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Guidelines for the development of social entrepreneurship in Slovenia (Policy paper)



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1. Ecosystem of social entrepreneurship

Social entrepreneurship is becoming an increasingly topical topic in the business, political as well as professional public. Depending on the different traditions, different manifestations and views on the role and importance of social enterprises are developing in individual EU countries. The diversity of views on social entrepreneurship also results in a wide variety of organisational and legal forms, purposes, cultures, sizes and orientations of business entities that identify themselves as social enterprises. It includes organisations such as cooperatives, associations, mutual societies and foundations, and more recently, special forms of social enterprise have joined them. It is very difficult to integrate all these organisations of different types into a unified scheme in view of the basic characteristics that are supposed to define a social enterprise, since they have different legal organisations, depending on the national and cultural context.

Given the wide range of positive social impacts of social entrepreneurship and the many potentials both in terms of improving the quality of life and providing workplaces in the local economy, **awareness of the importance of social entrepreneurship and the need to build an adequate supportive environment or ecosystem of social entrepreneurship has increased within the EU.**

In 2011, the **Social Business Initiative (SBI)**¹ was launched, which outlines the most important EU and individual countries' measures to create an ecosystem to promote social enterprises. Since the launch of the Initiative, 16 member states of EU have adopted new legislation in the field of social entrepreneurship. 11 countries have formalised formal strategies or policies to support the development of social enterprises.

The Strasbourg Conference, held in early 2014, which further brought together key representatives of the social economy sector in Europe and resulted in a **Strasbourg declaration**², further emphasised the responsibility of cooperation between institutions of

¹ European commission. (2011). Social Business Initiative SBI. Vir: http://ec.europa.eu/internal_market/social_business/index_en.htm (1.2.2020).

² European commission. (2014.a). Strasbourg declaration. Vir: http://ec.europa.eu/internal_market/conferences/2014/0116-social-entrepreneurs/docs/strasbourg-declaration_en.pdf.



all levels (from EU to local) and sectors (public, private, NGO) in further developing the ecosystem of institutions of the supportive environment for social enterprises.

At the end of 2014, a study was published – “A Map of Social Enterprises and Their Ecosystems in Europe³”, in which the authors establish that individual elements of the ecosystem for social enterprises in most European countries are still in the initial stage of the development, but gradually shape into a comprehensive system of policies of the supportive environment.

The ecosystem of social entrepreneurship is a complex and dynamic socio-political phenomenon that is constantly evolving. According to the latest comparative analyses of social enterprises and their ecosystems in Europe (**Social Enterprises and their Ecosystems in Europe – comparative synthesis report**)⁴, it is built on four pillars:

I. The ability to self-organise civil society, including the expression of civil initiatives and the formation of networks and mutual support mechanisms, which is crucial for the development of bottom-up social entrepreneurship.

II. The visibility and recognisability of social enterprises includes political, legal and organisational recognisability and autonomy.

III. Access to resources, which includes both financial (grant) and fiscal incentives for establishing and developing social enterprises, as well as access to markets and returnable resources.

IV. Research, education and skills development in specific areas relevant to social enterprises.

The ecosystem of social entrepreneurship is therefore a combination of different factors that are present in all countries, while their relative importance or development varies between countries. In any case, they are a web of factors that greatly influence the emergence, development and performance of social enterprises. They must be designed to remove key obstacles and constraints to the development of social enterprises.

³ European commission. (2014.b). A map of social enterprises and their ecosystems in Europe. Vir: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2149>.

⁴ European Union. (2020). Social enterprises and their ecosystems in Europe; Comparative synthesis report. European Union, 2020.



