



Boosting social entrepreneurship and social enterprise creation

Unlocking the potential of social enterprises in Croatia



BOOSTING SOCIAL ENTREPRENEURSHIP AND SOCIAL ENTERPRISE CREATION

UNLOCKING THE POTENTIAL OF SOCIAL ENTERPRISES IN CROATIA

This report has been prepared as part of the on “Boosting social entrepreneurship and social enterprise creation” (2011).

A team comprising members of the OECD LEED Secretariat and external experts visited Croatia in October 2014 for a study visit, to examine the role, both real and potential, of social entrepreneurship and social enterprise, and the support which could be given to the sector to allow it to fulfil that potential. This report is based significantly on the available statistics and on material gathered from the study visit, as well as research conducted both prior to, and after, the study visit.

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EXECUTIVE SUMMARY

This report offers an in-depth analysis of the policy measures and programmes to enhance social enterprise and social entrepreneurship development in the Republic of Croatia.

It is the result of in-depth research by an Organisation for Economic Co-operation and Development (OECD) team¹ into social enterprise at local, national and international levels, drawing on policy expertise, international and national case studies, legislation and economic data.

During a study visit to Croatia in October 2014² the OECD team met a number of important stakeholders to obtain detailed information and to discuss the most important elements of Croatia's current and desired future social enterprise environment.

The report is intended to be an encapsulating study, briefly outlining Croatia's social enterprise history, providing an analysis of the current social economy landscape and issues, and making policy recommendations for the future.

An action plan is also included which foresees actions to be taken in the short, medium and long terms.

The recommendations contained in the report are designed to be a basis for further policy experimentation and deliberation, with a view to scaling the impact of social enterprise in Croatia.

It must be noted that the OECD report was drafted as the Croatian Government was preparing its National Strategy for the development of Social Entrepreneurship. Some of the measures of the Strategy were elaborated based on OECD advice.

The policy recommendations provided in this report are intended to complement the actions already included in the Strategy, to strengthen its overall impact and to suggest additional elements for further policy actions.

Socioeconomic Landscape

An examination of Croatia's socioeconomic environment reveals a country ripe for social enterprise development.

The country's citizenry has clear social and economic needs that, due to budgetary constraints, cannot be met by government alone. After around six years of economic recession, Croatia is showing some positive trends.

¹ The OECD team led by Antonella Noya, OECD Senior Policy Analyst, was composed by Dr Yiorogos Alexopoulos, Researcher at the Agricultural University of Athens, (Greece) and Dr Giulia Galera, senior researcher at EURICSE (Italy).

² See Annex 2 for the study visit programme and participants list.

According to official statistics,³ GDP rose by 2.8% for the third quarter of 2015 (compared to the third quarter of 2014). For a longer period, labour market participation was reduced and welfare payments were on the rise. There is a large informal economy and there exist many disadvantaged groups, including persons over 65, women, single parents, youth and those with disabilities.

Croatia already has the basic foundations upon which an effective social enterprise community could be built. Indeed, the country has a vibrant, although still underdeveloped, Small and Medium-sized Enterprise (SMEs) sector, that is backed by an institutional support system, and which could be further expanded to support the development of social enterprises. Furthermore, recent welfare reforms in Croatia now promote localised, decentralised welfare systems as opposed to traditional state-run welfare systems, paving the way for local social enterprises to gain a firm footing in providing welfare by developing jobs and alleviating demands on the state.

Greater activity in the area of social enterprise has progressively emerged since the 2008 financial crisis in particular, as there has been immense pressure put on the public sector to provide increasing amounts of welfare to support the struggling economy.

However, despite this progress, Croatia still remains fairly centralised and there are numerous legal, social, administrative and economic barriers that continue to impede the full development of Croatia's social economy.

Current Context of Entrepreneurship in Croatia

Entrepreneurship in Croatia is still underdeveloped, largely because it is often regarded with a negative attitude as a result of the corruption that occurred during the late 1990s privatisation process. Moreover, there have been no policy reforms regarding the legal frameworks governing entrepreneurship, which currently carry a heavy administrative burden. Issues that have been flagged include:

- Lengthy administration procedures for registering ownership of an enterprise.
- Lengthy procedures for creating and liquidating enterprises.
- Insufficient levels of entrepreneurial education.

While there is some assistance given to entrepreneurs by services and networks such as HITRO.HR⁴, a government service created to simplify the administrative procedures for setting up enterprises, and CRANE⁵, a network

³ Source: Croatian Bureau of Statistics; <http://www.dzs.hr>; Summary report published by Croatian Government Available at: <https://vlada.gov.hr/pokazatelji-gospodarskog-rasta-u-2014-godini/16475>, accessed on 9 February 2016.

⁴ <http://www.hitro.hr/Default.aspx>

⁵ <http://www.crane.hr/>

of business angels, it is important that further policy efforts be made to overcome these issues at the root of the cause.

Context of social enterprises in Croatia

Social enterprises can be particularly effective in addressing societal challenges that may not be possible for the government alone to achieve, often, but not exclusively, due to budgetary constraints. Social enterprises have gained increased recognition in the European Union in recent years, particularly in Italy and the United Kingdom, where social enterprises cover broad issues such as youth engagement, transport access and environmental protection. In Croatia, however, the general public perceive social enterprises somewhat negatively, as they currently lack visibility, and many institutions and companies remain un-informed about the role and nature of such organisations.

Moreover, in Croatia the government still appears to be the main provider of social welfare services and this has limited the outsourcing of welfare services to social enterprises.

Furthermore, the various evolutionary trends of social enterprises that have existed in the country (including associations, co-operatives, decentralised welfare institutions, sheltered workshops, mutual-aid societies, charities and religious organisations), have left a confusing cluster of different organisational structures in their wake, many of which do not have clear legal frameworks governing their operations.

There are numerous government bodies and institutions that have been assigned the role of supporting social enterprises, but they are fragmented and lack horizontal and vertical integration. Also, while some business support structures that have specialised knowledge and connections to social enterprise networks do exist (including NESsT– although it is now phasing out from the country-, SLAP, ACT and CEDRA HR), there is room for growth, particularly in “braided” support structures that encompass the needs of both general businesses and social enterprises. Similarly, some social enterprise networks do exist (e.g. SEFOR, CEDRA HR) but they could receive further support in order to enhance self-organisation within the social enterprise community in Croatia, thus fostering the scaling-up of social enterprises.

Legal Framework and Limitations

One of the key issues impeding the successful integration of social enterprises into the Croatian economy is that there is no specific law governing social enterprise in Croatia, although recently the National Strategy for the Development of Social Entrepreneurship, adopted by the Government in April 2015, defined “social entrepreneurship” and provided a list of nine criteria designed to help identify “social entrepreneurs” ⁶(see Annex 1)

⁶ This is the term used by the National Strategy.

This is an important, but preliminary step towards the establishment of a legal framework, although further clarification is needed to adopt a language which reduces confusion between terms such as social entrepreneurship, social entrepreneurs and social enterprises which still tend to be used interchangeably.

Indeed, some legislation *does* exist for specific types of *de facto* social enterprises, namely associations and social co-operatives. However, the laws regulating these two types of social enterprise have their own respective issues that need to be addressed in order to enable more efficient and effective social outcomes. As a result of the flaws in the relevant legislation, many non-profit organisations have been forced to establish subsidiary enterprises that operate as private limited liability companies, in order to overcome the shortcomings of legislations on associations and co-operatives.

Associations

Associations are regulated by the Act on Citizens' Associations (Zakon o udrugama, OG 74/14); however, there continue to be numerous issues that require clarification:

- There is a lack of clarity regarding the different types of associations, as existing legislation does not distinguish between a general-interest association and an association that promotes its members' interests.
- There is often confusion as to whether government payments to associations should be considered as public grants, or as payments for the provision of services (as they are, in fact). This tendency to incorrectly categorise what should be market income as a public grant, results in an underestimation of the economic productivity of associations.
- The Act on Corporate Income Tax (OG 134/14) obliges any type of non-profit organisation to register into the Register of Taxpayer within 8 days after the start of their economic activity. Non-profit organisations are obliged to pay Income tax on surplus gained from economic activities in the amount of 20% (of surplus).

Social Co-operatives

Legislation governing co-operatives does not seem to be a high political priority, and many issues contained in the 2011 law and 2014 Co-operatives Act (Zakon o zadrugama, OG 34/11, 125/13, 76/14) remain contentious.

- Unlike ordinary companies, co-operatives must pay tax on re-invested profits as they are defined as partnerships (društvo osoba) not as corporations (društvo kapitala).
- The Co-operative law does not define what a social co-operative is, but merely describes the aims of a social co-operative. This leads to confusion and allows any co-operative to identify itself as a social cooperative if it so desires.
- There is no formal procedure or body to ensure that social co-operatives are legitimately undertaking social activities.
- Social co-operatives are not permitted to engage volunteers. This is despite the fact that volunteers play an important role in creating businesses, particularly in the start-up phase.
- The 2014 Co-operatives Act has abolished mandatory membership to the Croatian Association of Co-operatives, which was a self-regulated body. The new body, the Croatian Centre for Co-operative Entrepreneurship, is state-led and not representative of all co-operatives in Croatia, therefore undermining the ability of co-operatives to self-regulate and network.
- People on pension insurance schemes are excluded from being managers of co-operatives. This does not apply to war veterans who can manage social and work integration social cooperatives.

Finance

A pertinent issue limiting the ability of social enterprises to scale-up is the lack of easy access to finance. Many financial institutions are risk-averse, over-regulated and lack a clear understanding of the nature of social enterprises, and this greatly limits the funding available to them. Funding that is offered usually doesn't match the requirements of social enterprises, for example the debt instruments that are sometimes offered do not match the need for long-term capital investment for growth. This issue is partially a result of the difficulty of measuring the impact of social enterprises, as the monetary value added by these enterprises may be evident only in cost savings to the government, which is difficult to measure. Currently, the majority of funding for social enterprises comes from governments or donors, but these sources of financing are neither guaranteed nor sustainable. Moreover, while European Structural Funds (in particular the ERDF and ESF) are important sources of funding for social enterprise development, they should not be regarded as a

substitute for a fully functioning, integrated network of social finance providers that would support social enterprises in an ongoing and sustainable manner. Nevertheless, EU funding streams (ESF, ERDF, EaSI) should be used as a leverage to mobilise private, institutional and community social investors and facilitate the creation of a dedicated social finance community in Croatia.

Access to Markets

Public procurement is an important revenue source for enterprises looking to expand their markets. It is particularly important for social enterprises, as the tender process enhances interactivity between government and social enterprises, and allows governments to support social enterprises by awarding them service opportunities. Traditionally, however, social enterprises struggle to compete in public tenders because contracting authorities typically award services to the lowest cost alternative. Social enterprises that employ persons with disabilities, for example, often have lower productivity rates and therefore cannot compete on price. In Croatia, contracting authorities are not legally obliged to take into account any criteria other than price, for example the products, services or workers that they would be employing (although neither are they legally prevented from taking these factors into account). Many policy recommendations suggested in this report to improve the public procurement process for social enterprises have recently been addressed by the EU directives on public procurement. The EU directives introduce the following:

- Member states must ensure that contracting authorities are not obliged to consider only price/cost value; contracting authorities must be permitted (or even invited in some instances,) to consider the social benefits offered by each potential service provider and should be encouraged to consider “life-cycle costing, that the entire cost of a product or service, including environmental impacts.
- The minimum percentage of disabled or disadvantaged workers required for an enterprise to be considered “socially inclusive” is reduced from 50% to 30%.

Contracts can now be reserved for non-profit organisations that have a public service mission and that are founded upon employee participation, up to a maximum of three years. These directives constitute an important step forward in allowing social enterprises greater access to markets. However, they fail to address the issue that many contracting authorities do not currently have the skills or knowledge to assess social impact. This issue has been dealt with in some countries, including through the creation and distribution of guides illustrating how to use social clauses and analyse social enterprise utility.

Policy Recommendations

The National Strategy for the development of Social Entrepreneurship, which calls for a reduction in regional welfare disparities and increased growth in employment was adopted in April 2015. The Strategy aims to create an enabling environment for social entrepreneurship development in Croatia, in particular by: fixing flaws in legislation; creating adequate financial frameworks; promoting the importance of social entrepreneurship through education; and enhancing awareness about the importance of social enterprises for economic and inclusive growth.

Many of the plans and goals in this 2015-2020 strategy “double up” with the policy recommendations provided by the OECD, outlined below. Some of the policy recommendations may appear to replicate those in the Strategy. As some suggestions made by the OECD were integrated into the Strategy, they are included here to reinforce their importance. Some aim at encouraging the clarification of any confusion regarding the different definitional terms.

These policy recommendations come at an opportune time for Croatia, which is currently receiving a large amount of funding from the ESF under its 2014-2020 Operational Programme, with a view to enhancing social inclusion through the promotion of social enterprises. Policy makers, investors and social enterprises should take action promptly to improve the Croatian social enterprise framework so as to ensure that the funding from the ESF is used in the most efficient and effective manner possible to implement the Strategy.

The following policy recommendations have been arranged thematically to correspond with the order in which they were introduced above: entrepreneurial and social enterprise context, legal frameworks, finance and access to markets. Moreover, recommendations concerning the implementation of the National Strategy are also included.

Recommendations to improve the entrepreneurial and social enterprise context

Steps should be taken to streamline the business set-up process, improve social enterprise visibility and entrepreneurial education.

The business set-up process should be streamlined, so that it would be easier for potential social entrepreneurs to start their activity and get tailored support during the start-up phase. This should include the following measures:

- Integrated, top-down, braided business support structures should be established to fill the gap in business support structures for social enterprises.
- Administrative inefficiencies regarding the set-up, liquidation and ownership registration of SMEs, and consequently, of social

enterprises, should be flagged and revised; this should be done in a manner that will also include adequate provisions on *de facto* social enterprises.

The visibility of social enterprises and their societal impact should be improved, so that public authorities, private businesses, funders and general public would be better aware of the added value social enterprises provide to society. To this end the following measures should be taken:

- Awareness-raising campaigns should be used to diffuse information on the features of social enterprises, as well to promote awareness of examples of successful social enterprise activities (also among public authorities and practitioners).
- New research into social innovation should be funded, and the findings disseminated through training and university courses.
- A “competence centre” should be established to provide a platform for integrating research, policy and practice regarding the conduct of social enterprises.
- A single online portal should facilitate the creation of networks between social enterprises and their funders.
- The creation of a self-regulatory co-operative body that represents the interests of the sector (in addition to the Croatian Centre for Co-operative Entrepreneurship) should be promoted.
- Further decentralisation should be encouraged at all levels of government to increase local-level efficiency in responding to the needs of social enterprises, including through capacity building of local units, increased co-ordination between different levels of government, and financial autonomy given to local governments. This decentralisation could include outsourcing welfare services to social enterprises.

Entrepreneurial education and capacity building opportunities should be more widespread. To this end the following measures could be taken:

- Public officials, social entrepreneurs and financiers should be provided with opportunities to build their skills and share their knowledge about the specificities and relevance of social enterprises in addressing current social and economic challenges. This can be done through means such as capacity building seminars and conferences (such as those offered by the OECD and EC), transnational study visits to

support peer learning, and publication of guides for practitioners and policy makers.

- A framework that encourages entrepreneurship education throughout the educational system should be established by reforming curricula and/or by supporting informal educational organisations and educational programmes in the area of social entrepreneurship.

Recommendations to improve legal and regulatory frameworks

A clear, shared and specific definition of social enterprise should be established that draws on the EU operational definition, and on the nine criteria established by the National Strategy so as to allow for better identification of social enterprises and prevent abuses of the benefits given to social enterprises.

The legislation governing social enterprises should be revised, and the possibility of creating new legislation pertaining solely to social enterprises could be considered in order to improve clarity and create a more enabling environment for social enterprises development:

- The 2014 law on co-operatives should be revised so as to fully regulate social co-operatives. Article 66 of the Co-operatives Act should be revised to allow volunteers to participate in all social co-operative endeavours.
- Social co-operatives that re-integrate disadvantaged workers should be permitted fiscal and social security deductions.
- Fiscal limitations on the economic activities of associations should be reduced in co-operation with the Governmental Office for Co-operation with NGOs.
- A VAT regime that is more favourable and tailored to social enterprise products and services should be implemented.
- Social enterprises should be legally bound to pursue objectives that are in the general interest of society, or in the interest of disadvantaged groups.
- Laws should ensure that social enterprises are on a level playing field with their competitors, including via tax concessions on reinvested profits.

- Social enterprises should be legally required to join a registry of social enterprises, and only these enterprises should be given tax and other concessions.
- A monitoring body should be established, in close cooperation with the social enterprise community, which surveys social enterprise activities to ensure that only eligible enterprises (according to an official definition) are entered into, and remain on, the social enterprise registry.
- Clarity should be provided about the nature of social enterprise income (whether income from public authorities arising from a contractual agreement constitutes market income or a grant).
- The possibility of drafting legislation that relates purely to social enterprises should be considered, as this would improve clarity and create further integration of the social enterprise legal framework.

Recommendations to improve finance

A social finance community should be nurtured so as to enhance the access of social enterprises to finance and thereby enable growth. This could be done by providing all relevant stakeholders with capacity building opportunities and by fostering diverse and innovative finance schemes:

- Capacity building workshops should be offered to all relevant stakeholders (including public administration, financial intermediaries and investors, social enterprise members and their associations) so as to improve their ability to understand the model and increase the impact potential of social enterprises.
- A social finance community should be fostered through the promotion of the investment readiness of social enterprises and investors.
- A culture of supporting social enterprises through Corporate Social Responsibility should be fostered in Croatia through education and information dissemination.
- New financial instruments should be established, in co-operation with social enterprises, that are more tailored to suit their start-up and growth needs and that help social enterprises become less dependent on public grants.
- Financial instruments should be transformed to include different types of instruments (grants, loans, guarantees, quasi-equity).

- Blended finance packages and diversification of financial sources (including public and private funds, as well as ESF and ERDF) should be promoted.
- The further growth and expansion of current initiatives on ethical banking should be encouraged through government support.
- Rules governing the use of ESF and ERDF funds should be clearly defined, for example:
 - Grants should only be offered to social enterprises with legitimate growth or sustainability prospects, so as to prevent the funding of artificial social enterprise growth.
 - The projects that are financed through these funds should be monitored, and the impact assessed.
 - ESF and ERDF should be utilised primarily for the creation of new employment opportunities, training programmes, and the support of awareness-raising programmes.

