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SOCIAL ENTREPRENEURSHIP IN CROATIA: A FRAMEWORK FOR DEVELOPMENT

Davorka Vidović*

Abstract

Social entrepreneurship in Croatia is a rather new phenomenon and is still poorly developed. The term appeared in the public discourse rather late, in 2006, and since then has increased to the point where a strategy for social entrepreneurship has been initiated. However, this has not been followed by actual growth of social entrepreneurship initiatives. Also, social entrepreneurship has not yet been properly studied and systematic insights are lacking. The paper continues on from the findings of the author's PhD research and its intention is to provide an understanding of the socio-economic, political and cultural context in which social entrepreneurship emerges, as well as an overview of the current stage of its development in Croatia.

The main focus was put on the analysis of institutional development, including the legal and financial framework. Therefore, a comparative overview of organizational and legal forms currently suitable for social entrepreneurship has been presented. The analysis points out the main advantages and limitations of the present framework and analyses how particular actors and processes are shaping the direction of further development of social entrepreneurship in Croatia.

Keywords

Social entrepreneurship, Croatia, institutional framework, legal framework, intermediary sector, development

JEL Codes

Z13, L26, L31

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1. Emergence of social entrepreneurship: the socio-economic, political and cultural context

Croatia has experienced turbulent changes during the last two decades. After the breakdown of Yugoslavia and the end of the socialist regime, the first years of transition were marked by a war for independence, accompanied by state building and an authoritarian regime during the first decade. All of this significantly influenced the slowing down of economic, political, social and cultural transition, and caused insecurity and a lack of trust towards many social structures and actors.

In Croatia, the concept of social entrepreneurship emerged rather late, around the middle of the last decade. We can see the beginning of a discourse on social entrepreneurship in 2006, but so far there has been no official definition or legal recognition of social enterprises, nor a specific legal framework regulating them. However, it is possible to identify different types of initiatives representing social entrepreneurship, accompanied by an intermediary supportive sector, mainly emerging among civil society organizations.

The specific circumstances of Croatia's recent history have influenced the delayed development of social entrepreneurship (Vidović, 2012). The unfinished and ineffective reform of social programmes in Croatia left many social groups unprotected and social needs unaddressed. This led to the emergence of various non-state actors who took on roles as providers of social services. However, an entrepreneurial culture is still poorly developed and the social entrepreneurship is still not accepted as a model that can lead to sustainable socio-economic development. The socialist legacy of self-management could have made it easier to adopt a market-based economy, and also had the potential to speed up the evolution of an entrepreneurial culture. Unluckily, the political management of the transition resulted in an entrepreneurial class evolving even more slowly in Croatian society. An OECD-LEED study has argued that the main factors limiting entrepreneurship in Croatia are the following: lack of knowledge and research on entrepreneurship, lack of evaluation of the impact of entrepreneurship, lack of mutual coordination between different actors and lack of an entrepreneurial culture, including social capital (OECD-LEED, 2007). Civil society organizations also experienced repressive governments both during the socialist period and the first decade of transition. The domination of foreign funding contributed to the atmosphere of distrust, with some associations easily accused of being enemies of the state (Bežovan, 2001; Stubbs, 2001). Civil society organizations had often been seen as unnecessary, and the state frequently showed a tendency to control the entire sector (Deacon et al., 1994; Bežovan, 2003). This influenced ambivalent public feelings towards the civil society sector, which continued in the years that followed. An appreciation of activities coming from the non-profit sector and their public approval is still lacking. Therefore a full recognition of the civil society sector as a valuable partner in providing social services is missing. Stubbs and Zrinščak (2007) argue that parallelism in Croatia's social sector lasted a long time and was particularly visible at local levels. This encouraged neither the development of partnerships between state and non-state actors, nor a more stable distribution of social responsibility, which would have fostered a development of social entrepreneurship.