2. Development factors of social entrepreneurship in Slovenia

The social economy and social entrepreneurship sector in Slovenia is composed of a large number of organisations, which are, however, fragmented into different sectors and not visible enough as a unified group that would also be properly recognised. Furthermore, statistical monitoring of the sector as a whole is not ensured, so only more or less qualitative estimates can be made regarding the size and structure of the sector, which, in our view, sufficiently reflects the positive dynamics of growth in volume and also the strengthening of the social importance of the sector. Therefore, in view of the further institutional development of social entrepreneurship, it is necessary to strengthen the affiliation of organisations and to improve the visibility of the sector as a whole, taking into account the specificities of individual manifestations and fields of activity.

In addition to the favourable conditions in the broader institutional environment, the potential of developing social entrepreneurship in Slovenia is also positively influenced by domestic macroeconomic circumstances. Although the number of unemployed persons has fallen sharply over the past three years, the volume of long-term unemployed or hard-to-employ persons has not decreased significantly, which is becoming a key challenge for the activation social policy.

However, economic growth in itself is not enough to solve this problem, but structural changes will be needed to strengthen the local economy and create workplaces in activities related to better utilisation of local resources to satisfy local needs. Social enterprises offer this type of business model that takes into account the financial, social, cultural and environmental resources, needs and restrictions for the development of activities.

In this manner, with their products and services, they contribute to the sustainable development and creation of social added value that benefits all social groups.

The success of any business activity at the micro level, to a large extent, depends on external conditions or environmental factors that encourage the efficient use of available resources for the development of the entrepreneurial idea. Due to the importance of achieving social goals,



social enterprises often encounter misunderstandings and barriers in providing a stimulating business environment.

The factors of the development of social entrepreneurship in Slovenia therefore relate primarily to the elimination of barriers of key stakeholders of the business environment and can be summarised in five areas:⁵

I. Legislative and regulatory framework

- Laws and by-laws must treat all companies belonging to the social entrepreneurship sector equally.
- A comprehensive and transparent system of rules of operation or accreditation schemes must be established within the regulatory system, to which different legal entities may join.
- Available supports for the start-up and scale-up of social enterprises should be specified according to their organisational form, the target group they employ and their activities.
- Fiscal incentives and tax exemptions should reflect the real positive social impact of social enterprises and present compensation of the higher costs or lower productivity associated with achieving positive external impacts (social benefit, environmental sustainability, reintegration of vulnerable groups, etc.). In this field, social enterprises in Slovenia are insufficiently cared for and should extend or adequately supplement the system in force for the employment of persons with disabilities and which is harmonised with the EU regulations on authorised forms of state aid.

II. Provision of financial resources

- It is typical for social enterprises to finance their activity from a combination of market and non-market sources (government and EU subsidies, donations, volunteering); we are also talking about hybrid financing.

⁵ In the systematic review of the needs of key stakeholders in social entrepreneurship and formation of a set of instruments / measures to promote social entrepreneurship in Slovenia, we relied on the methodology developed by the OECD. »OECD/European Commission: Policy Brief on Social Entrepreneurship - Entrepreneurial Activities in Europe Luxembourg: Publications Office of the European Union 2013« http://www.oecd.org/cfe/leed/Social%20entrepreneurship%20policy%20brief%20EN_FINAL.pdf



- Funding in the form of state and EU subsidies has proven to be crucial especially in the start-up phase of social enterprises, when the activity is just developing and both material investments and human resources training are needed.
- In particular for companies that have evident positive external impacts, subsidies should also be provided in a permanent form, in particular to support professional work and management.
- Bank loans are difficult to access for social enterprises or can be obtained in Slovenia under the same or even more difficult conditions than ordinary companies.
- Financial innovations in the field of social investment also need to be accelerated in Slovenia. Moreover, the trend of private “investing with social influence” is developing more and more abroad, in which the generation of measurable environmental and social influence is also important in the investment assessment, in addition to financial profitability.
- The need to develop a methodology to monitor the positive external impacts of social enterprise performance, as they are a key criterion for investors’ decision-making.