Recommendations to improve access to markets

The public procurement process should give greater weight to the social value and/or best price quality ratio generated by social enterprises:

- The EU directives on new public procurement guidelines should be used as a guide for designing a clear public procurement framework that integrates social enterprises into the public procurement process.
- Public authorities should be encouraged to consider social enterprise value when awarding services in a tender process.
- Capacity building seminars, workshops and conferences should enhance the skills of public authorities in identifying valuable social enterprise contributions. This could be supported by the creation of a guide for public authorities that provides methods for assessing social enterprise impact.
- A permanent dialogue should be established between contracting authorities, experts in the field of social enterprise, and the social enterprise community to ensure continuity of co-operation in the future.

- Social enterprises should be encouraged to form consortia to up-scale their productivity, expand their competencies and therefore their ability to undertake public services and create further business efficiencies.

Recommendations on the implementation phase of the Strategy

It is suggested that the implementation phase of the Strategy:

- Adopts the most adequate terms, in line with the literature and the European notion of social enterprise.
- Is constantly supported at the highest possible level, while implementation/co-ordinating responsibilities rest with the Ministry of Labour and Pension System (MLPS) where the ESF managing authority is also hosted.
- Confirms that social enterprises and their co-ordinating bodies will be closely involved in defining the impact measurement techniques, in the process of standardisation of impact assessment tools, and in adapting them through practice.
- Ensures that the resources required to establish a “competence centre” are channelled to connect theory with practice and policy development introduces appropriate pilot actions to develop an ecosystem for social enterprise in Croatia.
- Anticipates appropriate transnational co-operation initiatives, to accelerate and secure quality of the implementation phases and actions, peer learning, technical assistance and learning.
- And, finally, provides for the necessary resources to secure the timely and coherent implementation of the Strategy.

1. ANALYSING THE CONTEXT

a. The socioeconomic context and current policy challenges

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 the War for Independence (1991 – 1995) accompanied with a state-building process and an authoritarian regime during the first decade.

Economy

Since the financial crisis in 2008, the Croatian economy has been marked by negative trends, with a growth rate of -7.4% in 2009. Croatia has remained fixed in an unusually drawn out recession, with real GDP contracting for six consecutive years. Lately, it has been slowly recovering, marked by a growth rate of -0.4% in 2014. Positive trends started when GDP rose by 2.8% for the third quarter of 2015, which was officially named as the “end of recession”. However, a long, economically weak period, caused by the crisis as well as by structural imbalances, has been characterised by an increase in external and public debt, poor exports and FDIs, the re-emergence of deflation, and a constrained monetary policy designed to keep the Kuna-Euro exchange rates stable.

The negative economic outlook inevitably affected the social realm. Social inequalities, poverty and social exclusion have been aggravated since 2008. Income inequality, as measured by the Gini coefficient, was still above 30% in 2014. The at-risk-of-poverty rate⁷ rose from 17.4% in 2008 to a high of 20.5% measured in 2012. After that, it slowly started to fall, reaching 19.4% in 2014. The groups most affected by poverty continue to include those aged 65 years or over, especially women. Other groups at a higher risk of poverty include the unemployed (particularly unemployed men), single households (particularly single female households), and households with dependent children (particularly single parents with dependent children).

Social transfers and pensions contribute significantly to the decrease of the at-risk-of-poverty rate. Social expenditures increased in Croatia from 18.6% in 2008 to 21.7% of GDP in 2013 (Eurostat, 2016), however far less than the European average (28.6% in 2012).

Employment & labour market

Low labour market participation rates are reflective of an aggravated economy, and also impede growth in the long-term. A plethora of factors

⁷ The at-risk-of-poverty rate does not show the actual number of poor people, but rather how many of them have an income below the at-risk-of-poverty threshold. The at-risk-of-poverty threshold is determined as 60% of the middle value (median) of the equivalised disposable income of all households, after social transfers. Source: Croatian Bureau of Statistics.

contribute to this outcome, from generous early retirement schemes and work disincentives, to poorly targeted benefits and skill mismatches. The low employment ratio puts pressure on pension systems, even though replacement rates are not particularly high. According to Croatian Employment Service (CES) data, the majority of job losses are in manufacturing, wholesale and retail trade, accommodation and food service activities, construction and public administration, and defence (CES, 2014). In 2015, Croatia was classified as one of the EU countries with the lowest employment rate for the age group 15-64 (57.5% for Q3, 2015)⁸. The majority of the registered unemployed are long-term unemployed. Data also illustrate a positive correlation between the level of education and the employment rate. The employment rate for people having attained higher education was 78.4%, 58.5% for those with upper secondary education, and 38.3% for those without upper secondary education (2014).

Disparities in terms of unemployment rates and access to the labour market are observed among the different gender, age and regional groups in Croatia. Regarding gender, in 2014 the employment rate for women was 54.2%, which is considerably lower than the 2014 EU-28 average of 63.5% (Eurostat, 2016) and below the male employment rate of 64.2% (Eurostat, 2016). Age is another factor that impacts labour market participation, as youth in Croatia has significantly higher unemployment rates compared to the EU-28 average. In the second half of 2015, the youth unemployment rate in Croatia was the third highest in Europe at 45.1%, exceeded only by Greece (49.1%) and Spain (47.7%) (Eurostat, 2015). Regional unemployment disparities are also highlighted by socioeconomic indicators. For instance, unemployment is only 7.8% in Istria, while it has reached a level of 25.9% in the Virovitica-Podravina County.

Unemployment is prevalent in people with disabilities. In 2015, people with disabilities comprised around 12% of the Croatian population and just over half of these (51%, MRMS) were active population, aged 20-64. Two thirds of them were illiterate or only completed basic education. Only 3% of people with disabilities have a higher education degree and 5% were enrolled in special schools. According to the latest data, 6.2% of the active population were employed (65% male and 35% female) (Croatian Institute of Public Health, 2014).

⁸ http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsq_ergan&lang=en

Types of employment

A steady decline of self-employed people has been observed during the last decade – from 15.8% in 2004 to 12.1% in 2013. This trend may be partly explained by the prevailing ambivalent attitudes towards entrepreneurship, as well as by a non-stimulating institutional environment for entrepreneurs. According to the data, 54% of the Croatian population considers self-employment desirable, however 80% do not believe self-employment is possible and sustainable. According to the latest results of the GEM survey, two thirds of respondents believe that entrepreneurship is a good career choice (Singer, et al., 2013). However, mostly due to negative experiences in the first years of privatisation, entrepreneurship has long since been associated with perceptions of corruption (Vidović, 2012), which has somewhat limited its prevalence.

The informal economy has been estimated to represent at least 25% of the total GDP (ILO and Council of Europe, according to Rinaldi, 2012). Informal employment is difficult to measure, but it may be gauged that employment in the informal economy is significantly high. According to studies, undeclared and under-declared employment is relatively widespread, particularly in catering, commerce, construction, shipbuilding, tourism, agriculture, forestry and the media (Rinaldi, 2012).

Enterprise/SME creation

Small and medium-sized enterprises (SMEs) play a significant role in Croatia's economy. In 2013 the number of business entities increased by 4% compared to 2012, but only for small and large enterprises, while the number of medium-sized enterprises decreased by 3.1% (CEPOR, 2016). In fact Croatian SMEs showed a decline in value added, as did SMEs in other EU member states including Czech Republic, Cyprus, Greece, Italy and Sweden. In contrast, the Netherlands, Ireland, Germany, Lithuania, Slovenia, Poland, Malta, Romania and the UK achieved growth of value added higher than the EU average of 3.3% (European Commission, 2015). However, in Croatia the SME sector's share of total income was 52.1% in 2013, which is a slight increase compared to the 2012 level of 51.0%. SMEs' share of employment was 68% in 2013, also a steady increase compared to 65.6% in 2011 and 67% in 2012. Export share also grew from 42% in 2011 to 48.2% in 2013 (CEPOR, 2016). The legal framework for SMEs is set out by the Small Business Development Promotion Act and the Accounting Act. Crafts and companies are the most common legal forms of enterprises. The Crafts Act states that any independent and profit-oriented economic activity by one or more natural persons through production, services, or transport can be considered a craft. According to the Companies Act there are two main types of companies: companies of persons (public companies, limited partnerships, economic interest groups) and companies of capital ("simple" or standard limited liability companies, shareholder companies).

There are three conditions for physical and legal entities to be considered as SMEs as stipulated in the Small Business Development Promotion Act: a) the average annual number of employees must be less than 250; b) the business must preserve its independence (meaning that other physical or legal entities individually or jointly possess no more than a 25% share of ownership or decision-making rights in the small business entity); c) the business must have total annual revenue up to EUR 50 million or balance sheet if they are profit tax payers, i.e. long-term assets up to EUR 43 million if they are income tax payers.

SMEs receive institutional support from the Ministry of Entrepreneurship and Crafts, the Croatian Bank for Reconstruction and Development (HBOR)⁹ and the Croatian Agency for SMEs, Innovation, and Investment (HAMAG-BICRO).¹⁰

Entrepreneurship

Over the last decade, numerous efforts have been made to create a climate that is conducive to entrepreneurship. The establishment of HITRO.HR is one of such efforts. HITRO.HR is a public one-stop-shop that aims to streamline the start-up process for establishing an enterprise by eliminating administrative hurdles. The network of business angels CRANE is another example. CRANE was established in 2008 and has gathered private investors who want to invest in start-ups, mainly innovative businesses from the ICT sector.

Despite the significant role of SMEs in the Croatian economy and the efforts to support enterprises, entrepreneurship remains at low levels. According to the Global Entrepreneurship Monitor (GEM) survey and the Total early stage Entrepreneurial Activity (TEA) index, Croatia scores poorly regarding activity in the start-up of new business ventures. Regional disparity is also observed in this field with the Istria and Primorje-Gorski Kotar regions being more entrepreneurial than others. According to the World Bank's 2015 "Doing Business", which looks at the regulatory impact in different economies on the ease of starting business, Croatia was ranked 83rd out of 189 countries. This position is lower than in 2013 when Croatia was ranked 84th out of 185 countries, but higher than in 2014, when Croatia was ranked 89th (World Bank, 2016).

There are many barriers that slow down entrepreneurship development in Croatia. Among the most significant are: administrative barriers (long and expensive procedures for establishing and liquidating an enterprise), inefficient judiciary systems, lengthy procedures of ownership registration, low levels of entrepreneurial education and insufficient informal financial models

⁹ HBOR is the development and export bank of Croatia, which extends loans, insures export transactions against political and commercial risks, issues guarantees and provides business advice.

¹⁰ HAMAG- BICRO is the merger of two government institutions that promote innovation and investments.

for start-ups and new ventures (see CEPOR, 2013). The GEM survey has shown that the inconsistency of government policies is seen as one of the major barriers to a more supportive environment for entrepreneurship (GEM, 2013). Corruption is still one of the main barriers for business in the Western Balkan region, and according to the survey, Croatian entrepreneurs perceive that the government shares a significant responsibility for this (Budak, Rajh, 2011).

Reform of the welfare system

The reform of the welfare system of post-socialist countries in transition has been a daunting task for policy makers (Bošnjak, Stubbs, 2007). In Croatia, the welfare reforms have intensified since 2000 due to the regime change and the prospects of EU accession. There has been increased attention paid to creating a welfare mix – a new combination of social service providers through de-institutionalisation, diversification and decentralisation. In this process, the EU provided stewardship to the country in terms of identifying the key challenges for tackling poverty, social exclusion, and unemployment for vulnerable groups with the Joint Inclusion Memorandum (JIM) and Joint Assessment of the Employment Policy Priorities of the Republic of Croatia (JAP). As an outcome, the National Implementation Plan on Social Inclusion and the National Employment Promotion Plan were outlined.

In 2011, the Social Welfare Development Strategy (2011-2016) and the Social Welfare Act were both adopted. The main objectives of the Social Welfare Development Strategy (2011-2016) were to decentralise and de-institutionalise the social welfare system in order to increase its efficiency, availability, and access. Important priorities were to strengthen co-operation with civil society organisations and to improve local government capacities for social welfare planning. The Social Welfare Act was amended in 2013. It introduced the guaranteed minimum social assistance, which combined four previous benefits in order to reduce overlapping, and also the electronification of the social welfare system. This resulted in the creation of a unique database network that connected 80 centres for social welfare and 38 local branches, and in turn enabled misuses of social rights to be identified and the benefits of around 7 000 users to be cut off.

Local strategies, namely Counties Social Plans have also been adopted over the last few years. Both the Social Welfare Strategy and the Social Welfare Act proposed that social planning should be carried out at the local, county level as part of the decentralisation of the social welfare reform. These proposals addressed the issue that local and regional government units were only participating in a small amount of social welfare funding. State funding for non-profit associations operating in the field of social welfare was mostly being provided from lottery profits through a government general fund.

The proposals were important because non-profit associations in Croatia are significant actors in social welfare focusing on vulnerable groups, such as children, youth, women, people with disabilities, older people, unemployed,

people with mental disabilities, victims of violence, and homeless people. They provide psychosocial help, social welfare and care services and various types of assistance in order to increase users' quality of life and to integrate them into the labour market and include them in the community.

The labour market was another area on which the welfare reform had an impact. It was liberalised in several phases (Stambolieva, 2013). The Act on Labour was adopted during the summer of 2014 and introduced further flexibility into the labour market despite intense resistance and criticism from trade unions, employers and the political opposition. Among various measures to simplify procedures for the mobility of workers or termination of work contracts, the Act enabled the working week to be extended to 50 or 60 hours. At the same time, cash social assistance was provided as a passive measure to tackle unemployment. Active measures were the re-qualification programmes and education aimed at adapting individuals' skills to labour market needs.

Social welfare reforms are still in progress in Croatia, many of which were initially driven by reform requirements for the EU accession process. The continued preferential treatment of war veterans and their families is one of the factors slowing down the reforms (Stubbs and Zrinščak 2009, Stambolieva, 2013). Social partners in providing services, mainly CSOs, still have limited capacities. The state remains the main, monopolistic provider of social services, while other actors from the civil society realm are marginal and insufficiently integrated in sustainable systems.

State corporatism and paternalism, remnants from the socialist regime, are often seen as the main reasons for the continued mentality of dependency on the state and expectancy that "someone" will take care of social and economic security. This attitude was prevalent in the decades that followed the start of the transition process and is a factor that has strongly influenced overall reluctance in entrepreneurial behaviour, self-organisation and taking more individual responsibility to ensure socioeconomic security.

Although processes of decentralisation, de-institutionalisation, privatisation and liberalisation have been intensified over the last 15 years, it would be wrong to claim that the Croatian welfare system is fully based on these principles and that the reforms have resulted in an efficient, inclusive and sustainable system. Stubbs and Zrinščak (2007) argued that the Croatian social sphere is characterised by parallelism of welfare systems at local levels, and high bureaucracy at the state level. There is a lack of co-ordination and co-operation between central and local systems and a great deal of unfairness in terms of additional benefits provided by local units.

The EU accession

Croatia accessed the EU in July 2013 after prolonged and sustained efforts. The road to the EU accession started in the aftermath of the transition period from the socialist regime in November 2000, during the Zagreb Summit. The

Stabilisation and Association Agreement (SSA) for the accession process was discussed during the Zagreb Summit, signed in October 2001 and came into force in February 2005.

From 2000, and until its full accession, Croatia undertook significant reforms in line with the EU's strategic goals which were reaffirmed in the EU 2020 Strategy adopted in 2011. Smart, sustainable, and inclusive growth is the mantra of the EU 2020 Strategy, which aims to boost new fields – such as social economy and social entrepreneurship – in the effort to tackle the financial crisis. Efforts have been made to align the regulatory and policy framework of Croatia with European goals and standards in various domains, such as SME promotion, civil society development, rural development, revitalisation of co-operatives, employment of people with disabilities, fighting poverty and social exclusion. Although social entrepreneurship is a clear way to tackle these issues, the National Strategy for the development of Social Entrepreneurship was only initiated relatively recently – two to three years ago. The EU's approach to social entrepreneurship and its definition of social enterprise, officially articulated in the Social Business Initiative (European Commission, 2011), were likely the main reference framework in the preparation of the strategy.

During the pre-accession period Croatia was involved in pre-accession programmes, such as CARDS, ISPA, PHARE, SAPARD and IPA. After becoming an official member in 2013, Croatia became eligible for all existing structural funds and EU programmes. As part of EU Cohesion Policy 2014-2020, Croatia will manage two operational programmes during this period, with an allocation of around EUR 8.6 billion. The two operational programmes are: 1) Competitiveness and Cohesion, which will allocate around EUR 6.9 billion from the European Regional Development Fund (ERDF) and the Cohesion Fund; and 2) Effective Human Resources, which will allocate around EUR 1.6 billion from the European Social Fund (ESF).

Following the IPA Programme, which enabled funding for social entrepreneurship projects in the framework of IV Component - Human Resources Development, new funds open even greater possibilities for social entrepreneurship. Within the ESF, activities will be supported through Investment Priority 9.v.¹¹ promoting social entrepreneurship and social enterprises with an envisaged allocation of EUR 32 million. Besides ESF and ERDF, EU programmes such as Employment and Social Innovation (EaSI) also became available. EaSI's Axis III is fully focused on microfinance and social entrepreneurship.

b. The roots of social enterprises in Croatia

Croatia embedded the notion of solidarity a long time ago, and its strong legacy has nourished the development of new forms of economic cooperation

¹¹ <http://www.strukturnifondovi.hr/UserDocsImages/Novosti/FINAL%20OP%20EHR.pdf> see page 25

promoting solidarity and mutual self-help, which have led to the creation of the various forms of social enterprise, that will be analysed in this section.

The most traditional forms, which have a long-standing history in Croatia, include associations, co-operatives, decentralised welfare institutions, mutual-aid societies, charities, religious organisations and sheltered workshops.

Co-operatives

Co-operatives are the type of social organisation with the longest-lasting, yet most controversial history in Croatia. Despite the progress noted so far, co-operatives generally remain a sensitive topic in Croatia and in some instances even trigger animosity due to their use by the socialist regime in the past.

The first co-operative was established in 1864. Before the Second World War, there were 2 500 co-operatives comprising 460 000 members in Croatia. Pupils' co-operatives were particularly specific to the Croatian culture as a means for promoting co-operative values. However, during the socialist period (1943-1991) co-operatives were painted as "forced" organisations, thus losing their core purpose of solidarity and their principal features of private ownership and democratic governance. For example, peasants were obliged to participate in agriculture co-operatives in the collectivisation process.