Since 2000, with the change of regime and the opening of the democratization process, we can note a softening of the public animosity towards social entrepreneurship and civil society organizations. Even though the public was still generally suspicious towards the non-profit sector, it was possible to see that civil society associations were accepted with a more positive attitude compared to the previous decade (Franc et al., 2006). During this period, a discourse on social entrepreneurship emerged. We can identify two lines along which social entrepreneurship initiatives emerged (Vidović, 2012). The first came from the foreign donors and international organizations that played a leading role in introducing the concept of social entrepreneurship in the country. They targeted the civil society sector, and the introduction of concepts like "self-financing", "self-sustainability" and "social entrepreneurship" might be seen as an "exit strategy" for the donor community. The second line relates to "grassroots" initiatives outside of the "established" civil society sector and includes spontaneous initiatives from citizens' groups eager to address social needs they had identified. This indicates that social entrepreneurship has its roots in the inherent features and needs produced by the complex contemporary socio-economic reality (Vidović, 2012).

Social entrepreneurship in Croatia has a collective nature, which brings it close to the European models. However, compared to European tendencies, social entrepreneurship initiatives have appeared more often in the sphere of social services than in work integration, which might be linked to and explained by the weak development of cooperatives in Croatia. It has been difficult for social entrepreneurship initiatives to achieve and maintain sustainability and financial independency, so there is a tendency, particularly for those providing social services, to enter into a partnership with the state. Research has showed that social entrepreneurship was not the "first" or the "best" option for all actors (Vidović, 2012). It often tends to arise out of the need to ensure financial resources for other activities or for the survival of the organization, rather than as the result of spotting an opportunity. Also, for some of the actors, most of whom came from the margins of established civil society, social entrepreneurship was a rather unknown concept and therefore did not constitute the identity of the initiative (Vidović, 2013). The domination of "necessity-driven" and not "opportunity-driven" entrepreneurship is typical for societies with lower levels of entrepreneurship development, according to Porter and colleagues (Porter et al., 2002). This might be one of the explanations for the slow development of social entrepreneurship in Croatia (Vidović, 2013).

Even if social entrepreneurship is still in its early stage of development in Croatia, recent research has managed to identify some factors that are supportive, as well as those that limit and slow down its development (Vidović, 2012). Research has showed that certain aspects of social entrepreneurship may be recognized during different socio-economic and political regimes. This is particularly the case with the tradition of self-organization, grassroots initiatives, innovation in social services and experience of collective actions. Also, the tradition of addressing social needs at local levels and through informal non-state praxis is something that may contribute to the overall experience. Besides, there is a long tradition of cooperatives, mutual societies and collective entrepreneurship, dating back to long before the socialist period.

A supportive factor may be seen in the growing network of intermediary “know-how” organizations determined to advance social entrepreneurship both in Croatia and the region, but also the EU integration process, which has fostered engagement around the promotion of social entrepreneurship. On the other hand, certain processes from recent history can be identified as impediments. First repression and war, than frauds occurring during the privatization of state equity, experienced in the first years of transition, which strongly marked further processes of restructuring. This is accompanied by the well-rooted and enduring idea that “the state should take care of us”, inherited from the socialist regime. The nonexistence of a legal and institutional framework that would more accurately define and regulate social entrepreneurship is certainly a factor that slows down its growth. Additionally, social entrepreneurship is still only a marginal issue in policies, strategies and supportive measures. The initiative for developing the national strategy for social entrepreneurship was launched in 2011 by the Ministry of Economy, Labour and Entrepreneurship (now led by one of its successors – the Ministry of Labour and Pension Funds). The process of development was very slow and inconsistent, and two years after its launching the working group offered a draft of the strategy. It can be argued that an immature system of public policies and the significant persistence of clientelism in the social sector perpetuate ineffective governance (Ivanković and Šonje, 2011; Stubbs and Zrinščak, 2011). This is particularly reflected in such a new and still not fully recognized sector as social entrepreneurship. Lack of a specific legal and organizational form or entity relating to social entrepreneurship makes a broader understanding and acknowledgment of social entrepreneurship as a new phenomenon even harder. Although existing legal forms partly enable social entrepreneurship, its full development is somewhat limited. This is why establishing social entrepreneurship through non-profit organizations usually involves the establishment of another legal entity, particularly some type of trading company, which appears more suitable for economic activities (Vidović, 2012).