III. Access to markets

- Ensuring access to markets for products and services is crucial for social enterprises seeking to enhance the sustainability of their business.
- For this purpose, there is a need to strengthen management and marketing skills in social enterprises and to provide competencies for designing and implementing effective marketing strategies.
- Equal access of social enterprises to the programs and instruments of the supportive environment for SMEs already developed must be ensured. With individual support measures, it can be seen that they are not intended for the organisational forms most common in social enterprises.
- Access to public procurement markets is a particularly important area. Social enterprises are handicapped if the only criterion for selection is the price. The social and environmental effects of the order’s implementation should be added to the



criteria and at least to a certain extent the whole public sector should be obliged for such a procurement system.

- Providing opportunities for social enterprises to enter into Social Welfare Services providers' markets. While providing more equal access, social enterprises can effectively and qualitatively complement the offer of social services in the community.

IV. Supportive services for the development

- It is important to adapt the existing supportive environment with operating institutions and the proposition of support services to the needs of social enterprises.
- Of particular importance is the need to network social enterprises and to ensure the functioning of organisations, which link social enterprises to cooperatives or associations. In this way, a supportive environment for reciprocity between social enterprises is ensured, a system of advocacy and representation is established and the possibility of mentoring knowledge transfer between experienced and new social enterprises is possible.
- Connectedness within the sector and the ability to self-organise civil society need to be strengthened so that individual civil initiatives can be more effectively transformed into social enterprise concepts.

V. Education, training and researches

- Cultivating a culture of social, inclusive or socially responsible entrepreneurship can only be achieved by integrating these contents into school and university curricula.
- Trainings should be introduced to acquire the specific areas of skills necessary for a successful work in social entrepreneurship, incorporating both entrepreneurial skills in general as well as specific knowledge of the activities developed by social enterprises. In addition to these skills, knowledge about promotion of social inclusion and vocational rehabilitation should also be included in the programs.
- The wide involvement of different target groups of participants in training programs must be ensured. These are not only social entrepreneurs or employees in social enterprises, but also public workers and representatives of the non-governmental sector.



3. Stakeholders of social entrepreneurship in Slovenia and their role

In defining key stakeholders for the development of social entrepreneurship, we can stem from the European institutional framework and good practices that have developed in countries with a longer tradition and better results in terms of relative employment number. However, it should be emphasised that the differences between the countries are also a consequence of the cultural and historical context (the development of civil society, the role of the state in the economy, the tradition of community's forms of management,...), which also determines the different paths and dynamics of the development of the social entrepreneurship sector.

In any case, partnership and coordinated activity of relevant stakeholders at all levels is needed, both vertically between the international, national and local levels, as well as horizontally across individual fields or sectoral policies that can affect the development of the social entrepreneurship sector (usually individual ministries cover them at national level).

Based on a vertical stakeholder division, further development of a supportive environment for social entrepreneurship is crucial at EU level, in particular:

- enforcement of the comprehensive view of the ecosystem of social enterprise support policies,
- providing financial support from the structural funds and conditions for the operation of social entrepreneurship investment funds, which, under specific conditions, raise and distribute financial resources for investments in social enterprises,
- to pass clear guidance to the member states and cooperation of the EU institutions in acceleration the development and implementation of national and local support policies for social enterprises,
- in partnership with social enterprises, states and members and regional / local authorities, further strengthen the capacity of all actors in the sector and accelerate the exchange of knowledge and experiences,
- strengthen research and development at EU level and ensure unification of statistical monitoring of the social entrepreneurship sector categories in all member states.



Further development of the legal regulatory framework and changes in the organisation and operation of the national supportive environment are crucial at the national level of Slovenia:

- Effective operational implementation of laws and by-laws, with a focus on the renewal of the Social Entrepreneurship Development Strategy by at least 2030 (or the period of 10 years) and the relevant operational program of measures,
- Systematic regulation and integration of social entrepreneurship in all key documents for promoting entrepreneurship in Slovenia,
- Interministerial coordination in planning and implementation of social entrepreneurship promotion policies; enhanced cooperation of state institutions with social enterprises and their associations and other civil society organisations and local communities in planning measures for the support of the development of social entrepreneurship.