The number of co-operatives declined significantly during the 1960s and until the end of the socialist regime. Only a few housing, trading and savings co-operatives continued to operate. Housing co-operatives were particularly numerous during the 1950s and 1960s with more than 200 located in Zagreb alone. However, they disappeared during the 1990s despite the implementation of the Act on Housing Co-operatives. The assimilation in public opinion of co-operatives to their former "forced" nature during the socialist period, as well as the unsupportive legal framework explain the significant decrease in the number of different types of co-operatives in Croatia during the transition from the socialist regime. For instance, in 1992 their right to enjoy tax benefits similar to other non-profit organisations was repealed.

Associations

Associations are the most common type of non-profit organisation. In 1982, the Act on Social Organisations and Citizens' Associations was adopted. However, due to the unfavourable environment surrounding civil society during the 1990s, the Act was ratified only in 1997. Associations played a significant role in laying the contemporary institutional foundations of civil society in Croatia.

Decentralised welfare institutions

A legacy of the socialist regime was the decentralised system of welfare institutions, such as public centres for social welfare and other public or private institutions at local community level (Stubbs, 2001; Šučur, 2003; Puljiz, 2006; 2008). These institutions enjoyed considerable autonomy during the socialist period that enabled them to develop an innovative character. The networks for social welfare centres acted as another stepping-stone for the rise of social enterprises in Croatia, although they lacked participative governance and autonomy. Some scholars argue that they actually constituted a social innovation (Puljiz, 2006).

In the aftermath of the Second World War and throughout the socialist era, the social welfare system placed particular emphasis on people with disabilities through the establishment of public sheltered workshops, which were organised as Organisations of Associated Labour providing training, employment, and social integration. After the transition period and, more recently, with the adoption of the New Act on Vocational Rehabilitation and Employment of People with Disabilities (2014), sheltered workshops were distinguished from integrative workshops. Both may be established by public bodies, local authorities, or private initiative.

In terms of specific features, integrative workshops target individuals with moderate disabilities who must constitute at least 40% of their workforce. Sheltered workshops target individuals with more severe disabilities. They must have at least five employees and 51% of the total number of their personnel must be people with disabilities. Another provision of the law stipulates that existing companies may establish special work units for people with disabilities without creating a separate legal entity. To date, there are six sheltered workshops and four work units in Croatia, employing around 560 workers.

Mutual aid societies

Despite the long-standing tradition of mutual aid societies in Croatia, it seems that they have disappeared over recent years. However, creating an internal “cash box” of mutual aids in employees’ unions, companies or other organisations is still quite common.

Charities and religious organisations

The Red Cross and Caritas were important non-state actors in the social sphere during the socialist era. They primarily operated as charity organisations, providing assistance and social services to very poor people. Some social enterprises arose around the church and religious communities.

2. The landscape of social enterprise

a. The concept and practice of social enterprise in Europe: towards a shared understanding

Social entrepreneurship and social enterprise are becoming a vibrant phenomenon across all EU member countries. As a structural trend that is triggered by the transformation of contemporary welfare and economic systems, social enterprise tends to develop spontaneously, independently from the existence of exogenous enabling conditions. Despite cross-country variations, depending on a set of political, legal, economic and historical factors, the main driver of social enterprise creation is the necessity to meet new needs arising in society.

Over the past two decades, social enterprise initiatives have developed in all EU member countries as innovative responses to welfare gaps. They play a role in delivering a broad range of general-interest services, contributing to the more balanced use and allocation of resources, generating new employment, enhancing the social capital accumulated at the local level, and institutionalising informal activities (Galera, 2009; Noya, 2009).

The appeal of social enterprises has increased, especially following the 2008 financial crisis, which put at severe risk the ability of the public sector to finance the traditional, infrastructure-based services of general interest and fuelled interest in more inclusive and pluralistic economic systems (EC, 2015a).

Against the limitations of mainstream policies in dealing with the increasing diversity of societal needs and the unstable nature of the global economy, social enterprises have proved able to contribute to addressing critical challenges faced by European member states, including severe public budget constraints, social exclusion of large groups of society, and demographic changes. Social enterprises have lately received greater recognition from several EU national governments, international organisations and European Union institutions as innovative approaches to addressing social problems and challenges that have a strong impact upon society.

A key step in furthering the adoption of social enterprise support policies at both EU and member state levels, has been the gradual convergence towards a common definition of social enterprise. The process of developing a common understanding of social enterprise was firstly supported by the research community (the EMES European Research Network) through a permanent dialogue among researchers from all parts of the EU. Next, the identification of the key characteristics of social enterprises was further formalised through the introduction of legal frameworks specifically designed for social enterprises. These frameworks played a role in clarifying the social enterprise concept and the key principles with which social enterprises should comply. Finally, various documents delivered by European Union Institutions have explicitly recognised social enterprises as economic entities with a specific aim to benefit communities. The Europe 2020 strategy and, more

particularly, the European Commission's recently launched Social Business Initiative (2011) have taken decisive steps forward in both recognising and enhancing the contribution of social enterprises to societal well-being. This relies on a definition of social enterprise that draws on three dimensions: the entrepreneurial dimension, the social dimension, and the inclusive dimension. This definition is in line with the legal evolution of social enterprise in Europe and is consistent with the concept of social enterprise shared by most European researchers and international organisations.

The OECD LEED Programme played a pioneering role in both supporting a better understanding of the role of social enterprise and raising the awareness of policy makers and practitioners on its beneficial impact on local development. In 1999 the OECD was among the first to draw attention to the emerging social enterprise ecosystem, highlighting definitional issues and key stakeholders involved (OECD, 1999). In 2007, the OECD's analysis of social economy provided insight into the role of, and supporting frameworks for, social economy enterprises (OECD, 2007). In its 2009 report the OECD raised further awareness of social enterprise support structures and case studies, providing a solid basis for guiding future policy decisions. Drawing on recent research funded by the European Commission, Table 1 both provides for an *operational* definition of social enterprise and illustrates the meaning of each social enterprise dimension in concrete terms (EC, 2015).

First, as entrepreneurial entities, social enterprises are expected to display the typical features of an enterprise. This presupposes that social enterprises are engaged in the stable and continuous production of goods or services, rely – at least partially - on the use of costly production factors (e.g. paid work), and take a significant level of economic risk.

Second, the social dimension presupposes that social enterprises pursue an explicit social aim of serving the community or a specific group of people through the production of general-interest or meritorious goods/services. The range of services delivered can include welfare, health, educational, cultural, and general-interest services (e.g. water supply, gas, electricity) according to the diversity of unmet needs that may arise at local level in different countries and contexts.

Third, the ownership-governance dimension presupposes that social enterprises are characterised by collective dynamics involving people belonging to a community or to a group that shares a certain need or aim; adopt decision-making processes not based on capital ownership and ensure the participation of all relevant stakeholders; and comply with a total or partial non-distribution constraint such that the organisation distributes profits only to a limited extent, thus avoiding profit-maximising behaviour. The participatory and inclusive governance promoted is precisely aimed at strengthening the social orientation of the enterprise, on the one hand, and supporting a fair distribution of incentives, on the other hand. The above criteria are intended to allow the effective identification of new needs emerging at a community level and help to create relations of trust among the stakeholders concerned

(Borzaga and Defourny, 2001; Nyssens, 2006; Borzaga and Galera, 2014; EC, 2015a).

Table 1: Entrepreneurial, social and inclusive dimensions of social enterprises

Entrepreneurial dimension	<p>Stable and continuous production of goods and services</p> <ul style="list-style-type: none"> - Income generated either through the sale of goods/services on the open market or by means of public contracting - Social enterprise can be the result of a bottom-up collective dynamic or be created top-down by a leader or a public agency <p>At least partial use of costly production factors (paid work, capital)</p> <ul style="list-style-type: none"> - To become sustainable social enterprises may also rely on non-commercial resources - The role played by volunteers tends to be fundamental in the start-up phase and may decrease in importance when the social enterprise becomes more consolidated
Social dimension	<p>Explicit social aim pursued</p> <p>Products delivered distinguished by a social connotation</p> <ul style="list-style-type: none"> - Types of services and goods supplied can vary to a considerable extent
Inclusive dimension	<p>Inclusive and participatory membership and governance models</p> <ul style="list-style-type: none"> - Social enterprises can be set up either as a single or multi-stakeholder organisation - Non-profit distribution constraint ensures that the public benefit is safeguarded over time

Source: Table extracted from the Mapping Study funded by the European Commission (EC, 2015a).

A convergence towards a shared understanding of what constitutes a social enterprise is taking place also at EU member states level.

Significant differences exist, however, in terms of legal forms, governance models, modalities of interaction with public policies, and diffusion of social enterprise in key fields of general interest. In addition, the degree of visibility of social enterprise as a specific type of institution differs dramatically across EU member countries. While in some countries social enterprises, or specific typologies of social enterprise, have been legally recognised and supported through enabling policies, in others they are still rather invisible.

This is precisely the case in Croatia, where policy makers currently struggle to understand the nature, features, and competitive advantages of social enterprises. The overall picture is one of a social enterprise sector that is still in its inception phase, with positive indicators coming from a rather enabling legal system, a growing number of associations, a strong endowment of human capital and relatively high stocks of social capital that have allowed for the setting up of social enterprise networks that play a key role in supporting social enterprise growth. Box 1 illustrates the early development stage of social enterprises in Croatia compared to the more advanced development achieved by the same organisations in two leading countries: Italy and the United Kingdom, where social enterprises are significantly widespread and integrated into the welfare systems.

Box 1: Institutionalisation of social enterprises across Europe: Croatia versus United Kingdom and Italy

The degree to which social enterprises are developed varies significantly across EU member states. In some EU countries social enterprises are fully integrated into the welfare system, in others they are still at an early stage of development. In most EU countries social enterprises are at an intermediary stage of development. Based on empirical observations, a particular set of variables plays a role in influencing the development stage of social enterprise, namely:

- Degree of fiscal and administrative decentralisation
- Existence or not of an enabling legal environment
- Existence or not of a shared understanding of what constitutes a social enterprise
- Degree of visibility of the various entities that compose the social enterprise universe
- Types of relations that social enterprises can establish with public authorities (e.g. subsidies/grants, contracting out the delivery of social services and/or implementing a voucher system)
- Degree of political and legal recognition of social enterprises
- Level of engagement of paid workers versus volunteers
- Relevance of self-organisation through umbrella bodies and second-third level organisations
- Availability of funding opportunities that can be used to strengthen the sustainability of social enterprises

Figure 1: Tentative illustration of the development stages of social enterprises in the UK, Italy and Croatia

Institutionalisation				Italy, UK	Italy, UK
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Gradual consolidation			Italy		
Progressive emergence		Italy			Croatia
Embryonic social enterprise initiatives	Italy		UK	Croatia	
	1970s	1980s	1990s	2000s	2010s

The **United Kingdom** offers a distinctive example of social enterprise growth, which has been boosted by privatisation policies through the top-down creation of quasi-markets. Given the weak entrepreneurial abilities of voluntary organisations, the contracting out of services to for-profit providers became a prominent feature, but caused an unexpected increase in public expenditure, and a decrease in the the quality of services and work. This stimulated the search for a “third way”, somewhere between the market and the state, by the New Labour Government elected in 1997, which led to the “Social Enterprise Coalition”, the creation of a “Social Enterprise Unit”, and the introduction of the Community Interest Company regulation in 2005. In 2012 there were 71 000 *de facto* social enterprises in the UK and 9 500 CICs, which have registered an annual 20% increase in their number (Cabinet Office, 2013).

In **Italy** the first social enterprises were developed almost two decades before they first appeared in the United Kingdom and they emerged spontaneously, with no or very little support from public authorities. When they first emerged, social enterprises mainly provided social services addressed towards young people with social problems, the elderly, the disabled, drug addicts and the homeless. Initially, groups of volunteers promoted many of these initiatives, however the use of the co-operative form became rapidly widespread. Social enterprise initiatives responded to new and unmet needs, often relying heavily on voluntary work, especially in the start-up phase. These experiences helped to raise the awareness of public authorities on the importance of specific economic and social issues that had been so far largely ignored or underestimated and stimulated local authorities to reconsider their direct involvement. As a result, local authorities progressively agreed to finance such initiatives with a view to supporting their expansion. The development of social enterprises thus continued until the outbreak of the financial crisis. In 2013 there were 80 000 *de facto* social enterprises in Italy in the form of associations and foundations and almost 13 000 social co-operatives.

When compared to the United Kingdom and Italy, social enterprises in **Croatia** are at an early stage, defined here as “progressive emergence”. Social enterprises have not yet been formally acknowledged and are rather invisible. However, they are mentioned by several key policy documents; enjoy a pioneering, although not yet systematic public support, and are characterised by a relatively enabling legal environment that has partially recognised social co-operatives through an amendment to the law on co-operatives (art 66, Law).

Source: Giulia Galera (2014), *Dinamiche evolutive dell'impresa sociale a livello europeo. Visibilità, replicabilità e stadi di sviluppo*, "Osservatorio Isfol", IV, n. 3-4

The following examples show how social enterprises develop in different EU countries adopting different legal forms or status and operating in different sectors. This diversity is typical of the varied landscape of social enterprises in Europe, which depends heavily on the national and local traditions, culture, welfare systems and entrepreneurial spirit.

The Big Lemon Community Interest Company is an interesting example of an innovative social enterprise, which delivers key economic general interest services to the local community.

Box 2: Social enterprises in the UK: The Big Lemon CIC

CICs are registered companies with special additional features, created for people who want to conduct a business for community benefit, and not purely for profit. This is achieved by means of a "community interest test", an "asset lock", and a "dividend cap". These ensure that the company is established for community purposes and that the assets and profits are dedicated to these purposes. CICs are regulated by the CIC Regulator. (<http://www.cicregulator.gov.uk/http://h>)

Community is a big part of life at The Big Lemon, which is owned and run by members of the community and actively encourages members of the community to buy shares in the company. The Big Lemon's mission is to provide affordable, friendly and sustainable bus and coach services to encourage the shift from private car use to sustainable alternatives. The Big Lemon offers bus and coach services using recycled waste vegetable oil collected from local restaurants. The oil is processed locally and is used to run two local bus services, a music festival coach service, a private hire service and a programme of walking days out in the Sussex countryside. Ten full-time employees, eight part-time employees, and one volunteer are regularly engaged in the Big Lemon. This CIC is also involved in the local community and aims to share its experience with a wide audience including local schools, colleges, and members of the public.

Source: <http://www.thebiglemon.com/aboutUs/howWeWork/Community/>

Another interesting example of a social enterprise operating in a rural context is provided by the CUMA experience in France, which has adopted the *société coopérative d'intérêt collectif* (SCIC) model for the design of innovative collective solutions for unsolved problems affecting rural areas.

Box 3: Social enterprises in France: the CUMA experience

SCIC is the French acronym for “General interest co-operatives”. This new co-operative form was introduced into the French legal system by Law no. 2001–624 of 17 July 2001 (modifying Title II *ter* of the Law 47–1775 of 10 September 1947). These are private, general interest co-operatives allowing anyone (employees, users, volunteers, public bodies, companies, associations etc.) to act together in the framework of the same local development project. Multiple actors that associate around the same project are grouped into three categories of stakeholders, i.e. employees, beneficiaries, and a third left to be decided by the project’s initiators. As a result, employees, volunteers, users, local authorities, businesses, associations, private individuals, and all kinds of persons and corporations interested for various reasons may be associated with SCICs.

SCICs produce goods or services that meet the collective needs of an area by making the best possible use of its economic and social resources. The SCIC has the status of a commercial company and as such functions like any enterprise subject to the imperatives of good management and innovation. SCICs respect the rules for co-operatives: sharing power on the basis of the principle “one person = one vote”, involvement of all the members in the life of the enterprise and in the main management decisions, maintaining the enterprise’s profits in the form of locked-up reserves that ensure its autonomy and perpetuation.

The *Fédération Nationale des CUMA: FNCUMA*, an umbrella organisation for agricultural co-operatives, saw SCICs as a chance to resume the debate on making local authorities members of co-operatives. In essence, this new type of co-operative made it possible to transcend the limits of agricultural co-operatives, which traditionally prevent the involvement of elected officials.

The SCIC model stimulates all the actors concerned by the co-operative’s activity to join it, thus allowing them to help design innovative collective solutions for unsolved problems affecting rural areas. Several multi-stakeholder organisations have appeared in rural areas in the fields of direct selling, environment, and community services as a result of the introduction of the Law on SCICs. The involvement of a large set of actors is key in the viability of these projects. In brief, the SCIC law paved the way for the institutionalisation of new ways of co-operating for the actors of rural territories and their networks. Examples of new forms of multi-stakeholder co-operation include: short food supply chains that seek to reduce the distance between consumers and producers; collective action to preserve local shops in rural areas; work integration of disadvantaged people through the management of environmental activities (water, landscape, waste etc.).

Source: Franck Thomas (2015), The Emergence of Multi-Stakeholder Co-operatives in the Movement of Farm Machinery Co-operatives (CUMAs) in

b. Social enterprise in Croatia: integrating different traditions

In Croatia, social enterprise has only recently entered policy and academic debates. The National Strategy for the Development of Social Entrepreneurship has recently officially recognised social enterprises by providing a number of criteria to identify social entrepreneurs (to use the terminology of the Strategy), however social enterprises are not yet adequately supported through targeted policy measures, which should stem from the implementation of the Strategy itself.

The co-existence of different social enterprise traditions has contributed to the conceptualisation and interpretation of the social enterprise phenomenon in different ways. The interplay between partially converging and, to a certain extent, diverging trends explains the conceptual confusion that predominates in Croatia when talking about social enterprise. Confusion is testified by the praxis of using terms, which mean different things, interchangeably. Social enterprise – which refers to a peculiar type of institution – is constantly used interchangeably with social entrepreneurship – which refers conversely to a trend that may temporarily characterise any individual and organisation that decides to initiate an entrepreneurial activity with a social aim.

Social entrepreneurship activities are distinguished by a dual bottom line, and are voluntarily promoted by entrepreneurs and managers committed to becoming more responsible. They are indeed subject to the will of the entrepreneur (Helm and Andersson, 2010; Light, 2006) who typically has a double bottom line that balances the pursuit of profit with the aim of achieving social benefits. Conversely, social enterprises develop to institutionalise the pursuit of explicit social aims and are hence clearly dedicated to creating value from their inception. In other words, compared to social entrepreneurship initiatives, social enterprises are formally bounded over time to a greater extent by their social mission.. In social enterprises, the production and delivery of general-interest services are organised in an entrepreneurial way by means of a dedicated enterprise and are designed to survive over time, beyond the life of the enterprise's founders, thanks to its particular attributes e.g. inclusive ownership and governance, asset lock and non-profit distribution constraint). Given its distinctive features, social entrepreneurship is rarely regulated by a specific piece of legislation; conversely, social enterprises are legal entities, which require an enabling legal environment to flourish.