2. Legal and institutional framework

2.1 Possibilities for social entrepreneurship within the existing legal framework

To date, no legislation specifically regulating social entrepreneurship has been adopted in Croatia. Also, there is no particular organizational and legal form, such as “social enterprise”, referring to social entrepreneurship exclusively. However, social entrepreneurship is emerging in Croatia, functioning within existing laws and organizational forms. Regarding the specific hybrid nature of social entrepreneurship, we can observe that none of the existing forms is fully suitable for this type of socio-economic activity. What follows is a table view of legal and organizational forms in Croatian legislation that could be identified as suitable for social entrepreneurship. The criteria were developed based on the previous relevant research by the EMES network in Defourny (2005); Defourny and Nyssens (2008); Heckl and Pecher (2007); the criteria for the comparison of legal and organizational forms developed by Cafaggi and Iamiceli (2008). The following forms —associations, institutions, foundations and cooperatives— meet most of the criteria and will be analysed in detail according to proposed criteria.

Table 1 - Comparison of legal and organizational forms

	Association	Institution	Foundation	Cooperative
Legislation	Law on associations, OG 70/97, 106/97, 88/01, 11/02 (Draft for the new Law was prepared, but not yet adopted)	Law on institutions, OG 76/93, 29/97, 47/99, 35/08	Law on foundations, OG 36/95, 64/01	Law on cooperatives, OG 36/95, 67/01, 12/02, 34/11 (Draft of new amendments was prepared, but not yet adopted)
Area of activities - social goals	Associations are established with the purpose of promoting and achieving goals related to specific social groups, their status and protection of their rights. It is explicitly noted that their purpose cannot be profit oriented.	Social goals are emphasized as the main purpose of institutions. Their activities should include broad spectrums of social issues and needs of specific groups: education, child care, health, social care, assistance to people with disabilities, etc.	Foundations are established with the purpose of permanently or temporarily serving as a source of funding for a charitable purpose or specific need.	The law does not propose a specific area of activities for cooperatives. A new law introduced the possibility for some types of cooperatives to act primarily for social purposes. However, it is suggested that cooperatives in general should take care of community needs and sustainable development.
Non-profit distribution	The law enables associations to perform economic activities. However, profit or surplus must be reinvested into the association's programmes and activities. It is forbidden to distribute profits between stakeholders, members or third parties.	Institutions are defined as non-profit and are allowed to perform economic activities. It is, however, forbidden for profit to be used for any purpose other than reinvesting in the institution's activities. If an institution acts as a for-profit, it will come under legislation for commercial companies.	Profit should be directed only for the purpose of foundations. Income gained through economic activities becomes foundations' assets. Although engagement in foundations is usually voluntary, members of the bodies may receive monetary compensation.	New law on cooperatives allows cooperatives to act either for profit or as non-profits. ¹ Cooperatives may perform economic activities for the purpose of gaining profit or for the purpose of addressing the needs of their members. The latter refers to specific types of cooperatives: social, consumer, housing, local community cooperative, etc. If cooperatives earn profit, they are obliged to redistribute a minimum 30 per cent of the surplus for the development of cooperative, and a 5 per cent for minimum reserve requirements. The rest of the surplus may be distributed

¹ The old law on cooperatives (OG 36/95, 67/01, 12/02) treated cooperatives as for-profit commercial companies with the right to distribute profit between members.

				between members according to their share in income generating. If a non-profit cooperative performs with profit, it is obliged to reinvest it in the cooperative's activities.
Stakeholders and governance	Associations are governed by their members, directly or through elected representatives. Any person capable of work may become a member. Special membership categories are assigned to people unable to work or with limited work abilities. They are, however, not assigned the right to vote. The organizational structure is based on democratic principles. The highest body is the assembly.	Institutions are governed by a steering committee and a director, as an executive. The democratic principle of governance is not prescribed by the law. Also, the law does not specify the establishment and governance of a private institution, but it is assumed that all non-public institutions are founded on private initiative.	The bodies and members of foundations are officially assigned by the Ministry of Public Administration, chosen from people suggested by the foundation's director. Members need to be able to work and be honourable in regards to expertise, experience and ethical standards. Direct users of the foundation's resources are excluded from the governance of the foundation.	Cooperatives are governed by their members. Members can only be people who directly participate in the activities of the cooperative. Cooperatives are based on democratic governance, where members have equal voting rights (one member, one vote). The highest body is the assembly.
Accountability and monitoring	It is prescribed that the association's activities must be transparent according to the statute. The register of associations is open and public. The law prescribes internal monitoring, which can be performed by all members. Government bodies are in charge of external monitoring. The Tax Administration of the Ministry of Finance is in charge of monitoring and controlling the non-profit nature of associations. If it is decided that economic activities give "unjustified market privileges", tax benefits may be abolished.	The law prescribes that the work of institutions must be public and transparent. That means that an institution needs to regularly and accurately inform the public about its activities. Institutions are accountable for their entire assets, while their founders are accountable for their obligations with unlimited scope. External monitoring is under the jurisdiction of government bodies.	Foundations are obliged to submit regular reports on activities and asset management. External monitoring is under the jurisdiction of government institutions and bodies.	The law prescribes internal monitoring – either performed by a supervisory board or an assembly (if the cooperative has less than 10 members). External monitoring is under the jurisdiction of the ministry. Cooperatives are accountable for their entire assets. If cooperatives lack capital, individual members take the responsibility. Some information may be marked as a "business secret", if there is a risk that making it public will harm the cooperative's interests.