At regional / local levels, it is necessary to ensure:

- integration of projects related to the development of social entrepreneurship in the implementation of regional development programs and the identification of concrete incentives and resources available at the level of regions or local communities to support social entrepreneurship,
- ensuring the functioning of regional support networks for social entrepreneurship, involving all relevant stakeholders (social enterprises, public institutions, local self-government, the non-governmental sector and the entrepreneurial sector),
- activation of unexploited local resources (land, buildings, equipment) at local communities' disposal to support the functioning of socially entrepreneurial initiatives,
- financial support for employment programs of social enterprises by local communities in the form of co-financing of social enterprise development programs.





4. Instruments or measures for promoting social entrepreneurship in Slovenia

Social entrepreneurship can make a significant contribution to more efficient use of available resources and as well to improving the competitiveness of the Slovenian economy, while also contributing to social inclusion based on training and employment of persons from vulnerable social groups.

Positive effects can be further enhanced by the design and implementation of policies that support the growth of the sector and are directed to different areas of competitiveness of the economy, social policies and policies in the field of education.

The intertwinement of different sectoral policies must be designed in a way that will enable coordinated action and synergistic effects of all instruments of measures in individual areas.

In addition to the horizontal and vertical connection of planners and policy makers at all levels, it is also necessary to ensure that policy makers cooperate with social and business initiative makers.

Key areas for policy instruments action at both, national and local level.

1. Promotion of social entrepreneurship at all levels

- Involvement of social entrepreneurship in entrepreneurship education at all levels from vocational education to business schools and universities. Introducing young people to the content of social entrepreneurship is one way to attract young talents to the sector.
- Social entrepreneurship is also promoted through involvement in development strategies and documents at all levels and key areas.



From the national strategy of the social entrepreneurship development, through programs of the cohesion policy and rural development policy to individual regional development programs and sectoral development programs.

- Within the promotional supportive environment (SPIRIT, VEM,...) support for the promotion of successful business practices in Slovenia and abroad needs to be ensured and networking with the purpose of transferring knowledge and experience between individual entities active in the field of social entrepreneurship need to be ensured.

II. Building encouraging legal and fiscal framework

- Ensure the harmonisation of the legal framework and operating conditions of the different types of companies belonging to the social entrepreneurship sector. Thus, in terms of organisational forms, which are regulated by different regulations, and in particular in terms of equal treatment of support to different types of social enterprises, employing persons from different vulnerable target groups.
- At the level of by-laws and implementing acts governing the activity, both the economic and social dimensions of the objectives of the operation of social enterprises must be taken into account. The measurement methodology and the reporting structure about the achieving impacts should be adapted accordingly. It is only through broad coverage of the effects that it is possible to provide positive results of the cost-benefit analysis and quantitatively justify tax and fiscal incentives to the sector.
- The fiscal framework should also include incentives for the social entrepreneurship sector's activity, while harmonising it with both national regulations already applicable to organisations employing people with disabilities and relevant EU regulations on authorised state aid.
- Different solutions are possible, but most often, the increased competitiveness of social enterprises is ensured by a reduced VAT rate for their products and services, with reliefs from corporate income tax due to the employment of persons from vulnerable groups, and the introduction of "tax holidays" in the early stages of business is also possible.
- Investments in social enterprises can also be strengthened through fiscal measures by introducing tax exemptions for investments in social enterprises.