Table 2 summarises the main differences between conventional entrepreneurship, social entrepreneurship, and social enterprise in terms of the unit of analysis, aims pursued and relations between social goals and market success.

Table 2. Conventional entrepreneurship, social entrepreneurship and social enterprise

	Conventional entrepreneurship	Social entrepreneurship	Social enterprise
Unit of analysis	Enterprise	System	Enterprise
Aim	Accumulate and distribute profits to investors	Address a social concern	Address a social concern on a stable and continuous basis through the production of general interest services
Relation between social goal and market success	Market success prioritised	Possible tensions between contrasting goals needs to be balanced (dual bottom line)	Social aim prioritised

When looking at both the concept and practice of social enterprise, similar to other new member countries, diversity in perspectives results from the distinctive influences international donors, EU institutions, and the academic community have exerted over the past 15 years in Croatia. Because of the different perspectives at play, Croatia has developed as a laboratory, where different approaches to social enterprise have shaped distinctive social enterprise models.

International donors started to support social enterprise before leaving the country as a sort of exit strategy (Tonkovic and Krizanovic, 2012). Their aim was to strengthen the sustainability of organisations that had previously benefited from donor grants and support. Donors broadcasted a concept of social enterprise that highlights the ability to generate income. This approach resulted in the setting up of subsidiary companies by existing non-profit organisations, as trading arms specifically intended to generate income (OECD, 2006).

A parallel, yet more recent social enterprise pattern, closer in line with the EU tradition, is the emergence of new types of “social” co-operatives, which have evolved from traditional co-operatives to institutionalise the pursuit of explicit social aims. In the case of co-operatives, oriented by definition to promote the interests of their members, the adaptation was aimed at enabling them to run general-interest activities to the advantage of specific target groups or the entire community. This process has been followed by a number of EU countries and started in the early 1990s following the adoption of law 381/1991 in Italy. Traditional co-operative forms evolved into *co-operative*

sociali in Italy, *cooperativa de iniciativa social* in Spain, *société coopérative d'intérêt collectif* (SCIC) in France, the solidarity co-operative in Portugal, the social co-operative in Poland, Hungary, and Greece. In Croatia this process is still ongoing, as the aims pursued by social co-operatives are simply mentioned by current legislation on co-operatives, but the features social co-operatives must display are not regulated in detail.

A further social enterprise development pattern results from the shift of associations towards a stronger entrepreneurial stance, following their engagement in the production of goods or services that generate direct benefits to the entire community or specific groups of disadvantaged people. This trend is similarly noticeable across all EU member states, but it is more widespread in countries, including Croatia, where associations are allowed to conduct economic activities according to the Law on Associations.

c. Legal forms adopted by social enterprises in Croatia

The entities that comprise the social enterprise universe in Croatia are currently regulated by the existing legal forms made available by the Croatian legal system. Although not conceived for social enterprises, when compared to other EU countries, existing legislation allows for a certain degree of flexibility in conducting social enterprise activities. However, each legal form also shows a number of shortcomings, which are briefly highlighted below.

Associations

Associations are the most frequent type of civil society organisation in Croatia. They fulfil multiple roles in Croatian society, including conducting advocacy initiatives and carrying out economic activities either to the advantage of specific groups or the entire community. The recognition of associations as social service providers is highlighted by the National Strategy for the Creation of an Enabling Environment for Civil Society Development 2012-2016 and is expected to increase in importance over the coming years, following the current process of decentralisation and deinstitutionalisation of services for which the state lacks sufficient resources.

Similarly to other European member states (e.g. Italy), associations in Croatia are less active in the provision of social services compared to other fields of activity. In 2012, there were 49 004 associations in Croatia, which were engaged in sports (34.01%); culture (15.16%); economy (9.26%); technology (7.59%); social care (3.59%); healthcare (3.03%); Homeland war (2.40%); protection of children and youth (2.54%); humanitarian work (1.82%); and education (1.47%) (TACSO, 2013). In 2015, the number of registered associations was over 52 000.

The number of associations that could be included in the universe of social enterprise is difficult to assess under present conditions. The current law enables associations to perform economic activities and notes explicitly that

the goal pursued must not be profit oriented and must be explicitly social. In addition, the law on associations specifically refers to the possibility that:

“competent national bodies, local and territorial (regional) self-government units and other public institutions shall finance and contract the implementation of programs and projects of interest for the public good on the basis of a public call for tenders or on the basis of a special regulation on the financing of public needs”. (Association Act, OG 74/14)

However, there is no agreement on the exact number of associations that pursue explicit social aims, while being steadily engaged in economic activities.

Based on the Register of Associations, 6 222 associations are registered under various activities that can be considered related to social service provision: charity (941), children, youth and family protection (1 327), women’s protection (503), social (1 878), and health (1 573). Based on the new Law on Associations, the Register of Associations will be better structured and will give more specific information on the number of associations involved in social service provision.

Another indicator of the number of associations providing social services on a stable basis is the number of associations that are funded by public entities for providing social services, such as the Ministry of Social Policy and Youth. Based on the Annual Report on Financing Projects and Programmes of Civil Societies Organisations, there were around 800 associations’ projects financed by government bodies in 2013.

Information on the fields of activity and income generated by associations suggest that the number of social enterprises operating as associations might be quite significant. Moreover, interviews with stakeholders suggest that there is a tendency to mix up public grants with payments for the provision of services (regardless of whether or not a tender has taken place). Because of this misunderstanding, contracting out the production of general-interest services is not regarded as a market income as it should be, but rather as subvention from state budget. This tendency suggests that the real number of associations that perform economic activities, and could therefore be defined as social enterprises, might have been so far underestimated in Croatia.

Consistent with other EU countries’ assessments and classifications, income generated from the supply of services contracted out by public agencies should be classified as a market source. This clearly implies a key shift to a more stable public engagement with welfare providers (social enterprises).

Additional problems are generated by the fiscal framework: associations have to pay a 20% tax on profits generated by activities not related to their main goals. Moreover, an association has to pay VAT if its annual revenue from economic activities exceeds HRK 230 000 (around EUR 30 400).

Table 3. Associations

	Degree of fulfilment	Limitations
Social dimension	High Prioritisation of social aim defined by the association's charter. This can include a wide set of activities.	Existing legislation does not distinguish between associations aimed at promoting their members' interests and public benefit associations
Entrepreneurial dimension	Low Not clear how many associations conduct economic activities Associations have to pay VAT if their annual income exceeds HRK 230 000	Confusion between sources of income: income generated by contractual agreements with public authorities conceived as non-market income (subsidies/grants) Freedom of conducting economic activity limited by the scaling up of the social enterprise
Inclusive governance	Medium Associations are governed by their members, directly or through elected representatives. The organisational structure is based on democratic principles. Total NPDC*: According to article 31, if an association has gained a surplus over expenses, the surplus shall be used exclusively to fulfil the aims defined by the statute Asset lock (article 53, Law on Associations)	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.

* Non Profit Distribution Constraint (NPDC)

Social co-operatives

The emergence of co-operatives with a strong social purpose is a widespread praxis across Europe. Over the past 24 years, the legislators of several EU member countries have introduced new co-operative forms with a social purpose or, alternatively, have adjusted existing legislation on co-operatives

with a view to acknowledging their pursuit of general-interest aims. These patterns have met with variable success depending on a number of key factors (e.g. fields of activity foreseen; number of disadvantaged people to be integrated to work; number and types of members envisaged, fiscal benefits foreseen, etc.).

Despite their longstanding history, co-operatives in Croatia have been neglected until recently. Although the current policy climate is not hostile towards them, the government does not view co-operatives as a strategic priority (Golja and Novkovic, 2014). Still today, the co-operative sector is very small and under-developed and has a low employment rate (Vidovic, 2014). Co-operatives are largely understood to be rural and agricultural, while in urban settings, and in the provision of new services, co-operative development are not well developed (Golja and Novkovic, 2014) The law on cooperatives introduced in 2011, brings co-operatives in line with the International Cooperative Alliance statement of co-operative identity, but the co-operative model's potential for tackling a wide range of collective problems is still far from being realised.

In 2014, the Co-operatives Act was introduced, which partially revised 2011 law. This Act provided that the mandatory amount of profit to be reinvested in the development of the co-operative would be reduced from 30% to 20%. Still, according to the Profit Act co-operatives do not enjoy tax breaks as companies of persons with no subscribed capital. Several types of co-operative are mentioned by the law (areas referred to include: agriculture, fisheries, workers, construction, social matters, housing, and crafts). However, precise definitions or specific regulations are not provided.

The Act also established the Croatian Centre for Co-operative Entrepreneurship, as a government institution whose board of directors is appointed by relevant ministries. The Croatian Centre for Co-operative Entrepreneurship replaced the Croatian Association of Co-operatives, an umbrella federation of co-operatives, with an assembly of members constituting the main decision-making body. Membership in the new structure is voluntary, whereas in the past it was mandatory and involved a membership fee. However, by dissolving the apex association of co-operatives, the self-organisation ability of co-operatives, as well as their ability to regulate and safeguard their operation and mission, has been significantly jeopardised.

Another key issue for the cooperatives was the possibility for war veterans to be a manager of a cooperative. an amendment to the Act on Veteran's Rights (OG 92/4014) introduced the special status of war-veterans' "social and work-integration co-operatives", established primarily to achieve social, not commercial goals. Pensioned war-veterans are allowed to manage one of these co-operatives without compromising any other (social) rights, but in cases where the co-operative's annual profit exceeds around EUR 20 000, the co-operative is obliged to employ a professional manager.

At the same time, it is commonly believed that translation of the new co-operative law is not progressing into co-operative development at its full potential, due to opportunism in the presence of external incentives for co-operative growth, including the favourable treatment of veteran's co-operatives (Golja and Novkovic, 2014).

According to the 2011 law on Co-operatives, co-operatives can decide to act as non-profit organisations. Where this is the case, they are obliged to re-invest their entire surplus in the co-operatives' activities and must register in the Register of Non-Profit Organisations, thus complying with accounting procedures outlined for all non-profit organisations. They must subscribe to the Accounting Act for Non-Profit Organisations, and transfer any budgetary surplus to the next fiscal year. As non-profit organisations, they will be entitled to access grants specifically intended for non-profit organisations (e.g. grants from the national lottery fund).

While acknowledging that co-operatives may act as non-profit organisations, tax law has omitted to recognise the social responsibility they may undertake. While conventional companies are exempt from paying tax on profit re-invested, co-operatives are not.

The evolution of co-operatives towards a social enterprise model was formalised through the introduction of a new article, Article 66. This article recognised social co-operatives as enterprises specifically aimed at pursuing the social and/or work integration of disadvantaged people. However, unlike other legal systems, which describe in detail the characteristics that such new types of co-operatives should display, Croatian law limits itself to identifying the aims social co-operatives must pursue. These include: i) providing help to socially excluded persons that are unable to meet their own needs due to adverse personal, economic, social and other circumstances; and ii) supporting work integration. Rather than formalising the recognition of social co-operatives, Croatian law introduces the possibility that co-operatives self-qualify as social co-operatives. Moreover, there is no formal procedure in place that reports on and validates the activities and/or performance of social co-operatives.

A growing number of social co-operatives are being established throughout Croatia, fulfilling a key role in supporting the social and work inclusion of disadvantaged people (e.g. Humana Nova, see Box 4). Nevertheless, the social responsibility they undertake is not acknowledged through adequate fiscal benefits, such as tax exemptions on disadvantaged people integrated into work and profit re-invested. Moreover, the strong contribution that volunteers could provide in the start up of new social co-operatives is denied; indeed, unlike associations, social co-operatives are not allowed to involve volunteers. Finally, social co-operatives are simply viewed as a social inclusion tool and their ability to supply a wide range of general-interest services to the advantage of the entire community is not recognised.

Table 4. Social co-operatives

	Degree of fulfilment	Limitations
Social dimension	High Social aim is prioritised.	Social co-operatives only contemplated as social inclusion tools No means of verification is implemented to assess the achievement of social aims (self-qualification)
Entrepreneurial dimension	High	Co-operatives are not exempt from tax on re-invested profit (conversely conventional companies are exempt from tax on profit re-invested as an anti-recession measure)
Inclusive governance	Low Both workers and users are allowed to become members Total NPDC*: if non-profit co-operative Asset lock: in case of liquidation, all assets must be transferred to the local authority located where the co-operative is based after meeting obligations to creditors and repayment of members of the co-operative	Co-operatives are not allowed to involve volunteers

* Non Profit Distribution Constraint (NPDC)

Box 4: Humana Nova Social Co-operative

Humana Nova is a social co-operative that encourages the employment of disabled and socially excluded persons. It is a spin-off of ACTGROUPE - an umbrella body gathering together various social enterprises and NGOs. Humana Nova co-operative was set up thanks to the commitment of volunteers, with no support from either central or local governments. Currently, Humana Nova integrates around 20 disadvantaged people into work in the production of textile products of various kinds made from ecological and recycled materials. Around 80% of Humana Nova's overall income is generated through the sale of products to the market. The wage earned by the disadvantaged workers is only slightly lower than the minimum wage. Humana Nova endeavours to reduce the problem of textile waste through the recycling of textiles. Since the beginning of 2013, Humana Nova has collected a total of 190 000 kg of clothing and footwear, which has translated into the delivery of 80 000 kg of clothing and footwear to the external market. 10 000 kg were used to manufacture new products and the rest was distributed through retail outlets and second hand shops.

Humana Nova also plays a key role in lobbying for the recognition of social co-operatives as a specific type of social enterprise at both regional and national levels and it carries out a very important advocacy role, which aims to fight prejudices against socially excluded people.

Source: www.humananova.org and meeting with members of the co-operative.

Private Limited Liability Companies

Private limited companies are the most frequent type of social enterprise in Croatia according to research conducted so far. This trend, which is relatively popular in most new member countries, is inspired by what happens in the United States (Young, 2001; Dees, 1998), where the concept of social enterprise is generally much broader and more focused on entrepreneurial initiatives set up by non-profit organisations to generate revenue (Kerlin, 2010).

In new member and associated countries (Croatia, Bulgaria, Romania, Serbia), trading arms are often created to overcome legal or regulatory obstacles, which prevent associations, voluntary organisations, or foundations from undertaking economic activity or allow them to undertake economic activity only to a certain extent (Borzaga, Galera and Nogales, 2008). The rationale for setting up a trading arm is to generate income to support the social activities carried out by the founding entity.

Croatian social enterprises that operate like private limited companies are normally trading arms of associations and they usually reinvest 100% of their profits to the founder organisation. While emphasising the need to become sustainable, this model is distinguished by a very flexible legal form and a

high degree of freedom in terms of economic activities carried out. Given the ultimate aim of generating income, the economic activities undertaken are usually not consistent with the social goal pursued by the founding association. The sectors of engagement of limited liability companies in Croatia are very diverse and range from the provision of graphic and web design services, to book-keeping, to the production and sale of eco-friendly cloth diapers. There is no evidence to suggest that this type of social enterprise is engaged in the delivery of general-interest services.

As previously mentioned, this model was strongly supported by donors and international organisations like NESsT, which supports an interpretation of social enterprise that partially diverges from the European definition. According to the NESsT definition¹², a social enterprise is:

“a deliberately planned entrepreneurial activity created to find innovative and sustainable solutions to social problems. Social enterprises may be non-profit organisations, which apply business models to fulfil their primary mission, or business enterprises, which aim to make a considerable social impact beyond their business goals. Their aim is to achieve the “double bottom line”, which means harmonisation of business and social goals, and to keep a healthy balance between them”.

In addition to the conceptual controversy that this definition generates, it should be highlighted that the trend towards the division of the two economic and social spheres also results in an increase in added costs. Moreover, stakeholder engagement is rare in practice despite the encouragement to participate (EC, 2015b).

¹² <http://www.nesst.org/wp-content/uploads/2012/07/State-of-NGO-Self-financing-and-Social-Enterprise-in-Croatia-2012-05-FOR-WEB.pdf> pag 7

Table 5. Private limited liability company

	Degree of fulfilment	Limitations/risks
Social dimension	Low No evidence to suggest that this type of social enterprise is always engaged in the delivery of general-interest services	Social enterprises normally reinvest 100% of their profits to the founder organisation, but this is not a binding requirement
Entrepreneurial dimension	High Enterprise can undertake any economic activity	Division of the economic and social spheres results in an increase in added costs
Inclusive governance	Low	Inclusive governance rare

A very interesting example of a social enterprise established as a limited liability company owned by an association (which is similar to what happens in the USA) is RODA (box 5)

Box 5: RODA – Roditelji u akciji (Parents in action)

RODA developed spontaneously as a “parents’ voice” in 2001. Over the years it became more structured and decided to set up a social enterprise, which was incubated by NESsT in 2007. The increase in market income beyond 50% over the total amount of income gained induced the association of parents to establish a limited liability company in 2012, which is owned by the association. Based on interviews with one employee, it seems that RODA can now overcome a number of constraints that are faced by associations through the limited liability company, scaling up and exporting products freely. Added to this, the rationale for choosing to establish a limited liability company is that it does not impose the adoption of an inclusive dimension. RODA is inspired by a broad definition of social enterprise. The social enterprise is conceived as an income-generating activity aimed at funding the institutional activities carried out by the founding association.

RODA produces and sells eco-friendly and user-friendly cloth diapers and accessories, offering customers health, environmental, and social value as part of a high quality childcare product. RODA’s cloth diapers are sewn in workshops in the city of Varaždin, which employ persons with disabilities.

The organisation produces environmentally friendly products, is increasing awareness of and commitment to the importance of breastfeeding and parental care in the health of children and, at the same time, creates integration opportunities for marginalised groups.

Source: <http://www.nesst.org/?portfolio=roda-roditelji-u-akciji> and meeting with representatives of RODA.

d. Visibility and degree of recognition of social enterprise

The lack of statistical data and research on social enterprise prevents a reliable and comprehensive assessment of the size of the social enterprise typologies described above. At the same time, the lack of data corroborates that this phenomenon continues to be understudied, despite an increase in the number of researchers interested in this innovative entrepreneurial trend (Turza, 2014; Vidovic, 2014).

Based on current research, the social enterprise is described as an extremely dynamic area of development. According to SLAP, more than half of the organisations examined started their activity in the last four years (SLAP, 2014). Similarly, available data also confirm a stable increase in the employment and income share of associations. Nevertheless, existing research also confirms that the real size of social enterprise is still significantly overlooked in Croatia owing to a restrictive interpretation of what constitutes such an entity. Many associations and co-operatives are, indeed, still unaware that they themselves are social enterprises. Moreover, the life cycle of social enterprise is characterised by high fluctuation. Many social enterprises end soon after they begin, due to lack of finances, legal capacities (and commitment) and the grey economy (Strategic Study on Social Economy Development in the context of the SEE 2020 Strategy, 2015).