Minimum (and maximum, if specified) people required for establishment	Minimum of 3 founders, either individuals (capable of performing business activities), or private or public legal entities.	Not prescribed, founders may be individuals or legal entities.	Not prescribed, founders may be individuals or legal entities.	Minimum of 7 founders, either individuals (capable of performing business activities), or private or public legal entities.
Minimum capital	No	No	No	Each member is obliged to invest an amount proposed by the assembly, no lower than 1,000 kuna ² .
Legal and financial advantages and benefits	<ul style="list-style-type: none"> - Government's support for programmes focused on common good. - Income tax exempt for non-profits performing economic activities. - Benefits for income tax payers for up to 2 per cent of annual income if they donate to non-profits working for the common good. - Value-added tax exempt for domestic payments and for the import/export of products and services. - Tax benefits for customs taxes, administrative and court taxes, donations and legacies. 	<ul style="list-style-type: none"> - Income tax exempt for non-profits performing economic activities. - Benefits for income tax payers for up to 2 per cent of annual income if they donate to non-profits working for the common good. - Value-added tax exempt for domestic payments and for the import/export of products and services. - Tax benefits for customs taxes, administrative and court taxes, donations and legacies. 	<ul style="list-style-type: none"> - Income tax exempt for non-profits performing economic activities. - Lowering the taxes for income tax payers for up to 2 per cent of annual income for donations to non-profits working for the common good. - Value-added tax exempt for domestic payments and for the import/export of products and services. - Tax benefits for customs taxes, administrative and court taxes, donations and legacies. 	<ul style="list-style-type: none"> - Value-added tax exempt in the first year. Subsequently, if the annual income is lower than 85,000 kuna the cooperative is not obliged to pay value-added tax³. - Some types of cooperatives (social, consumer, housing, belonging to a local community, etc.) may be treated as non-profits if they are founded for a social purpose, not for profit. - New law encourages development of supportive measures for cooperatives in national, regional and local policies.

² The kuna (HRK) is the currency of Croatia since 1994. 1,000 HRK correspond to approximately 130 EUR.

³ This benefit applies to all commercial companies, not only cooperatives (according to the Law on Commercial Companies (OG 111/93, 34/99, 118/03, 107/07, 146/08, 137/09, 152/11)).

The criteria used to compare the organizational and legal entities highlighted some features which are important for understanding social entrepreneurship and its hybrid nature. Also, different aspects show how social and economic goals were integrated in each form and which forms are most suitable for performing social entrepreneurship.