III. To provide sustainable access to financial resources

- Provision of guarantees for bank loans from public funds; thereby reducing banks' credit risks with regard to social enterprises and enhancing knowledge of the business of social enterprises in the traditional financial sector through business cooperation.
- Even within the banking system, it is necessary to provide more favourable resources for social enterprises and adjusted project treatment, which will take greater account of the social usefulness of their activities.
- Promotion of innovative forms of solidarity and ethical financing of social enterprises with provision of financial investments into funds, collecting also private means with the purpose to invest into companies, which also provide positive social effects besides financial ones. Such action of the funds of social entrepreneurship regulates EU order on European funds of social entrepreneurship, adopted in European parliament in April 2013.⁶
- Support of public funds to the institutions that provide seed capital for financing the early stages of the start-up of social enterprises. Such funding can be provided from the European Structural Funds for direct financing of social enterprise projects or with the formation of national (as well as regional) social entrepreneurship development and investment funds.
- Financial resources for social enterprises can social entrepreneurship funds provide in the form of capital investments, subordinated bonds or in the form of loans.
- It makes sense for the latter to provide support services for new companies in addition to investment resources, as they can increase the sustainability of their operations. Additional services of social entrepreneurship funds that enhance investment security are possible in the form of business management consultancy and business model implementation, networking support for social enterprises and the development of new businesses, and advice on providing subsidies for the employment of the vulnerable social groups.

⁶ http://ec.europa.eu/internal_market/investment/social_investment_funds/index_en.htm



- Investment philanthropy is a more recent approach to the direct investment in companies, which should be promoted in Slovenia as well. It has transformed from a donation of funds to a charity into direct long-term equity investments in social enterprises or investments in subordinated bonds of social enterprises. This kind of investment policy is implemented either by institutional investors – specialised funds or by private individuals.
- Newer forms of fundraising for the financing of social enterprises include the so-called “Corwdfunding” – an online fundraiser to support the implementation of innovative entrepreneurial ideas, through which funds are raised at global level for social enterprises. At the Slovenian level, it is necessary to ensure the functioning of platforms that will enable local social enterprises to access global sources of funds, either directly or by supporting integration into globally recognised fundraising platforms.

IV. To provide development business services and supportive environment

- Upgrade of supportive environment services for companies, which will include informing and consultancy on all areas important for the start-up and operation of social enterprises, which in addition to the economic one, also includes their social dimension.
- Development and support of the functioning of specific institutions of a supportive environment for the development of social enterprises such as social incubators, innovation parks, social hubs, “co-working” spaces that include comprehensive support infrastructure (material, service, financial, consulting) and also an important component of networking of social enterprises or initiatives.
- Provision of the support for the transfer of good social entrepreneurship practices between individual regions within development programs and the encouragement of the expansion into new areas or sectors of activity.
- Ensuring the involvement of social enterprises and other social economy organisations in the provision of supportive environment services.

Of particular importance here is the support for networking of social enterprises and support for the functioning of the mutual support structures within the sector.



V. To provide access to new markets

- Facilitate the access of social enterprises to public procurement by adapting public procurement rules to ensure the mandatory proportion of procurement of goods and services by social enterprises or by companies employing a certain proportion of persons from vulnerable social groups.
- Ensure social enterprises more equal access to social welfare service markets by introducing the same criteria regarding the efficiency and quality of services for all providers (including the public sector).
- Establish trust between local communities and social enterprises through informing and mutual understanding and raise awareness about the joint pursuit of socially beneficial goals. This can accelerate the cooperation and greater involvement of social enterprises in the provision of services to the local community.
- Development of comprehensive training programs on specific aspects of social entrepreneurship, intended for different target groups (entrepreneurs, public workers, unemployed persons, NGO, etc.)
- The state and / or regional authorities must support training programs for the management of social enterprises in order to improve their competitive position.
- Provide training for social enterprise staff on procurement procedures and requirements for the preparation of tenders.

VI. Support to further research

- Incorporating contents related to social entrepreneurship into the programs of public research institutes and universities can provide a methodologically justified basis for monitoring the action and needs of different forms of social enterprises and measuring the social impact of their activities.
- Support for integration into European research networks and projects that they implement contributes to a better flow of knowledge between countries as well as across different institutional sectors.
- Research institutions also provide conditions for connecting researchers, policy makers and social entrepreneurs into groups (project, program, research, etc.), within which knowledge and information transfer, mutual learning and competency building take place.