Data on the fields of activity of social enterprise are, in this respect, a case in point. While there is a shared opinion among stakeholders about the number of social enterprises¹³ that developed either as trading arms of associations or as the evolution of traditional co-operatives, information about associations supplying welfare and health services is not provided when outlining the fields of activity of social enterprises. In its first draft, even the National Strategy for the development of Social Entrepreneurship itself did not mention the provision of social and welfare services when listing the fields of engagement of social enterprises. In fact, the only sectors mentioned included: services and goods related to intellectual property (provision of various intellectual services, production, agriculture, tourism, culture, etc.), development of social problem solutions (employment of groups at risk of social exclusion, provision of services for socially vulnerable groups, preservation of natural resources, promotion of regional development and revival of local community resources). The revised version of the National Strategy for the development of Social

¹³ Latest data from the Institute Ivo Pilar estimated there were 90 social enterprises in 2014 (mapped according to the criteria of the Strategy)

Entrepreneurship now includes social services, which are mentioned as part of Activity 2.5.

This is heading in the right direction and will possibly allow for the endorsement of a broad interpretation of what constitutes a social enterprise, a lack of which has so far prevented a comprehensive identification both of the boundaries of social enterprise and the entities that compose its universe.

To conclude, if the EU operational definition of social enterprise is applied to the Croatian landscape, there are a significantly higher number of *de facto* social enterprises compared to the number referred to by current studies (SLAP, NESsT, EC).

3. European and national institutional and policy frameworks

a. The EU framework

European Structural Funds

EU policies have significantly contributed to recognising social enterprises and supporting their growth through targeted measures across EU regions.

In particular, European Structural Funds have turned out to be the most powerful tool at the disposal of the EU and its Member States for developing social enterprises where they are less developed. Out of the five EU funds established, the ERDF and the ESF have been key in supporting social enterprise growth. The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions, whereas the ESF invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty.

Both the ERDF and the ESF have played a key role in many countries (particularly in new member states such as Bulgaria, Poland, Romania, and Hungary, but also in older member states, such as Italy and the UK) in raising the visibility and profile of social enterprise through activities such as events, workshops, awards/competitions and pulling together a fragmented community of actors (EC, 2015a).

For more than 50 years, the ESF has been an important source of support for the integration of disadvantaged people into work and society, including through the EQUAL initiative, 2000-2008 (Spear, 2013). The ESF has supported the establishment of social enterprises as a vehicle whereby new jobs can be created for people who find it difficult to get work, including young long-term unemployed, disabled people and people in rural communities. Forms of support have typically included: i) training for those who will run the enterprises; ii) training in human resources, employment law, health and safety; iii) developing technical skills and know-how in advising local start-up companies; iv) ensuring sustainability in the long term.

The use of Structural Funds to support social enterprises is likely to continue with the increased emphasis on social enterprise in the new European Structural and Investment Funds (ESIF) Operational Programmes for 2014-2020 of several EU member countries, including Croatia, which has become eligible for their use since 1 July 2013 (Operational Programme, Croatia, 2014). The Operational Programme for Croatia describes social enterprises as potentially reliable partners to public bodies for ensuring both employment and access to social services, primarily for vulnerable groups (people with disabilities, youth, long-term unemployed, Roma). The Operational Programme refers to the ESF as a way in which to support: organisation of public events and networking to promote visibility; training and education activities for social entrepreneurs and their employees; start-up and growth

capital for ESF eligible activities; development and implementation of social impact measurement; and research for promoting evidence based policy in the social enterprise sector. On 30 October 2014, the European Commission adopted the Partnership Agreement with Croatia, paving the way for almost EUR 1.8 billion in ESF funding over the next seven years. The Partnership Agreement sets down the strategy for the optimal use of ESIF in the country's regions and cities. Among other objectives, the EU investments aim to support active employment measures and fight against social exclusion. The development of social enterprises is indicated as one of the ESF priorities in Croatia¹⁴.

Social Business Initiative

The process of recognising social enterprises has been strongly supported by the European Commission. The Communication on the Social Business Initiative has been delivered with a view to contributing to the creation of a favourable environment for the development of social enterprises in Europe (European Commission, 2011).

As well as providing a definition of social enterprise, which is in line with the legal evolution undergone by social enterprises across Europe, the Social Business Initiative proposes three series of priority measures to:

- Improve social businesses access to funding (including EU funding through the Structural Funds and the setting-up of a financial instrument to provide social investment funds and financial intermediaries with equity, debt, and risk-sharing instruments)
- Improve the visibility of social enterprises (mapping of social enterprises, database of labels, support for local and national authorities to build integrated strategies for social enterprises, information and exchange platform)
- Create a simplified regulatory environment (including a proposal for a European Foundation Statute, revision of the public procurement rules and state aid measures for social and local services).

Further development of supportive frameworks may be seen in the EU programme for Employment and Social Innovation (EaSI), which brings together three existing programmes: i) PROGRESS (Programme for Employment and Social Solidarity); ii) EURES (European Employment Services); and iii) European Progress Microfinance Facility (which increases the availability of microcredit for setting up or developing a small business). The aim of the EaSI programme is to support member states in the design

¹⁴ See for example the ESF Operational Programme which makes specific reference to investments in promoting social entrepreneurship, including through the use of financial instruments: <http://www.strukturnifondovi.hr/UserDocslimages/Novosti/FINAL%20OP%20EHR.pdf>

and implementation of employment and social reforms at European, national, regional and local levels (Spear, 2013).

As of January 2014, these programmes form the three axes of EaSI. They support:

- the modernisation of employment and social policies with the PROGRESS axis (61% of the total budget);
- job mobility with the EURES axis (18% of the total budget);
- access to micro-finance and social entrepreneurship with the Microfinance and Social Entrepreneurship axis (21% of the total budget).

For the period 2014-2020, the 'PROGRESS' axis of EaSI will continue its current activities (analysis, mutual learning and grants) and will have a specific budget (between 15% and 20% of the axis' total budget) dedicated to social policy experimentation, with the aim of further developing its potential for employment and social innovation.

Along these lines, the adoption of the Social Investment Package (SIP) by the European Commission in early 2013, marks another turning point in recognition of the value and support for social innovation as a vehicle for the implementation of the member states' social policies. Within this new approach, social innovation is deemed to play a crucial role in: addressing societal challenges effectively and efficiently within a tight budget; designing social policies around strategic social investment; addressing gender challenges in a more coherent manner; supporting people in lifelong learning; ensuring adequate livelihoods in a changing world; bringing private and non-governmental resources to complement state funding through innovative partnerships; and strengthening evidence-based knowledge in policymaking and reforms.

The SIP emphasises that social services play a pivotal role in ensuring effective and efficient social protection. Social services represent a smart and sustainable investment as they do not only assist people, but also have a preventive, activating and enabling function if well-designed. Developing new responses to identified social needs in order to deliver better social outcomes means – in the specific case of social services – improving quality, access, coverage, and affordability. At the same time, innovative approaches in the provision of social services boost employment and job creation prospects.

Overall, these policy frameworks and measures contribute to an important recognition of the role of social enterprises and support their growth through new funding schemes, peer learning opportunities and technical assistance, previously not available in Croatia.

b. National Strategy for the Development of Social Entrepreneurship

In April 2013 the Croatian Government adopted the Decision for the establishment of a working group with the mandate to develop a strategy to support and promote *social entrepreneurship*¹⁵ in the Republic of Croatia for the period 2014 – 2020, based on CEDRA's initiative in 2011. The first meeting of the working group was held by the Ministry of Labour and Pension System in May 2013 and consisted of representatives from government authorities, organisations for civil society, social partners, professional organisations, regional development agencies and educational institutions. In addition, external experts were regularly invited to specific discussions held by the working group. The intensive efforts of the working group led to the adoption of the National Strategy for the development of Social Entrepreneurship in April 2015.

The overall objective of the strategy is the creation of an enabling environment for the development of *social entrepreneurship* in Croatia, in order to reduce regional disparities and ensure employment growth and more equal distribution of social wealth. For this, it indicates the following priority axes:

- The establishment and improvement of the legislative and institutional framework for the development of *social entrepreneurship*
- The establishment of an adequate financial framework for the support and development of *social enterprises*
- The promotion of the importance of *social entrepreneurship* through formal and informal education
- Ensuring visibility of *social entrepreneurship* in Croatia and informing the general public about issues related to *social entrepreneurship*.

This strategy adopts a general definition of *social entrepreneurship* and lists a number of criteria that *social entrepreneurs* should meet. Any entity complying with these criteria, can apply for a three-year registration in the Registry of *Social Entrepreneurs* which is considered as the official record of *social entrepreneurs* in Croatia. Only registered entities can apply for specialised tenders and incentives for *social entrepreneurs*.

The implementation of the Strategy will be managed by a competent authority. Moreover, the Strategy foresees the institution of a "*Council for Social Entrepreneurship*", which will consist of representatives from all relevant stakeholders. The Council will convene at least twice a year to discuss and conduct strategic activities for social enterprise development, and it will be responsible, in particular, for monitoring the implementation of the Strategy, analysing current trends, and developing annual evaluation reports on the implementation of the Strategy.

The adoption of the National Strategy for the development of Social Enterprise in Croatia has indeed been the valuable result of a painstaking and

¹⁵ Terms in italics are the ones used in the draft text of the Strategy.

long-term approach, which included the participation of stakeholders and experts in working group meetings and public consultation.

This participatory procedure has its own importance and value in the legitimisation of the Strategy and it was, therefore, not surprising that in all the study group's meetings its forthcoming launch was regarded as the touchstone that would catalyse the development of social enterprise in Croatia. The semantics and substantial impact that such a text entails is self-evident.

As such, it demands all proper attention and creative suggestions to identify any possible flaws and inconsistencies that might hamper its potential to define the institutional setting and shape the policy framework. To this end, this report has consistently referred to the importance of understanding the definition of different terms (social enterprise, social entrepreneurship, social entrepreneur) that while used interchangeably, do not have the same meaning, intensify confusion and often fail to increase the understanding of what social enterprise actually is. It was, therefore, very important to see that in the revised version a distinction had been made between the different notions, in line with literature and the European definition of social enterprise (See Table 1).

c. Access to market

An interesting ongoing dialogue at EU member state level concerns the role that the public sector needs to assume under the new programming period. Building on the experience gained from previous policy schemes, it is all the more evident that public administrations must assume new roles: they are no longer simply acting as legislators and rule-setters, funding bodies or policy developers, but equally as conveners of stakeholders and operators, providers of pertinent services, or facilitators for sharing good practice. To this end, support to social enterprises is matched with an equivalent development of social enterprise institutions and a corresponding institutional development in the public sector.

Along these lines, it is important for the public administration to help pave the way for the sound development of social enterprise by creating a level playing field for access to public funding and support schemes. A first critical success step in this process has proved to be the development of a "common language" among public/local authorities and the social enterprise community. This "common language" facilitates a better understanding of the specificities of social enterprises and an appreciation of the sufficiently different approach social enterprises take in addressing social needs and problems. Consolidating the "common language" has improved understanding into a permanent mutually beneficial interaction, and might allow for the identification of barriers that hinder the capacity of social enterprises to access the (public) market, and more importantly the one regulated by public procurement policies.

Public procurement represents approximately 14% of GDP in the EU and can, therefore, be an important source of revenue for enterprises.¹⁶ Inadequate use of social clauses, current public procurement practices (large contract sizes, excessive pre-qualification requirements, etc.), and payment delays all, reportedly, make it difficult for social enterprises to effectively compete in public procurement markets. Public agencies have turned out to be the main funders of social enterprises in almost all EU countries due to the type of general-interest services social enterprises supply. In 2012, more than half of social enterprises in the UK (52%) traded with the public sector and for 23% of these the public sector was their main source of revenue. The number of social enterprises that are commissioned to deliver public services and the volume of such work are both expected to increase with the implementation of the Public Services (Social Value) Act (Social Enterprise UK, 2012).

The new EU directives¹⁷ on public procurement are expected to noticeably improve the context. The following analysis of the provisions indicates that EU member states have sufficient room to make the necessary revisions and effectively introduce social clauses in their public procurement legislation.

As far as the award criteria are concerned, the focus is usually on the most economically advantageous tender. In addition, member states could decide that contracting authorities may not use price/cost as the sole award criterion or restrict its use to certain categories of contracting authorities or certain types of contracts.

In the framework of the new simplified regime applicable to social and health services, member states should ensure that contracting authorities may take into account, among other things, all quality and continuity criteria they consider necessary for the services in question. In their award decisions, contracting authorities may take into account criteria linked to the production process of the works, services or supplies to be purchased such as the inclusion of vulnerable and disadvantaged people or the use of non-toxic substances.

To favour social inclusion and support social enterprise growth, the current reservation of contracts in favour of sheltered workshops has been extended to include economic operators whose main aim is the social and professional integration of disabled and disadvantaged workers, and the minimum required

¹⁶ http://ec.europa.eu/growth/single-market/public-procurement/index_en.htm

¹⁷ In December 2011, the European Commission initiated the procedure to revise Directive 2004/18/EC on public procurement ('classical' sectors) and Directive 2004/17/EC on procurement in the water, energy, transport and postal service sectors ('utilities'), as well as the adoption of a new directive specific to concessions. The legislative co-decision adoption procedure ended at the beginning of 2014 with the adoption of the three corresponding directives by the European Parliament (15 January 2014) and the Council (11 February 2014). The new directives will contribute to the implementation of the Europe 2020 Strategy for a greener, more social, innovative and inclusive economy.

percentage of disabled or disadvantaged employees has been reduced from 50% to 30%. Furthermore, it will be possible, for some social services and for a limited period of time (maximum three years), to reserve contracts for non-profit organisations that have a public service mission and are founded on employee participation.

The general measures to simplify documentation and the measures aimed at favouring SME access should also benefit social enterprises (i.e. incentivising the division of contracts into lots and limiting the financial capacity required to participate in a tender procedure to a maximum of twice the estimated contract value).

However, there is a lack of practical guidance on how to procure more effectively and this creates a barrier to the uptake of these suggestions. Various approaches may help to bridge the gap in practical knowledge. For example, in the Czech Republic, the Agency for Social Inclusion has been advising municipalities on how to include social considerations in their public tenders. In Belgium, responsibility for social economy policy is divided between the state and the regions. Over ten years ago, its Federal Public Planning Service for Social Integration, which focuses on social economy, urban policy, and the fight against poverty, established a permanent Working Group on Social Economy, through which it conducts dialogue with the organisations representing social enterprises. It was through such dialogue that the idea of publishing a guide on how to use social clauses was raised. The Planning Service agreed to support the project with a budget of EUR 65 000, which provided for the engagement of experts to ensure a high-quality result. The guide was published in 2013 and was to be followed up with promotional and training activities.

Forms and modalities of interaction are therefore strategic in supporting the development of social enterprises that are truly autonomous and independent. Improvements have been made in both enhancing the element of quality in awarding contracts in the context of public procurement reform, and providing state aid to social and local services. Generally, the design of public procurement is based on achieving the lowest cost for the purchase of goods and services, which means that social enterprises sometimes cannot compete with private sector providers, for example where the social enterprise employs lower productivity workers, such as the disabled, with the aim of integrating them into the labour market.

Box 6: SOCIAL CLAUSE UK

In 2012, the UK Government passed the Public Service (Social Value) Act, which requires commissioning public bodies to consider the 'social value' of procured services in advance of the procurement process, where those services are subject to the Public Contract Regulations 2006. Social value is understood as that which contributes to the social, economic and environmental wellbeing of the area for which the public body is responsible.

Under the Public Contract Regulations 2006, public bodies are required to purchase goods or services either on the basis of price or on the basis of which tender is the most "economically advantageous", which is essentially an evaluation of the quality promised by the tender in accordance with the proposed tender award criteria. Under the Local Government Act 1999, public bodies are also obliged to obtain the "best value", which is a combination of economy, efficiency and effectiveness.

This means that, prior to the Public Services (Social Value) Act 2012, public bodies were able to consider social value but, following the 2012 Act, are now required to consider social value before purchasing services.

However, as a matter of practice, many public bodies are increasingly focusing on price as the differential, as opposed to quality. To some extent, this is a function of austerity and limited public budgets but it is likely to be self-defeating as a medium or long-term approach to commissioning, as it will mean that highly innovative and efficient services may find it difficult to receive the initial investment needed to prove new models and achieve scale.

Source: UK Social Value Act 2012

Currently in Croatia, the Public Procurement Act does not have any special social or environmental impact clauses, as is the case in many EU member states. Although national legislation allows the State to take into account the societal good of awarding a contract rather than basing its decision purely on cost, these provisions are seldom used in practice as public procurement commissioners usually envisage practical difficulties in taking them into account and prefer to see them as optional rather than a requirement to be fulfilled.

Reserved contracts remain one of the rare incentives that stimulate privileged market access for organisations dealing with the social and vocational integration of people with disabilities. Moreover, the Law on Social Care¹⁸, prescribes that large cities and counties are obliged, according to their financial capabilities, to support non-profit associations and voluntary work in social care. As the following case study of the City of Split indicates, there are indeed some good examples currently running that could be used as a

¹⁸ (OG 157/13, 152/14) Art 122

starting point in mainstreaming the participation of social enterprise in public tenders.

Box 7: City of Split

Since 2012, the City of Split has provided support to the social care activities of non-profit associations. Public procurement is one of the envisaged modalities of interaction between the City of Split and non-profit organisations. Based on the Law on Social Care (OG 157/13, 152/14), particularly article 122, which prescribes that large cities and city-county centres are obliged, according to their financial capabilities, to support non-profit associations and voluntary work in social care, the Official Gazette of the City of Split, 22/14, identifies the following modalities whereby non-profit organisations can be supported, namely through:

- funding for projects and programmes of non-profit associations
- public procurement procedures and contracts with selected providers (associations) for social service delivery
- funding for co-financing of projects funded by the EU (at most 10% of the total association's co-financing costs).

According to the latest data from the Register of Public Procurement Contracts¹⁹, the City of Split entered into contracts for service delivery with nine non-profit associations over the last three years. Services delivered include: legal and psychosocial help for victims of violence, psychosocial treatment for perpetrators of violence, psychosocial rehabilitation of people with alcohol dependence, home assistance and care, temporary accommodation of addicts, and temporary accommodation of homeless people. The total amount of paid contracts was around EUR 88 881 in 2012 (four contracts) and EUR 88 577 in 2013 (five contracts).