- **Area of activities - social goals.** This is certainly a fundamental criterion in the identification of forms suitable for social entrepreneurship. We can see that a social mission is a possible area for each of these legal forms, even though it is not prescribed as a necessity. There is no legal form in Croatian legislation that is exclusively focused on social aims or the common good. Furthermore, acting in the common good is only partly recognized and acknowledged, and mostly subject to arbitrary assessments.
- **Non-profit distribution.** One of the main criteria for identification does not mean lack of profit, but restriction of its distribution to members, employees or third parties. Associations, institutions and foundations must act as non-profits. According to the law they are obliged to reinvest profit in further activities and programmes of the organization. The new law on cooperatives introduced possibilities for cooperatives to act as non-profits too. This was a novelty, as cooperatives have been treated as regular commercial companies since the 1990s. The law enabled some types of cooperatives to act as non-profits.
- **Stakeholders and governance.** This aspect refers to the collective nature of social entrepreneurship and democratic governance, features that are particularly important in the European concept. Democratic governance implies a participative decision-making process according to the "one member, one vote" principle. This model is the opposite of the management of traditional commercial companies, where power in decision making is directly connected to the amount of invested capital. Not all non-profit legal forms in Croatia follow democratic principles —for example, institutions are an exception. On the other hand, association and cooperatives are highly democratic, and include an assembly as the main decision-making body. These types of organizations are based on membership and members are recognized as the main stakeholders in decision making.
- **Accountability and monitoring.** This aspect refers to the consistency of acting as non-profit. To ensure this, certain monitoring mechanisms were proposed by laws, both internal and external, focused mostly on financial accountability. The mechanism that controls whether a non-profit organization is acting as a non-profit comes under the jurisdiction of the Tax Administration of the Ministry of Finance. This governmental agency is able to abolish tax benefits if it is determined that a non-profit organization threatens market competition. However, the law does not explicitly define criteria for recognizing what is known as an "unjustified privileged position". Therefore, this control remains vague and largely based on arbitrary assessment. Furthermore, it is rarely implemented in practice. The activities of institutions are subject to extended external monitoring, implying less independency compared to other forms.
- **Minimum number of founders.** The number of individuals or legal entities required for establishing an organization reflects the collective nature of social

entrepreneurship. It is particularly evident in associations and cooperatives, as they are based on membership. Conversely, institutions only poorly reflect the collective dimension.

- **Minimum capital.** The law does not prescribe the minimum amount of capital needed for establishing associations and institutions. When establishing a cooperative, each member must invest a symbolic amount.
- **Legal and financial advantages and benefits.** This aspect refers to different policies and measures that provide some benefits or financial support, which is particularly important for the development of institutional recognition and acknowledgment. The existence of administrative, financial or other benefits leads to a more supportive environment for social entrepreneurship. At the moment, one of the most important benefits is income tax exemption for non-profit entities performing economic activities. Besides this, there are some tax benefits for for-profit companies financially supporting non-profits organizations focused on the common good. However, if non-profit organizations reach more than 85,000 kuna of annual income through economic activities, they are obliged to pay corporate income tax.

Some authors have argued that establishing legal forms specifically for social enterprises would help define the organizational model that would be most suitable and efficient for balancing the hybrid nature of social mission and economic, market-based activities (Cafaggi and Iamiceli, 2008). A lack of legal framework may make the recognition and identification of social entrepreneurship difficult. So the development of specific laws, regulations and forms would certainly influence a broader affirmation of social entrepreneurship and enable its advanced development.

2.2 Legal framework: advantages and limitations

The existing legal framework allows non-profit organizations to perform economic activities, which makes them suitable for social entrepreneurship. The law also prescribes their exemption from the tax system, except in specific cases, if profit is reinvested in a social purpose. This tax system model can be perceived as supportive, as well as the low administrative costs for establishing new non-profit organizations.

Nevertheless, one of the main limitations of Croatian legislation for non-profits is a lack of differentiation between organizations for the common good or for social aims, and all other organizations included in the non-profit sector. This is particularly problematic with sports clubs or hobby associations that dominate the sector. As a result, they are treated in the same way as associations with a social mission. Social entrepreneurship closely fits into this category, so the lack of acknowledgment of added social value influences weak public and institutional recognition and affirmation. Also, further development of supportive policies and measures is slowed down⁴.

⁴ The National Strategy for Civil Society Development (Office for Cooperation with NGOs – Government of the Republic of Croatia, 2006) emphasized the issue of organizations for the common good and their status as one of priority issues for the period 2006-2011. In 2008 a working group from the Government Office for Cooperation with NGOs produced the *Proposal for the Solution of Fundamental Issues in Defining the Status of Organizations*

The limitations of the existing legal framework can be seen in a lack of transparency and understandable procedures in cases when non-profits perform economic activities. The law proposes external assessments and monitoring, which are supposed to ensure that the organization performing economic activities does not misuse its non-profit status. However, uncertainties about what exactly “unjustified market privileges” means may be discouraging for those intending to start a social enterprise, even when other requirements have been met. For those willing to risk the insecurities of arbitrary assessments during establishment and initial positioning in the market, troubles may appear during scaling up. In fact, the law prescribes that non-profits performing economic activities will become full payers of income tax if their annual income exceeds 85,000 kuna.

