocacy initiative in the direction of solving the problem of the lack of business and development funds for cooperatives.

Representatives of several ministries were introduced with the need to establish funds for the development of cooperatives at all levels.

Activities started in 2022

Cooperative unions plan to start policy monitoring at the level of several ministries, in order to improve business support for the growing number of multidisciplinary cooperatives.

In addition to traditional partners from the public sector, during 2022 cooperative unions will start a dialogue with other actors who are interested in balanced and sustainable development. The partners involved in this process will be, first of all, European development banks, financial institutions and organizations that are interested in investments with a positive social impact and have the capacity to further improve domestic cooperatives.

Cooperative unions are encouraged to initiate such a dialogue by the attitude of the European Commission, which promotes the presence of cooperatives in various programs and policies in society. According to the European Commission, cooperatives assume an increasingly important and positive role in the implementation of many goals in society in areas such as employment policy, social integration, regional and rural development, agriculture and others.¹¹

Conclusion

Social cooperatives show weak economic results, low work efficiency and weak coverage of beneficiaries from vulnerable social groups.

In quantitative sense, 16 social cooperatives do not even come close to meeting the social needs of vulnerable citizens, on the basis of which it can be concluded that the idea of involving new actors in the provision of local social services did not succeed to the extent that it was planned.

The first 5 social cooperatives formed by 2020 failed to achieve the expected economic and social results. The weak results of the first social cooperatives are a direct consequence of the non-encouraging institutional environment in the period from 2016 to 2020. This period is also characterized by the lack of business support for the founders of social cooperatives, the lack of information about cooperatives, as well as the fact that social cooperatives were outside the focus of the cooperative public, civil and academic sectors, and therefore without an opportunity for development.

After the initial four-year period, a different, two-year development period (2020 and 2021) begins, during which numerous and valuable results were achieved in favour of social cooperatives. A particularly valuable indicator for this period is the growth in the number of social cooperatives (11 registered).

¹⁰[file:///C:/Users/Dejan/AppData/Local/Packages/microsoft.windowscommunicationsapps_8wekyb3d8bbwe/Local/State/Files/S0/13/Attachments/RAZVOJNI-PRAVCI-U-ZADRUGARSTVU-Analiza-sa-preporukama-2022\[29711\].pdf](file:///C:/Users/Dejan/AppData/Local/Packages/microsoft.windowscommunicationsapps_8wekyb3d8bbwe/Local/State/Files/S0/13/Attachments/RAZVOJNI-PRAVCI-U-ZADRUGARSTVU-Analiza-sa-preporukama-2022[29711].pdf)

¹¹ https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu/cooperatives_en

Analyzing the achieved results, one can come to the conclusion that the cooperative unions, through a dedicated partnership with the public, civil and academic sectors, have significantly improved the conditions for the development of social cooperatives.

The results were achieved in areas of strategic importance for the development of the new sector of the social economy. In this regard, investments were made in the improvement of democracy, transparency, responsibility and information in the sector of social cooperatives and cooperatives in general.

Cooperative unions are empowered to initiate dialogue in order to systematically improve the situation in the sector. Advocacy of the Fund for the Development of Cooperatives, plans for policy monitoring and dialogue with new partners are aimed at providing better measures and funds for the development of cooperatives.

In order to improve the economic indicators of social cooperatives, in addition to higher quality measures and financial resources, it is equally important to strengthen the business support intended for the founders and associated members of social cooperatives. It is necessary for cooperative unions to invest more in the development of business services and adapt them to modern cooperatives and the various interests of cooperative members.

Immediately after the reporting period, at the beginning of February 2022, the implementation of the Law on Social Entrepreneurship began. The new legal solution was created for the needs of the development of social entrepreneurship, which consists of 500+ legal entities with different forms of organization and operation, depending on the law on the basis of which they are registered. In addition to associations, professional rehabilitation companies, foundations and spin-off companies, this growing group also includes social cooperatives, as *de jure* social enterprises formed in accordance with the Law on Cooperatives. It is necessary for the cooperative sector to be included in the current activities for the development of the Social Entrepreneurship Development Program, so that the needs of social cooperatives are adequately considered within the framework of future incentive measures.