Source: Rakin et al, 2015

Innovative approaches could, therefore, be fostered by a new partnership procedure where a contracting authority co-operates with a social enterprise selected in a regular competitive tender procedure to develop an innovative product or service, which does not exist in the market. However, the following case study from Sweden illustrates that there are also alternatives to procurement.

Finally, partnership between public authorities and social enterprises and their associations is an appropriate, productive and workable policy for supporting social enterprise at national, regional and local levels. Partnerships can be applied at all stages of policy development, and the success of the following

¹⁹ Available at URL: <http://www.split.hr/Default.aspx?art=2862&sec=652> (Accessed on February 17, 2015)

example, Intervento 18 in Trento, shows that they can be designed in a business-like way.

Box 8: Intervento 18 - Public programmes supporting work integration in the Trento province, Italy

Intervento 18 is an active labour market policy co-financed by ESF through which unemployed people from different disadvantaged groups can find training and jobs in co-operatives in the Trento province, Italy. The provincial government is committed to long-term partnership with social co-operatives. For the last 20 years it has run a wage subsidy programme for social co-operatives, which has encompassed actions to support labour inclusion within the broader realm of social welfare policies. Grants are only made to viable businesses, and co-operatives applying for the scheme are subject to a detailed *ex-ante* evaluation, close monitoring and final evaluation. This incentivises entrepreneurial behaviour and creates sustainable solutions.

The scheme supports the selected co-operatives in the following ways:

- A tapering wage subsidy for disadvantaged workers at the rate of 60% of total labour costs in the first year of employment, 40% in the second year and 30% in the third year. For people with psychiatric problems the subsidy covers 20% of labour costs for six years.
- A 50% wage subsidy for tutors (where there are more than three persons employed) and a 60% wage subsidy for the expert in charge of managing the individual training programmes, hiring new disadvantaged workers, and co-operating with external institutions.
- Subsidies for feasibility studies and business plans for start-ups, training for non-disadvantaged workers in social co-operatives, and investment in new products and procedures necessary for innovation.

The programme's budget has grown over the years from EUR 300 000 in 1994 to EUR 1.5 million in 2010. Four co-operatives benefitted from the scheme on its launch in 1992, and this had risen to 17 in 2011.

1 000 disadvantaged workers have benefitted from financial support. Of these, 21% were drug addicts, 20% had physical disabilities and 15% mental disabilities, 14% were prisoners, and the remainder had other recognised disadvantages. Cost-benefit analysis shows that by taking this approach the government saves about EUR 4 500 per disadvantaged worker per year, which equates to EUR 61 400 per worker over their average working life.

Although the main aim of the scheme is to increase the employment rate of disadvantaged people, the way it is structured has the secondary effect of giving social co-operatives an incentive to act entrepreneurially and improve their productivity. It strengthens their entrepreneurial capacity by also providing training for non-disadvantaged workers.

The Employment Agency of the Autonomous Province of Trento supports co-

operatives in the identification of labour market trends and, therefore, in their response to developing needs. Private businesses benefit from the supply of trained workers. The scheme thus builds a strong relationship between public and private actors, and ensures continuity between social and labour policies

Source: <http://socialeconomy.pl/node/99>

Every partnership-based programme, particularly those for the development of social enterprises, must understand and take into consideration the role of the community. Community involvement can be achieved through the engagement of key stakeholders, supported by a robust process of capacity building. Finally, transparency is an essential attribute of the robust governance that is needed. Transparency in partnership projects helps to maintain trust, but needs to be codified in one way or another. An appropriate way to do this is to include in the memorandum of understanding a protocol for communication within the partnership²⁰.

d. Business support structures

Most studies focusing on social enterprise underline that their survival and growth is also constrained by internal factors, such as lack of viable business models (particularly in the case of social enterprises with a traditional non-profit provenance), excessive reliance on the public sector as a source of income, lack of commercial and entrepreneurial spirit, and lack of managerial and professional skills/competencies necessary for scaling-up activity. Thus, in order to help social enterprises build effective strategies to enter the market, training and support structures are important and should be supported by governments.

Although social enterprise support needs are similar to those of mainstream businesses, social enterprises do have specific features (explicit social aim, business models, target groups, sectors of activity etc.) that create complex needs which require diversified and, at times, tailored solutions. In most countries, specialist support for social enterprises is largely absent and, where it does exist, is limited and fragmented.

Ideally, all SME business support structures should possess the necessary competences and knowledge to extend their support to social enterprises. This would be beneficial not only for the social enterprise community, but also for the entire entrepreneurial community as trainers, mentors and advisors might find themselves in a prime position to combine the pure for-profit behaviour with more responsible and ethical parameters. In the absence of such an ideal, efforts should focus on creating a business support structure through which the distinctive specificities of social enterprises could be recognised and supported in a similar way to the business support enjoyed by

²⁰ The “European Code of Conduct on Partnership” in the framework of the European Structural and Investment Funds, adopted by the European Commission in January 2014, guides member states in organising a meaningful partnership with the relevant stakeholders.

the SME sector. This could include support for start-ups through seed funding, consulting services and other comparable mechanisms. However, a “one size fits all” approach to business support is likely to be suboptimal if it expects social enterprises to require the same services as entirely commercial enterprises and if the offer of information, advice, and consultancy fails to acknowledge the social dimensions which are central to the creation of social enterprises.

In contrast, “braided support”, which incorporates both general business support and support specifically tailored to meet the needs of social enterprise, can be more effective for the start-up and development of social enterprises (Daniele et al., 2009). Engaging with social enterprises and other social economy organisations involved in the provision of such support, can also be beneficial in encouraging social enterprise start-up and development.

According to the OECD (2009), governments should aim to provide a braided system of support for social enterprises, which comprises two strands:

- The mainstreaming of competences to advise on social enterprises within conventional business support services, so as to guarantee the widest possible outreach
- Dedicated support structures for social enterprises that have specialist knowledge and connections to social enterprise networks

Without such business development structures (such as incubators, mentoring and training schemes, investment readiness support etc.), there is a risk that social enterprises will only thrive in given territorial niches or sectors of activity. However, the existing support structures for the social enterprise sector may not be evenly distributed, but tend to be concentrated in those locations and sectors where social enterprises have already established their presence and have a strong integration capacity. Therefore, to avoid that support structures actually aggravate the uneven development of social enterprises, efforts should be made to transfer and disseminate examples of best practice to other areas. This could be facilitated by top-down initiatives by the public administration and by initiatives supported by the most important networks of support structures at national and European levels.

Social enterprises should design the services they need themselves. Apart from the dimension of supporting social enterprises in becoming business- and investment-ready, social enterprises can benefit from training in tender readiness, which can include meetings between procurement officials and social enterprises to discuss the impacts the commissioners wish to achieve, the new solutions that might be possible, and the sort of tenders that might be appropriate. As a next step, social enterprises can be supported to come together to form consortia. If relatively small enterprises are to win large contracts, they must collaborate, and consortia are a way to structure collaboration and to avoid competition. Consortia generally have a positive impact on the business model of social enterprises and co-operatives, by organising the workload that their member co-operatives deliver, and by

helping them reach sufficient critical mass to access larger contracts and wider markets. By joining forces to share the different tasks within a major contract, they increase their productivity. There are good examples of this practice from several countries, such as Scotland (collaboration in networks), the UK and Sweden where groups of social enterprises get together to reduce costs. Beside this ‘cost-reducing’ function, in the Italian experience consortia have developed a much wider role, which has made them true general contractors for their members. This role has proven to be key to social enterprise growth in Italy. However, it should be borne in mind that the process of consortium building in Italy has taken a long time and was not without conflict. An important part of reducing the risk of conflict is to give consortia a clear mandate to act on behalf of their members (SEN, 2015).

The following scheme classifies support infrastructure, taking into account the different needs of start-up and established social enterprises and their different stage of development in the business life cycle.

Table 6: Support infrastructures

Stage of business life cycle	Building awareness and visibility	Developing business ideas	Business planning and development	Social entrepreneurship and leadership development	Growth, scaling, replication
Start-up SE	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub Zagreb - Cooperative for Ethical Financing - Brodoto 	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub Zagreb 	<ul style="list-style-type: none"> - CEDRA HR - Cooperative for Ethical Financing 	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub - Cooperative for Ethical Financing 	
	<i>Promotional campaigns; web strategies</i>	<i>Incubators and workspaces supporting innovation</i>	<i>General skills development; advisory services</i>	<i>Skills development; advisory services; mentoring and coaching; peer support networks</i>	-
Established SE	<ul style="list-style-type: none"> - CEDRA HR; - Brodoto 	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub 	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub - Cooperative for Ethical Financing 	<ul style="list-style-type: none"> - CEDRA HR - Impact Hub - Cooperative for Ethical Financing 	<ul style="list-style-type: none"> - CEDRA HR - ACT Group
	<i>Branding and marketing</i>	<i>Social R&D programmes</i>	<i>Capacity building; strategic skills development</i>	<i>Mentoring and coaching; peer support networks</i>	<i>Consortia; accelerators; diversification; spinoffs; franchising</i>

The focus on social enterprise is rather recent in Croatia, compared to more mature ecosystems and although social enterprise business support structures may appear to be fragmented, they are definitely not negligible. Some of the pioneering organisations, such as the Association for Creative Development SLAP (Waterfall) in Osijek and ACT Group, a consortium of local social enterprises in Čakovec, have grown into strong intermediary organisations providing support to other social enterprise initiatives. In 2009, they initiated 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, annual awards for the best social enterprises were provided in 2011, 2012 and 2013, by SLAP, SEFOR, and the Ministry of Labour and Pension System.

In 2012, SLAP and ACT, in partnership with associations Zdravi Grad Split and the Centre for Technical Culture in Rijeka, established CEDRA HR, the Cluster for Eco-Social Innovation and Development. CEDRA HR links several regional support centres in Osijek, Čakovec, Dubrovnik, Split, Rijeka and Zagreb, and gathers around 40 consultants from across Croatia in providing information, training, counselling, networking, business oriented services and technical assistance.

Another key support structure is NESsT, an international non-profit organisation, which has been operating in Croatia since 2005. It has developed a portfolio approach to social enterprise support. Besides occasional financial grants, NESsT works on capacity building of social enterprise organisations through intensive mentoring. NESsT was the first to start a comprehensive social enterprise support programme in Croatia, which has now come to an end.

In 2007, the national system of support networks for CSOs was established and has been operating ever since. Five regional networks (five regional centres and 15 collaborating organisations) have signed partnership contracts with the National Foundation for Civil Society Development and become Knowledge Centres for Social Development and Regional Support Centres for Civil Society and Local Community Development. These networks provides support and education to local and regional CSOs, particularly in terms of building their capacities for managing EU funded projects. In 2011, The National Foundation, along with the British Council office in Croatia, the Government Office for Co-operation with NGOs and the former Ministry of Economy, Labour and Entrepreneurship organised entrepreneurship activities on social enterprise for CSOs.

Impact Hub Zagreb was initiated in 2011. Since 2012, it has provided a co-working space and a network of individuals and organisations interested in social innovation, social enterprise and social change. In 2014, Impact Hub Zagreb started the Social Impact Award, an educational programme on social

entrepreneurship and social innovation for students. During last two years they developed several programs for incubation and acceleration of business ideas for social enterprises and social entrepreneurs, such as Impact Incubator or Investment Ready Programme. They also established tailored-to-needs Mentoring Model in strategic business planning, implementing change, new business models development and service or product prototyping.

In 2014, the Croatian Centre for Co-operative Entrepreneurship, a public institution, replaced the former Croatian Co-operatives Association. Its founding is regulated by the Co-operatives Act and its Steering Board consists of representatives from corresponding ministries. The Centre keeps records on co-operatives, advocates for the sector and its development, promotes co-operatives, and operates and provides counselling services (Vidovic, 2014).

Reference should also be made to the South East European Centre for Entrepreneurial Learning (SEECEL) which was established in 2009 in Zagreb through the initiative and support of the Croatian Government. SEECEL was co-founded by the former Ministry of Economy, Labour and Entrepreneurship (now Ministry of Entrepreneurship and Crafts) and the Croatian Chamber of Economy, with the full written support of the European Commission and almost all non-EU member states of South East Europe and Turkey. SEECEL works to foster entrepreneur-friendly environments and strengthen mind-sets for building entrepreneurially literate societies that lead to sustainable economic growth and development in South East European countries. Its wide set of objectives allow participating countries to support EU recommendations for the promotion of entrepreneurship as a key competence by addressing the subject in early and secondary education, and in non-business higher education disciplines, as well as by focusing on enterprise-driven training needs analysis with a specific focus on women's entrepreneurship.

Since 2011, SEECEL has been implementing the project "Women's Entrepreneurship – a job creation engine for South East Europe", with the financial support of the Swedish International Co-operation Development Agency. The purpose of the project is to promote women's entrepreneurship through the joint efforts of the public and private sectors and present best practices for women entrepreneurship, as well as building the capacity of national and regional women's business networks and associations. While there is no specific reference to the promotion of social entrepreneurship, SEECEL's structure, orientation and activities could be seen as a promising vehicle to build the dimension of social enterprise development into the centre's objectives²¹.

Finally, under the Leonardo Da Vinci EU VET Programme, the British Council organised training programmes for social enterprises entitled "Skills for Social Entrepreneurs". The British Council also helped to form a pool of trainers that are now part of the Social Entrepreneurship Forum (SEFOR) network.

²¹ Source: <http://www.seecel.hr/home-5026>

Brodoto was established in 2014 as a marketing and public relations agency, specialised in social entrepreneurship and social enterprise. In 2015, Brodoto in partnership with the United Nations Development Programme (UNDP), created the Crowdfunding Academy. The idea was to develop individuals and entrepreneurs' skills in using crowdfunding platforms, as an alternative financial resource to launch or develop their enterprise. They also launched the Crowdfunding Convention Zagreb, an annual event which gathers international and regional (South-East Europe) speakers, meant to promote crowdfunding and to 'build crowdfunding market in South-East Europe'.

Cooperative for Ethical Financing was established in 2014 to manage the process of creation of the first ethical bank in Croatia – 'E-Banka'. The Cooperative gathered hundreds of members, both individuals and legal entities (organisations, companies, cooperatives, local authorities, etc.). The Cooperative for Ethical Financing offers business and/or finance consulting services and education to its members. Though it is not specifically targeting social enterprises, members need to agree to the values of the Cooperative, which closely relate to social economy and social entrepreneurship.

Other actors from business or business-support sector have been emerging occasionally, such as CRANE (Croatian Network of Business Angels), local business incubators, local/ regional development agencies, technological parks etc., mostly in the roles of co-supporters of events, but not specifically oriented to social enterprises.

During these last few years, support structures for entrepreneurs became more vivid in Croatia. Several new co-working spaces, as well as start-up incubators were established in Zagreb, Rijeka, Zadar and Osijek. Recently, alternative financing (including crowdfunding) also became more popular.

The emergence of these initiatives clearly indicates a considerable interest in supporting social enterprise development in Croatia. However, it should be noted that the variety and heterogeneity of the institutions involved increase the risk of intensifying confusion on the definition and institutional characteristics of social enterprise.

e. Banking and social finance initiatives

Historically, support for social enterprises has come largely from public sources, using relatively unsophisticated financial instruments. This has led to a low capacity among social enterprises in accessing private finance, and a low level of interest from financial institutions in developing appropriate products. The general economic environment is currently viewed mainly as a constraint on the continued development of social enterprise (as public spending still remains the dominant source of income of social enterprises).

Yet, it may also provide potential opportunities in new areas of activity and diversification of markets and income sources. In this direction, it is critical to also consider how to support the transition from a generalised grant dependency to a mix of financial products.

While grant funding is important at certain stages, the dependence on grants is a key barrier to the long-term sustainability and growth of the sector. The supporting argument is that grant funding is valuable in the start-up (or even pre-start-up) phases of social enterprise, but it is not a reliable source of long-term funding. Indeed, a common theme of many studies on funding for social enterprises is the difficulty involved in securing risk-taking growth capital (i.e. expansion capital), which is critical for enabling them to move from start-up to the next level of development. A transition away from grant dependence towards commercial finance is crucial for the longer-term sustainability and growth of social innovations.

Lack of, or poor access to, finance is still perceived as the single most significant barrier to the start-up, sustainability and growth of social enterprises. One of the issues raised by start-up social enterprises is the lack of understanding of social enterprises among banks. This is also the case even in more mature advanced environments, such as the UK, in which access to finance ranks top in problems social enterprises face, in contrast with commercial enterprises for which access to finance is the 6th biggest barrier to sustainability and growth (Social enterprise UK, 2013).

Social enterprises and researchers repeatedly stress that conventional investors and lenders do not typically understand the mission and business models of social enterprises. Moreover, specialist investors, financial intermediaries and instruments are currently non-existent or under-developed in most European countries. Consequently, social enterprises find it difficult to access finance from external sources.

Probably most important among the problems to be addressed in that direction is a lack of information and understanding of the social finance market. This invisibility generally refers to a lack of investment and information, as there are few market structures and little evidence-based knowledge which could inform investors' understanding of social value. In several cases, social enterprises have limited credibility as it is often difficult to introduce evidence-oriented elements, such as evaluation. Often, scarce information on best practices in the sector intensifies difficulties and impacts on the implementation of their projects. A lack of policy support and structures to allow social enterprise to easily communicate with finance entities reiterates the perceived invisibility of social enterprise services. The problem of the negative image and perception of social enterprises is especially true among institutional investors such as pension or mutual funds, insurance companies, or traditional banks which manage large portfolios of capital, i.e. a pool of potential funding sources which remain largely untapped.

There also seems to be a mismatch between the supply side (large scale funding from investors) and the demand side (enterprises seeking small scale funding) which impacts the implementation of successful initiatives. In some

cases, such disequilibrium between the demand and supply side may arise because available financial products do not always match the specific needs of social enterprises. For example, the many debt instruments available at the moment do not respond to the urgent need for long-term capital investment essential for the consolidation and growth of some social enterprises. Instead, the availability of quasi-equity²² instruments allows social enterprises to finance growth and to invest in capital equipment and real estate (passive assets) that short-term debt does not permit. In an institutional sense, because social enterprises that are collectively owned do not permit the sale of shares, or, more generally, because shares in social enterprises are not traded on capital markets, quasi-equity allows for capital to remain in the enterprise without conferring ownership.