However, non-profits are allowed to establish other legal entities, even commercial companies. In Croatia, this is the option often used for social entrepreneurship. Usually, they establish a limited trade company or cooperative. In these cases, two different sets of laws apply for each entity. One governs the work of the non-profit organization and other governs the commercial company. An important difference is in taxation, with commercial companies obliged to pay income tax (20 per cent). So, even though a commercial company might be established for social purposes (to employ disabled people, or to reinvest profit into other projects) it will be treated as any other commercial company, be subject to the same types of taxes and be excluded from non-profits' benefits.

In Croatia, the association is the most frequent type of non-profit organization. Associations are also the most common initiators of social entrepreneurship. At the moment this type of legal form meets most of the criteria for social entrepreneurship, including non-profit nature, collective dimension, democratic governance, etc. The limitations they face in carrying out economic activities may be overcome by establishing a new entity.

Some authors have argued that the institution is a very suitable form for enterprise, and predicted its expansion with the stronger privatization of the social system (Bežovan, 2003:33). However, despite their organizational possibilities, institutions meet fewer criteria for social entrepreneurship than other forms. This is particularly the case in regards to governance, collective nature and accountability.

The cooperative as a legal form was excluded from the non-profit sector until recently. However, this is one of the most suitable forms for social entrepreneurship, since it is based on joint initiative, solidarity and collaboration. Cooperatives' collective nature and democratic governance, accompanied by the joint purpose of providing well-being for members but also the local community, make them very suitable for social entrepreneurship. During the last two decades, the development of cooperatives in Croatia has slowed due to unsupportive legislation. For example, during the 1990s, some types of typically non-profit cooperatives, like housing cooperatives, were abolished. The law determined that cooperatives were commercial entities and they

should be regulated by the law on commercial companies. A new law, adopted in 2011, gives cooperatives the possibility to act as non-profits.

The next steps towards the development of a precise and supportive legal framework for social entrepreneurship highly depend on political will. However, qualitative empirical assessments have showed that relevant institutions and decision makers do not consider changes to the legal framework crucial, nor even important, for stimulating further social entrepreneurship development in this early stage (Vidović, 2012).

2.3 Supportive intermediary sector and less-supportive institutional framework

The emergence of the concept of social entrepreneurship and the first social enterprise initiatives were connected with the departure of foreign donors during the middle of the past decade. The first organization that offered financial resources for social entrepreneurship was the American organization AED (Academy for Educational Development), financed by USAID. They ended their mission in Croatia with a call offering small grants (around 10,000 euro) to civil society organizations for starting up social entrepreneurship projects. Some of today's most recognized social enterprises, like ACT from Čakovec and RODA from Zagreb, received a grant. After AED, the main provider of financial support for social entrepreneurship was the international organization NESsT, which organized two cycles of calls for civil society organizations wanting to start social enterprises. Dozen of organizations entered this programme; some were only educated or advised, while others received some funding. In 2013 NESsT started a collaboration with the Zagrebačka bank, funding a project called "My Community" aimed at providing support for social entrepreneurship initiatives. After the call and official selection, 10 associations and cooperatives were chosen to participate in a year-long programme.

Education, capacity building and support provided by the AED and NESsT programmes enabled the first organizations in Croatia to adopt the social entrepreneurship concept and to start social entrepreneurship projects. Some of them, like Slap from Osijek and ACT from Čakovec, evolved over time into intermediary organizations capable of providing support to other organizations starting social entrepreneurship. In 2011 Slap established the Social Entrepreneurs' Forum (SEFOR), a platform aimed at providing education, counselling, capacity building and support to social entrepreneurs. As part of the project and in partnership with the Ministry of Entrepreneurship and Crafts, they established an annual award for the best social enterprise. In 2012 Slap and ACT, in partnership with the associations Zdravi Grad Split and the Centre for Technical Culture from Rijeka, established CEDRA, the Cluster for Eco-Social Innovation and Development. CEDRA links several regional support centres in Osijek, Čakovec, Dubrovnik, Split, Rijeka and Zagreb, and provides business consulting services, technical support and education for individuals and organizations focused on environmental, social and economic sustainability.