Often, it is difficult to define, measure, and report social impact, and the lack of appropriate tools designed to evaluate social impact is problematic. The ability to evaluate the actual performance of these enterprises remains a barrier despite the numerous new indicators and evaluation tools now available, as often the most reliable sources of information are anecdotal, i.e. accounts of the impact of social enterprises on their local communities. Because of the hybrid nature of social enterprises and the constraints posed by institutional barriers, perception, and under-developed markets, potential investors simply tracking the performance of these enterprises is insufficient, despite the increasing adoption of a different calculus for expected returns (triple bottom line, blended value, public good, etc.).

The investor community can also contribute to the viability and “investment-readiness” of these enterprises more directly through a variety of means, including participation in multi-stakeholder settings (e.g. local and regional development intermediaries) or collaborating with networks of social enterprises (sectoral or inter-sectoral). In other words, by integrating both sides of the market - demand and supply - investors have better access to their potential market, thereby reducing both the perceived and actual risks of investing. But more importantly, the development of a social capital market takes a different and significant turn if it is designed as a process of co-construction within integrated networks of social finance and social enterprises. Not only would this reduce transaction costs considerably for investors, such a process would also provide much needed support and infrastructure for social enterprises (Mendell and Nogales, 2009).

In summary, insufficient, or less suitable, financial products, mechanisms and corresponding legal frameworks, limited availability of data, a weak culture of social investment in the financial sector, as well as limited investment readiness of social enterprises and difficulties in assessing social impact were also reported to justify relevant interventions.

²² Quasi-equity finance is a hybrid debt type of finance that nevertheless shares some characteristics with equity capital in that it meets the needs of social enterprises for long-term investment capital. Quasi-equity takes many forms including repayable grants, subordinated and unsecured debt (Commission on Unclaimed Assets, 2007).

The direct consequences of this lack of understanding hinder growth opportunities for social enterprises and isolate them in the market. Again, these problems could be mitigated through the sharing of best practices, network-building and shifting mentalities between financial intermediaries, investors and social enterprises. Strong networks and intermediaries are also important, as their absence results in high search and transaction costs, complex deals, and often a lack of understanding of risk. At the same time, it is increasingly acknowledged that finance is not all that is needed to grow the field of social enterprise. Social enterprises often require a broader range of skills than purely commercial activities and address complex social problems, needing to interact effectively with the State as regulator, partner or purchaser, or to engage efficiently with the banking system. To this end, they need considerable non-financial support to enable them to become investment ready.

In this direction, the opportunities offered in the current programming period to couple public money with private funding sources, as well as the variety of financial instruments available under the operational programmes, are expected to facilitate support of social enterprises on the one hand and to act as a driving force in shaping the social finance market on the other. The managing authorities may use the ESF and ERDF contribution, as well as the EU programme for Employment and Social Innovation (EaSI), in order to design the appropriate mix of financial tools - early stage funding (grants), repayable financial instruments (loans and guarantees), as well as revolving funds, equity and quasi-equity support that suit the needs, development stage and business model of social enterprises.

These new financial tools are expected to give pace to the development of the social finance community in Croatia, which is still in its infancy.

The first financial resources designed for social enterprise came from the international donor community. The pre-accession funding sources were consequently used to finance projects, which were mainly related to employment and work integration (of minorities and other vulnerable groups) and partly intended for (innovative) social services in local communities. In the last few years, a number of public financial schemes also emerged to support social enterprises, among others, but they were either discontinued or, according to the experiences of actors and grant receivers, had limited and insufficient resources to secure sustainability or for scaling up (Vidović, 2012).

There is no specialised financial institution to support social enterprises, and mainstream financial institutions are reluctant to extend credit to initiatives with low visibility and with an explicit social mission hard to assess under their internal risk rating systems. Commercial banks rather prefer to approach the social enterprise community through corporate social responsibility activities. In 2013, as part of its SCR programme and in co-operation with NESsT and MLPS, Zagrebačka banka and Unicredit Foundation ran a project to support social enterprise development under the name “My Community”, which ended by awarding a small grant to each of the five best participating initiatives. An interesting dimension of the project however, relates to the extensive

incubation period that NESsT offered to complement the grant and support the development of the selected initiatives.

In general, however, the CSR culture is poorly developed in Croatia. Even though the concept has become more recognisable over the last decade, there are still not many companies with established funding schemes for the social enterprise sector. Moreover, not many corporations are ready to become involved in creating a supply chain with social enterprise actors. One of the rare examples is the Adris Foundation, established by the Adris Group in 2007 as a CSR activity, and allocating 1% of its annual profit to the Foundation. Based on annual tenders, the Foundation provides financing for civil society initiatives, scientific research and individuals, but not specifically for social entrepreneurship. Since 2007, the Foundation has allocated HRK 26.3 million (approximately EUR 3.48 million) to the cause.

Specialised microfinance institutions/structures are not present in Croatia. The majority of micro-loans are provided by the mainstream banking sector, but their share in total outstanding loans is rather trivial. However, CEDRA HR is running a pilot microfinance project in co-operation with the Unicredit Foundation. Equally marginal seems to be the presence of financial co-operatives in the Croatian ecosystem. In 2013, there were 26 credit unions registered in Croatia, regulated by the Credit Unions Act (OG 141/06, 25/09, 90/11). They act as providers of small loans or microfinance to their members, usually small and micro-entrepreneurs and craftsmen, family farms or individuals seeking self-employment that usually do not have access to conventional banking institutions. However, a credit union may only be established by natural persons. It is not allowed for other entities, such as co-operatives and associations to become members of a credit union.

An interesting and promising development has been the recent initiative that aims to create the first Ethical Bank in Croatia. This initiative started in April 2014, with the creation of the Co-operative for Ethical Financing which has set its priorities to sustainable economic development for communities, by serving social enterprises and other subjects with limited access to the financial market. In a short time, the Co-operative has managed to reach the minimum capital requirement that the central bank of Croatia sets in order to grant a license to a new banking institution. It is expected that the Bank may start operating in 2016. At the moment, the Co-operative has 310 members from all Croatian counties, and the current membership fee is HRK 2 500 (around EUR 329). Half of the members are natural persons while the other half are legal entities – including associations, co-operatives, companies (both limited liability and joint stock companies), local authorities, family farms, etc. Moreover, the Co-operative has received EU funding for the establishment of a Social Entrepreneurship Fund, which will operate as an independent financial instrument. As described below, it is the first Croatian attempt to efficiently take advantage of the new financial instruments available under the current framework and match private capital contribution with public/EU funding.

Box 9: The European Union Social Entrepreneurship Funds (EuSEF) “meets” a Croatian Pilot project

The general framework

On 22 July 2013, a new European investment fund label became available, specifically designed to enable investment in social enterprise. The European Social Entrepreneurship Funds (EuSEF) can be marketed to investors who are able to make a minimum investment of EUR 100 000 across the EU, provided a clear set of criteria are met. At least 70% of a EuSEF must be invested in businesses whose primary aim is either to: provide goods and services to vulnerable, marginalised, disadvantaged or excluded people; use a method of production of goods and services that embodies its social objective; or provide financial support only to social businesses that are trying to achieve such aims. The EuSEF label is assigned by way of a three-step process. Firstly, fund operators interested in acquiring the label need to register with the relevant authority in their home member state, which will oversee the compliance of the fund with the EuSEF regulations. Secondly, this information will be passed to the European Securities and Markets Authority (ESMA) so that it can compile a central register of EuSEF funds. Finally, ESMA will inform the relevant authorities of the host member states in which the fund operators plan to market the fund.

Managers running EuSEF will have to measure the social impact achieved by their funds. Although EuSEF are investment funds, one of their innovative features is that they can distribute profits to investors, but only if the payment does not in any way undermine the primary objectives of the social businesses in which the funds had been invested. EuSEF provide an alternative funding mechanism to bank finance, which can be hard to find for social enterprises, which are usually SMEs. On this basis, EuSEF can only invest in unlisted social enterprises, as they do not have access to capital markets to fund their growth.

Pilot project: First structured financial instrument for social entrepreneurship in Croatia

In September 2014, the Croatian Cluster for Eco-social Innovation and Development (CEDRA HR), along with the Impact Hub, the Croatian Leader Network, the European Ethical and Alternative Financing Company (SEFEA) and the International Development Agency (Međunarodna agencija za razvoj) initiated, with the support of the European Commission, a pilot project to develop a EuSEF fund to promote and support social enterprise in Croatia.

The fund will aim to support the creation of innovative and self-sustainable social enterprises that will be able to provide social services or employment to the community on a longer-term basis. With the ambitious target of accumulating capital of approximately EUR 15 million (when fully operative),

partners aim to attract capital from public and private, institutional and individual investors. To this end, they are working to develop partnerships with the European Investment Fund (EIF), Croatian Ministries and Municipalities, and to create a plan to attract “patient” capital from private and individual investors. In brief, the fund aims to attract investors willing to invest more in the social impact rather than the return of profit, and who place equal value on the self-sustainability of funded projects in the medium and long term.

The fund is envisaged to offer the following services and products:

- Equity and quasi-equity instruments
- Securitised or un-securitised debt instruments
- Units or shares of one or several other qualifying funds
- Secured or unsecured loans
- Guarantees

Partners believe that, in order to achieve this goal, the fund itself needs to be sustainable on a longer term and needs to implement a very fine balance between risk undertakings and fair returns from investment that will enable the fund to develop and sustainably grow its portfolio. This will be achieved through the support of a mixed portfolio containing investments with a wide and largely independent spread of risks on the functional or geographical aspects. The envisaged portfolio structure will include projects:

- from established social enterprises
- from new social enterprises
- from established NGOs willing to become social enterprises
- with part of their funding from external sources (EU and national funds)
- with exceptionally important social benefits
- focusing on social innovations

Profits created by investments will be exclusively used for expansion of the capacities and services of the fund.

Source: EC (2015c), *A recipe book for social finance*.

f. Challenges and opportunities

Based on the development stage reached by social enterprises in other countries (e.g. UK, Italy, France) as well as on empirical observations during the study visit, social enterprise in Croatia is currently still at an early stage of development. While there are a number of enabling factors, which could pave the way for social enterprise growth, there is also a set of obstacles which must be overcome to create a favourable environment for social enterprises.

Strengths	Weaknesses
<ul style="list-style-type: none"> - Strong endowment of human capital, including for social enterprise development - Growing number of associations - Growing political will (social enterprise mentioned in several policy documents) - Strong commitment of the MLPS - Good examples of well-functioning networks - Innovative examples of good practices of social enterprise - Increasing number of researchers interested in exploring the topic 	<ul style="list-style-type: none"> - Difficulties in defining the universe of social enterprises (e.g. associations supplying social services not included in existing statistics) - Low awareness of the potential of social enterprises as providers of a wide range of general-interest services - Lack of understanding of the key features and aims of social enterprises - Low propensity towards entrepreneurship - Recognition – on the part of policy makers, practitioners, and donors – only of specific types of social enterprises - Low visibility of social enterprise and social benefit delivered - Legal inconsistencies - Incomplete decentralisation and difficulties in implementing it owing to the current administrative structure (lots of small municipalities) - Corruption - Lack of appropriate/enabling fiscal framework - Lack of managerial skills and competences of social entrepreneurs - Fragmented and circumstantial support - Insufficient self-organisation of social enterprise
Opportunities	Threats
<ul style="list-style-type: none"> - Deinstitutionalisation and privatisation trends - EU Directive on Public Procurement - ESF to pave the way for significant funding opportunities - Adoption of the National Strategy for the Development of Social 	<ul style="list-style-type: none"> - Lack of understanding of the social enterprise concept can result in the adoption of inadequate support policies and inadequate choices in terms of government and management tools adopted by social entrepreneurs who fail to valorize the competitive advantages of social

<p>Entrepreneurship</p> <ul style="list-style-type: none"> - Legislation on co-operatives recognises social co-operatives (although it fails to regulate them) - Existence of a few cases of fruitful relations between social enterprises and public authorities that may be replicated - Initiative to create an Ethical Bank 	<p>enterprises.</p> <ul style="list-style-type: none"> - Public procurement: Adoption of inadequate clauses and rules can create technical obstacles and practically exclude social enterprise access to public contracts as well as pushing towards isomorphic practices to the detriment of beneficiaries - Financing: Possible mismatch between demand for funds/finance and funding/financial support offered - Small organisations may have difficulties in competing for European funding and be hence excluded - Risk of lower engagement of volunteers - Fiscal inconsistencies may threaten social enterprise sustainability
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4. STRATEGIES AND SPECIFIC RECOMMENDATIONS AIMED AT CREATING AN ENABLING ENVIRONMENT FOR SOCIAL ENTERPRISE

a. The National Strategy for the Development of Social Entrepreneurship 2015-2020 : some considerations

The long period of public consultation that preceded the drafting of the final text on the Strategy for the Development of Social Entrepreneurship 2015-2020, is indicative of the difficulties, observed also in other EU countries, of reconciling the often conflicting approaches of social enterprise (social enterprise, social entrepreneurship, social entrepreneur). However, this review has consistently referred to the importance of understanding the differences in terms (social enterprise, social entrepreneurship, social entrepreneur) that, while used interchangeably, do not have the same meaning, and intensify confusion. It was therefore very important that the Strategy be informed by the most adequate terms, in line with literature and the European definition of social enterprise (See Table 1).

Social enterprises have an impact that transcends conventional policy pillars (economic, social, local development), and as the Strategy itself acknowledges the intrinsic potential of social enterprise to tackle pressing social needs and efficiently address the consequences of the crisis, it is important to see that it is adopted by the Croatian Government as a whole and that different ministries are concerned by the implementation of its various activities. Such a development could highlight social enterprise as a top priority, and could definitely facilitate the necessary actions of the relevant ministries and managing authorities. At the same time, it would ensure that the necessary cross-departmental (inter-ministerial) committees would be established to ensure policy coherence. Finally, it would confirm that social

enterprise policy would also be vertically coherent among the different levels of public administration.

One of the measures of the growing credibility of social enterprises is the rising expectation policy-makers have of them. The Strategy recognises the social added value of social enterprises and defines criteria that promote their identity and visibility and encourage best practice. However, the result of this is that there is an increasing demand for evidence of their social impact. In this direction, the text supports the development of social impact measurement methods to provide an evidence base for this distinctive performance and legitimise any preferential treatment on behalf of the public authorities. Still, having a social impact is not enough to define an enterprise as social. That said, if well designed, impact measurement can be a good way for a social enterprise to strengthen its identity by providing its members with feedback on achievements and promoting itself to funders and customers. In essence, impact measurement should be primarily considered as a self-assessing tool to consolidate the social enterprise's ability to constantly improve its operation, and, as such, should be a workable, proportionate and flexible system, based on indicators that are chosen by the enterprise to reflect its own objectives. Thus, if they are to be accepted and effective, impact measurement tools must be flexible enough to cope with the wide variety of organisational types and goals which social enterprises embody. Social enterprises and their support bodies should be closely involved in defining these measurement techniques, in the process of their standardisation, and in adapting them through practice. This perspective has also been adopted by the National Strategy.

In this direction, the role of the Registry of Social Enterprises is pivotal in monitoring and reporting on activities and impact delivered by social enterprises. As such, it is a powerful policy tool for the government. It can effectively promote the development of social enterprises and design detailed evidence-based policies to support them. Thus, as foreseen in the Strategy, which refers rather to a "registry of social entrepreneurs", it should be timely and appropriately resourced to effectively perform its institutional role, and provide the necessary documentation on the actual performance of social enterprises.

Moreover, the role of the Council and of the competent authority responsible for the implementation of the Strategy, will be highly facilitated by the "competence centre". This centre, introduced by the Strategy, is expected to act as the national depository of best practices, statistical evidence, promotion and dissemination of research results, and the critical node in connecting theory with practice and policy development. Needless to say that such a "competence centre" should be connected with the support structures of social enterprises, their regional and national associations and consortia that will be developed over time, and the research community that is increasingly engaging in investigating this type of enterprise.

An additional point concerns the rather limited reference in the Strategy's text on possible transnational co-operation initiatives. In order to accelerate the

implementation phase and further secure the quality of the implemented actions, peer learning, technical assistance and learning networks should be connected to all possible dimensions of strategic priorities and relevant activities.

A final point refers to the pilot actions envisaged to be developed and supported under the National Strategy. Any priority pilot action should serve a triple role:

- Serve as a driver for social enterprise support at all levels: administrative and legal frameworks, public support schemes, provision of support services, and social finance.
- Allow the collection of empirical evidence on the state and development of social enterprises in Croatia, and mobilise stakeholders to update and inform a fully-fledged strategy and action plan.
- Test promotional approaches and instruments and find out what works and why, (and what does not work and why), and thus provide a basis for informed decision-making on public action.

Overall, the pilot actions should test the best ways to develop an ecosystem for social enterprise in Croatia, and explore ways to overcome the barriers resulting from a possible fragmentation of efforts and lack of critical mass, low levels of skills and capacity, the absence of role models and champions, and the difficult access to finance.

Along these lines, it is suggested that the implementation phase of the strategy:

- Adopts the most adequate terms, in line with literature and the European definition of Social Enterprise.
- Is constantly supported at the highest possible level, while implementation/co-ordination responsibilities rest with the MLPS, where the ESF managing authority is also hosted.
- Ensures that social enterprises and their co-ordinating bodies will be closely involved in defining impact measurement techniques, standardising impact assessment tools, and adapting them through practice.
- Ensures that the resources required to establish a “competence centre” are channelled to connect theory with practice, and that policy development introduces appropriate pilot actions to develop an ecosystem for social enterprise in Croatia.
- Anticipates appropriate transnational co-operation initiatives, to accelerate and secure the quality of the implementation phases and actions, peer learning, technical assistance and learning.
- Provides for the necessary resources to secure the timely and coherent implementation of the Strategy.

The following sections are intended to develop more specific and targeted proposals to further facilitate the creation of an enabling framework for social enterprise development.

b. Improving the legal and fiscal environment

The first requirement to fully exploit the social, economic and employment roles of social enterprises is to create a legal and fiscal context that does not disadvantage social enterprises in comparison with conventional enterprises. Moreover, effort should be made to establish an enabling public procurement regime to ensure that social reference will be adequately addressed.