The development of a supportive institutional framework is rather slow. Social entrepreneurship and the social economy were first mentioned in the "Strategy for the Creation of an Enabling Environment for Civil Society Development from 2006 to

2011" (Office for Cooperation with NGOs – Government of the Republic of Croatia, 2006). Several specific measures were proposed, but in general their implementation was poor. One visible achievement was the establishment of the national Social Entrepreneurs' Forum, which was more the result of the engagement of non-institutional actors. At first sight, the new strategy for the 2012-2016 period gives more space to social entrepreneurship, "encouraging civil society organizations for socio-economic development" (Office for Cooperation with NGOs – Government of the Republic of Croatia, 2012). However, the sum assigned for this group is 75,000 kuna, which is only 0.38% of the total resources allocated through this strategy.

During recent years, we have seen a few initiatives from different institutions and government bodies, but they rarely ended up being fully implemented. For example, back in 2009 the National Foundation for Civil Society Development announced the establishment of the Fund for Social Entrepreneurship Development, but this has not happened so far. In 2011, the Ministry of Economy, Labour and Entrepreneurship (now the Ministry of Labour and Pension System) initiated the creation of a national Strategy for Social Entrepreneurship Development, but this has also not been finished nor adopted to date. Discussions around this strategy tend to prioritize irrelevant issues, such as the linguistic dilemma about whether social entrepreneurship should be translated as "*socijalno poduzetništvo*" or "*društveno poduzetništvo*"⁵. Meanwhile, discussions about social innovation and social impact as important core features of social entrepreneurship have been neglected and marginalized, and are mentioned in the last Strategy for the Creation of an Enabling Environment for Civil Society Development only as an aspect connected to social entrepreneurship that needs more attention.

Social entrepreneurship is still very differently understood in public. It is seen as somehow connected to civil society or the non-profit sector, but often understood in a very reductive way as only working on the integration of marginalized groups. This lack of knowledge about and understanding of social entrepreneurship can be seen in the behaviour of local authorities, which particularly tend to show ignorance towards these initiatives. It is the same with market institutions, in particular banking structures, which have expressed no interest in developing special financial mechanisms for social entrepreneurship needs.

Today, available resources for social entrepreneurship include financial support programmes for non-profits and cooperatives, both at the national and local levels. According to data that have been regularly collected since 2007, around 1.5 billion kuna of public resources were allocated annually for the non-profit sector, one-third from national funds and two-thirds from local resources (Office for Cooperation with NGOs – Government of the Republic of Croatia, 2012). There are no data about the ratio received for social entrepreneurship activities, but around 20 per cent of that amount has been allocated to associations working with disabled people, people with special needs, marginalized and socially excluded groups.

⁵ Both terms have some unpleasant connotations for different people: *društveno* evokes the collective dimension imposed during the socialist regime, and *socijalno* evokes social assistance, poverty and low income.

Cooperatives were supported through different programmes provided by several government institutions and bodies, depending on the area of cooperatives' activities – the Ministry of Entrepreneurship and Crafts, the Ministry of Agriculture, the Ministry of Veterans, the Ministry of Tourism, etc. There is financial support aimed at social cooperatives, mainly for those focused on work integration of disabled people or those providing assistance and services to marginalized and socially excluded groups.

Even though some resources are available, there is still no comprehensive institutional system of financial support for social entrepreneurship. During the last few years a few financial schemes appeared through several government institutions and bodies, like the National Fund for Civil Society Development, or former ministries, such as the Ministry of Health and Social Care; the Ministry of Economy, Labour and Entrepreneurship; the Ministry of Family Affairs, Veterans and Intergenerational Solidarity, etc. They offered grants for self-financing, for social services, for cooperatives, for the employment of marginalized groups and for other activities relating to social entrepreneurship. According to the experiences of actors and grant receivers, those resources were minimal and insufficient for ensuring sustainability or scaling up (Vidović, 2012). In the first two years social entrepreneurship was included as a specific scheme in the Entrepreneurial Impulse programme, established in 2011. The total amount of resources allocated was small compared to other schemes, only around 3 million kuna. Also, it was limited in terms of purpose and mostly allocated for the work integration of marginalized groups. Despite these limitations, this scheme was an important first step in the development of an institutional financial framework able to contribute to the promotion and further development of social entrepreneurship. Therefore it came as a surprise when the new cycle of the programme in 2013 did not provide any funds for social entrepreneurship and this category, as a specific funding scheme, was erased from the call.

Finally, a statistical system that could collect data on social entrepreneurship has still not been established and probably will not be before the strategy is adopted. Therefore, it is difficult to make a comprehensive assessment of the scope and strength of social entrepreneurship and also conduct any comparative and longitudinal research.

3. Short overview of data and trends

Since statistical data on social entrepreneurship does not exist, we need to use available data that may at least help perceive the sector's potential. Data on the non-profit and cooperative sector provide some insights about present conditions and tendencies. Also, some data on the economic activities of non-profit organizations need to be used cautiously since they may refer to self-financing activities of organizations, not necessary social entrepreneurship.

According to the latest data provided by the Croatian Cooperatives Alliance, published in June 2013 (Croatian Cooperatives Alliance, 2013), there were 1,331 registered cooperatives with a total of 19,309 members and 2,682 employees. Compared to 2011, the number of cooperatives almost halved, the number of members decreased by 35 per cent and the number of employees decreased by 36 per cent. It is assumed

that the main reason for decrease is the new legislation that introduced some more rigid requirements for establishing cooperatives —namely, the minimum number of founders increased from three to seven—. This forced many cooperatives, such as inactive ones or those consisting only of family members, to shut down. The total income of cooperatives also decreased, by 13 per cent, from around 2.2 billion kuna in 2011 to 1.9 billion kuna in 2012. The average number of members per cooperative, however, increased from 14 to 17.

Agricultural cooperatives are the most numerous, consisting of around 40 per cent of the total number of cooperatives in Croatia. There are no specific data on social cooperatives, nor on those acting as non-profits. The majority of cooperatives, around 58 per cent, do not have a single employee, which can be seen as a serious lack of exploitation of the sector's potential as an employment generator. Only seven cooperatives, less than 1 per cent, are large cooperatives that employ between 50 and 250 workers.

According to the latest data on civil society and the non-profit sector in Croatia provided by the Office for Cooperation with NGOs – Government of the Republic of Croatia (2012), there were more than 46,000 registered associations, 193 foundations and more than 600 private institutions. However, the majority of these were not organizations established for the common good or for social purposes. Also, the existing statistical classification does not recognize these types, so it is very difficult to define the precise number. The most numerous are associations in the field of sport and recreation (over 16,000) in the field of culture or art (over 7,000) and those in the economic field (over 4,600). Associations oriented towards social purposes number around 1,800; the health field has around 1,500; and the environmental field has around 900, as well as the humanitarian field. According to assessments made by the National Foundation for Civil Society Development (2012), around 34 per cent of civil society organizations in 2010 gained at least some financial resources through self-financing activities. The majority of organizations use multiple sources for financing, dominated by the local authorities, national funds and membership. In the average structure of resources, self-financing activities make up around 21.8 per cent of income, compared to 71.2 per cent from domestic sources and 6.9 per cent from foreign donors.

The great majority of examples of social entrepreneurship initiatives in Croatia were started up by non-profit associations, which often tend to establish limited companies or cooperatives to perform economic activities. In those cases profit is reinvested into the programmes and activities of the main association. Social entrepreneurship covers different areas, from social care, child and parent protection and health to textile production, tourism, ecology and environmental protection. Compared to European countries, similar trends can be observed in social enterprises in Croatia: they often appear as social services providers or companies for the work integration of marginalized groups.

4. Instead of a conclusion

In general, it is hard to recognize any significant improvement in the development of a legal and institutional framework for social entrepreneurship in Croatia. A supportive sector for social entrepreneurship has been developed outside of the government and the institutional environment and it continues to be the most important promoter of social entrepreneurship. The exclusion of social entrepreneurship from the main government funding scheme can be seen as an enormous regression. At the same time, other schemes based on the strategy for civil society development also marginalize social entrepreneurship. Unclear responsibilities and a lack of coordination between government institutions, accompanied by poor recognition from local authorities, also contribute to the slow progress of a supportive institutional and legal environment for social entrepreneurship. Political will is certainly one of the crucial factors for turning ideas into real policies, and as long as there is no will, we cannot expect important improvements. In other words, the dominant trend will still be "one step forward, two steps back".

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