Legal environment

A shared definition of social enterprise is important to fully exploit the competitive advantage of social enterprises in relation to other organisations. It helps prevent abuses of the social enterprise legal form/status and is a pre-condition for the development of targeted policies that can contribute to tackling key social problems. The existence of an *ad hoc* legislation is an important but not essential condition for the development of social enterprises, when the existing legal forms (e.g. associations and co-operatives) allow for the provision of general interest services to the community. The high degree of permissibility of conducting economic activity by non-profit organisations (e.g. associations and foundations are allowed to conduct economic activities as primary activity) and/or the general-interest orientation of co-operatives appear as important pre-conditions, which have paved the way for the development of social enterprises as associations or co-operatives. The existence of a social enterprise law can contribute to supporting the growth of the sector, provided that it clarifies the goals and constraints social enterprises are expected to comply with. Since the 1990s, a set of laws aimed at both defining the main features of social enterprises and regulating their development across Europe has been introduced in specific EU countries with a view to supporting the diffusion of social enterprises. Social enterprises have been acknowledged and regulated either as social inclusion tools or as a means of tackling key general-interest issues through the direct commitment of the citizens concerned. Thanks to *ad hoc* legislations, social enterprises have gained visibility and have become countable as a specific type of institution. Nevertheless, not all legislations designed to regulate social enterprises have been successful. In some cases, *ad hoc* legislations have been followed by a dramatic increase in the number of new social enterprises (UK, Italy), in other cases they have either succeeded only partially (France) or have, overall, failed (Slovenia). Several failures have been triggered by the introduction of poor legislations, which have been artificially transplanted from one context to another, ignoring the advantages and limitations of each legislation and without adjusting them to national contexts.

Legislators and policy makers should consider the following:

- The tendency of favouring a generic definition should be strongly opposed. Borders between social enterprises and conventional enterprises should be clearly set. (See the experience of Lithuania in Box 11 below).
- Social enterprises should be legally bound in the pursuit of general-interest aims.
- Social enterprises should comply, at least partially, with the non-distribution constraint.
- Limitations on economic activities should be reduced, provided that the definition of social enterprise is clear, but restrictive.
- A wide range of activities should be envisaged that can be carried out by social enterprises as a key pre-condition to allow for the exploitation of their full potential. Social Enterprises are likely to work in any field of activity that is of interest to the entire community or to specific fragile groups of the population.
- Eligible activities should not be limited to employment integration, but should also include the provision of social services addressed to the entire community with the possibility of expanding into innovative fields (e.g. culture, environment, local development, etc.). There are several fields where the potential of social enterprises in Croatia is far from being fully exploited.

These include personal services and, in particular, social, educational and health services. These services are characterised by increasingly diversified demand in situations where, on the one hand, the public supply of these services is limited and decreasing while, on the other, the quality of the private for-profit supply is variable and uncertain.

Another expanding field is community services, including the management of cultural institutions, water resources, waste disposal, public transportation, and renewable energy sources. All these activities are characterised either by natural monopolies or low and uncertain profitability. Social enterprises are best suited for providing services under these conditions due to their participatory membership and governance models.

- The engagement of all stakeholders (including beneficiaries, workers, volunteers and donors) in the social enterprise membership and governing bodies should be encouraged.
- Social enterprises should be treated according to their special nature and be guaranteed a level playing field with competitors.

Box 10: Social enterprise law in Lithuania

Lithuania Social Enterprise Law IX 2251 was passed in 2004 (amended in 2011). It defines a social enterprise as “any sort of enterprise that is set up to create employment for people that are severely disadvantaged in the labour market”. The Law distinguishes two types of social enterprise: social enterprise (40% disadvantaged people) and social enterprise of the disabled (50%) “Social enterprise” status can be obtained by a legal entity of any legal form (except for state and local authorities, trade unions, religious communities and associations) that meets the prescribed conditions. The law does not provide for additional criteria such as regulations to reinvest profit, to remunerate employees fairly or to engage representatives of the main stakeholders or the members of the target groups in the governance of the social enterprises. These circumstances have led to an increasing number of abuses of the law.

Source: EC, 2015a

Fiscal environment

Provided that the legal and institutional suggestions drafted above are met, an enabling fiscal framework is also required to take into account the social mission of social enterprises and support their development. Industrial policies should be consistent with the features of social enterprises including, for instance, non-taxability of profits moved to assets locked, and provision of consulting services and targeted incentives for activities performed (e.g. work integration). More specifically:

- Whilst many other social economy organisations, such as charities, may enjoy fiscal relief, social enterprises frequently find themselves excluded from such benefits. Regulators should work to create a level playing field.
- Fiscal and social security deductions should be envisaged for disadvantaged workers employed.
- Social enterprises should be exempt from tax on reinvested profit.
- Reserve funds, development funds and mutual funds should be encouraged among social enterprises by enabling fiscal treatment in their operational role and tax exemptions in their formation.
- Fiscal incentives, including tax credits, subsidies and enabling tax legislation, can facilitate the channelling of investors/private funds to social enterprises.
- Social enterprise start-ups should be encouraged within a supportive fiscal framework.

- A favourable VAT regime should apply to products and services of social enterprises.

Box 11: Fiscal benefits awarded to social co-operatives in Italy

Unlike social co-operatives in Croatia, social co-operatives in Italy benefit from specific tax breaks intended to recognise the social responsibilities they undertake. More specifically, there is no tax on: i) reserves accumulated by social co-operatives, and ii) social co-operatives' contributions to the mutual fund of co-operatives (social co-operatives have their own mutual financing mechanism aimed at supporting the development of new social co-operatives; 3% of annual income is dedicated to the mutual fund). In addition:

- “A” type social co-operatives²³ charge 0% or 4% VAT compared with the 20% standard VAT rate charged by for-profit enterprises. The legal act governing VAT in Italy is DL 633/1972, which was subsequently amended. The most recent version states that goods and services are subject to 4% VAT where the provision of health, social and educational, etc. services are provided for the elderly, the disabled etc. by social co-operatives and their consortia. Law 381/1991 states in Article 7.3 that the provision of health, social and educational services by social co-operatives will be subject to 4% VAT. Under Article 10 of regulation DL 633/72 reference is made to ONLUS (voluntary organisations, social co-operatives and non-governmental organisations). According to this article, the provision of health and social services, etc. by public bodies and by the ONLUS is exempt from VAT. To avoid confusion, the Italian Ministry of Finance released an official document in 1998, which states that social co-operatives may choose the most advantageous of these regulations. However, all the activities carried out should follow the same regime and the organisation will not be able to change its VAT regime during the same fiscal year.
- Disadvantaged members integrated by “B” type²⁴ social co-operatives are exempt from payment of national insurance contributions.

Public procurement

An important dimension of the proactive role of public administration in paving the way for the sound development of social enterprise relates to the creation of a level playing field for access to public funding and public markets: in this perspective public procurement policies are central. Clear and transparent public procurement rules and procedures should be installed to favour social inclusion and support social enterprise growth. To this end, and in order to

²³ “A” type social co-operatives can deliver health, social or educational services. Workers, volunteers and beneficiaries can be members of the co-operative.

²⁴ “B” type social co-operatives reintegrate disadvantaged individuals into the labour market.

introduce adequate social clauses and allow social enterprises to compete effectively in public procurement markets, the following should be considered and addressed:

- Croatian authorities should design a clear public procurement regulatory framework to enable social enterprises to participate in public tenders.
- A coherent framework requires strong collaboration between governmental departments. The Ministry in charge of the Strategy should establish working groups to put in place the necessary provisions.
- In this direction, a permanent dialogue between the contracting authorities, the social enterprise community and experts should be established.
- Finally, it is suggested that a public procurement guide should be developed alongside the necessary promotional/training activities to facilitate timely and efficient implementation of the EC Directives.

c. Implementing subsidiarity at all administrative levels

Decentralisation is a complex and multi-faceted concept that comprises fiscal, political and administrative dimensions. In essence, it implies the distribution of responsibilities and sources of funding. Local government units carry out matters of local importance in order to meet the needs of citizens directly. The decentralisation process includes the devolution of responsibility for public outlays, revenues and transfers from central government to local government levels. Through decentralisation, decision-making is brought closer to citizens and local development initiatives are encouraged (Halid and Tolić, 2009). A key advantage of a decentralised system of government is its capacity to better match public spending to the heterogeneous needs of individuals living in different territories. In addition, decentralisation encourages the mobilisation of under-used resources, which can be harnessed by local authorities to pursue welfare and development goals (Puljiz, Maleković and Bartlett, 2011). By empowering local governments, decentralisation may create a more enabling environment for social enterprises, which can play a role in developing local welfare policies in co-operation with local authorities. The diffusion of social enterprises has been especially dynamic in countries that have implemented decentralisation policies in the delivery of social services, faced with growing pressure on public finances. In responding to fiscal crises and to the declining legitimacy of welfare systems, social enterprises have offered an appealing alternative to the provision of social services by public agencies. The resulting decentralisation generated new spaces for intervention by, and public resource flows towards, the new entrepreneurial forms, whose consolidation took place in markets for welfare services (Borzaga, Depedri and Galera, 2015).

The increasingly high percentage of income generated from public contracting accelerated the diffusion and consolidation of social enterprises. As a result, the supply of social services also increased.

Further decentralisation may, therefore, help to create an enabling environment for social enterprises. In Croatia, the decentralisation process started 15 years ago, but is still not very advanced. This is particularly the case in the supply of social services and welfare care, where the majority of funding still comes from a central state budget.

Due to their lack of visibility, social enterprises are not yet perceived as welfare providers and they are not integrated into the welfare system. Added to this, previous experience of state corporatism and paternalism under the socialist regime nourishes negative sentiments towards private welfare providers.

The EU accession process and, more specifically, Croatia's participation in cohesion policy, has created new opportunities for the empowerment of counties, in terms of both their financial and institutional capacities (Puljiz, Maleković and Bartlett, 2011).

However, the complex territorial structure and extreme fragmentation in Croatia pose significant challenges to the ongoing process of decentralisation. Indeed, many municipalities in Croatia are too small and do not have the capacity for good management, or for the mobilisation and use of resources necessary for their further development (Maleković and Puljiz, 2010). In essence, financial decentralisation will not be feasible without ensuring the financial capacity and adequate human resources of the local government units (Puljiz, Maleković and Bartlett, 2011).

In summary, further changes in both decentralisation and regional policy are needed to ensure adherence to principles of subsidiarity.

- Central government should create enabling conditions that allow local units to take on more responsibilities.
- Central government should build capacities of local units in the planning, financing and management of decentralised functions.
- Consistent co-ordination between different levels of government, namely central, county and municipality levels, should be ensured.
- Financial autonomy should be awarded to local units so that they have sufficient revenues to realise delegated functions, including the supply of welfare services, which could be outsourced to social enterprises.

d. Ensuring an optimal use of European Structural Funds

As already highlighted, European Structural Funds are the most powerful tool the European Commission can use to develop social enterprises. To take full advantage of this dynamic funding framework, it is essential that the Operational Programmes avoid any technical

obstacle that might prevent social enterprises from accessing and being eligible for social policy experimentation and social innovation projects.

The recent OECD report on “Social Innovation Policy Framework for Croatia” (OECD 2016, forthcoming) explores the possibilities of the use of the EU Structural Funds for the benefit of Croatia and provides a number of practical suggestions.

Consistent with ESF priorities and based on the lessons learned from social enterprises in other EU member countries:

- The Croatian Government should define consistent rules to manage ESF resources. The use of ESF and ERDF should strengthen the ability of social enterprises to:
 - Support the creation of new employment, including employment of youth (e.g. by supporting the setting-up of new social co-operatives to integrate people at risk of labour market exclusion).
 - Integrate the supply of social services that are better suited to meet new needs arising in society, including services addressed to disadvantaged people, children and youth, and more general services addressed to the entire community.
 - Improve access to primary health care in the country, including isolated areas and the islands.
- ESF should be used to support awareness-raising programmes aimed at promoting the role of social enterprises as welfare providers.
- EU funding could be used to set up and launch financial instruments responding to the specific needs of social enterprises.
- To avoid grant dependence, applicants should be carefully selected. This will ensure that ESF will not nourish an artificial growth of social enterprise.
- Application procedures should not discriminate against small organisations given their obvious organisational and human resource constraints.
- Funded projects should be encouraged to lead to the sustainability of social enterprise activities.
- To ensure the consistent use of Structural Funds, as well as supporting the start-up of new social enterprises, Croatian Structural Funds should also support the transformation of existing organisations towards a social enterprise model (e.g. co-operatives and associations). Evidence from most countries where social enterprises are well developed (e.g. Italy, France and Belgium), confirms that most social enterprises have evolved from existing organisations and they are especially developed

when they have managed to remain connected with the movements that furthered their development (e.g. co-operative movement)

- The impact of projects financed through Structural Funds should be carefully monitored and assessed.

e. Creating a social finance community

During this programming period, Croatian public and local authorities could rely on the horizontal actions the EC has committed to develop in order to facilitate the exchange of experiences and support the exploration of new financing tools and instruments, as well as innovative financing mechanisms. This is in addition to the provision of support services for social policy experimentation in the EU (communication, training tools, and tailor-made advice on social policy experimentation).

However, as more social enterprises seek external sources of financing, interventions that were useful in shaping the right mix and culture in a social finance community have proved that finance is not all that is needed to grow the field of social enterprise. Instead, social enterprises require considerable non-financial support to enable them to become investment ready. Imperative in any funding and financial support for new social enterprises should be the parallel provision of business support, preferably throughout the entire start-up phase, but also during subsequent development phases. It should also be kept in mind that social enterprises take a long time to grow and to reap returns. To this end, it should be acknowledged that long-term perspectives and patient capital are key. The returns on social enterprises are not always, in fact rarely, reflected in profits, as most initiatives address a social need and, therefore, help reduce public spending on that particular need. Thus, returns can also be seen through savings to public expenditure.

It is along these lines that the following recommendations to nurture a social finance community and culture are based:

- Capacity building should focus on and involve all relevant stakeholders: public administration, financial intermediaries and investors, social enterprises and their associations.
- Analysis of the demand side should be carried out at an early stage as it offers the qualitative characteristics necessary to introduce adequate parameters in financial tools to meet social enterprise needs. In addition, it identifies the “financing gap” and thus helps in allocating the right amount of funds and the right mix of tools to cover it.
- Access to resources and/or funding must be available in different forms at the right time, from access to public procurement or small experimental grants to investments in large projects likely to bring substantial social benefits in the medium to long term.

- Social enterprises need access to intelligent funding sources (grants, debt, equity, guarantee funds), according to their development stage. Different development stages mean different levels of risk. Thus:
 - Financial support should combine different tools (grants, loans, guarantees, quasi-equity etc.) to meet different needs, and should come from multiple sources (public, ESF, ERDF, EaSI Programme, private funding etc.), with a growing emphasis on private and social economy financial institutions and resources.
 - Balance in available funds should be maintained as in many cases it has been observed that there is a fair amount of capital available to create new social enterprises, but very little available to scale-up.
- Social investment funds with regional partners enhance their importance as a source of financing, especially in the mid-term. They are often the primary source of seed-money for socially focused actions and projects.
- Microfinance structures could be developed in parallel, to cover the funding needs of initiatives deemed as less profitable by mainstream banking institutions.
- Crowd-funding initiatives may also bridge the finance gap especially for local projects, provided that the right regulatory framework is in place.
- Investors and private funds should be encouraged to provide social enterprises with funds through fiscal incentives (including tax credits and subsidies) and enabling tax legislation.
- An important aspect of risk management is the development of a comprehensive set of mechanisms and tools for monitoring the progress of financed projects in a timely manner and mitigating newly identified risks and issues. These tools will be extremely useful in spreading the culture among conventional banking institutions and investors and developing skills in financing social enterprises.
- Strong networks and intermediaries should be promoted. Lack of efficient intermediation, results in high search and transaction costs caused by fragmented demand and supply, complex deals, and a lack of understanding of risk.
- The creation of a single portal, or “one-stop-shop” funding website, could facilitate the matching of demand and supply.

f. Strengthening self-organisation by the social enterprise community

Research confirms the crucial role played by umbrella organisations in supporting the growth of social enterprises. In some countries, co-operative movements have played an important role in legitimising the emergence of a new type of co-operative with a declared social aim, and have successfully lobbied for the introduction of enabling policies by participating in the drafting of new legislations and policies. Networks have also been an important

strategy, whereby social enterprises have succeeded in matching the growing demand for services, not by increasing the size of the individual enterprises, but by spinning-off new initiatives, thereby also pursuing a specialisation strategy, while maintaining their locally embedded dimension. Social enterprise networks and/or some form of mutual support structures exist in almost all EU member countries. The experience of Italy, France and the UK shows that these can play an important role in supporting the development of the sector by offering support, guidance and advice, as well as acting as an advocate for the sector. For example, social co-operatives consortia are the most common support structure for social enterprises in Italy and provide training and consultancy support to their members. Another example is the business and employment co-operatives in France (*Coopératives d'activités et d'emplois*), which utilise peer support to assist new entrepreneurs. Similarly, in the UK, several umbrella organisations for social enterprises have been established and have played an important role in both bringing recognition to the sector and in the development of a range of policies (EC, 2015a).

The key role played by networks also appears in negative terms: the emergence of social enterprises where networks are weak or almost inexistent has been much slower and more complex compared to countries distinguished by strong networks.

The Croatian social enterprise landscape is distinguished by several networks. Of note are the Social Entrepreneurs Forum (SEFOR) and the Croatian Cluster for Eco-Social Innovation and Development (CEDRA HR). Sefor is organised as an informal network and advocacy organisation that brings together 50 multi-sectoral representatives engaged in the development of the social enterprise sector. CEDRA HR is a support platform that links civil, private and public actors. It currently connects 40 expert consultants or trainers in six support centres in major Croatian cities, who provide education and consultancy support to the social enterprise sector. Another key support structure is NESst, which is an international non-profit organisation, which has been operating in Croatia since 2005. It has developed a portfolio approach to social enterprise support. Besides occasional financial grants, NESsT worked, until recently, on the capacity building of social enterprise organisations through intensive mentoring.

Concerning co-operatives, the Croatian Centre for Co-operative Entrepreneurship, (considered the successor of the Croatian Co-operative Association although it is a state structure), provides non-financial professional support and consulting services to its members, and is also involved in advocacy and promotional activities in the interest of the sector.

The role of networks could be strengthened further:

- The Croatian Centre for Co-operative Entrepreneurship could play a lead role in supporting the growth of social co-operatives in Croatia by lobbying for an improvement of legislation to define key features of

social co-operatives, develop an adequate fiscal framework, and implement enabling support policies.

- A national network of individual researchers, who are committed to studying social enterprises from different disciplinary perspectives, could be set up with a view to overcoming the fragmentation of research on Croatian social enterprise and encouraging a more effective communication strategy to disseminate research findings (See Box 13).
- In addition to the Croatian Centre for Co-operative Entrepreneurship, a self-regulatory co-operative body representing the interests of the sector should be set up, including the formation of consortia, which can manage larger contracts. This could be an efficient solution to the small scale of social enterprises needs and to provide cost-effective solutions.
- Partnerships could be formed with similar networks in other EU member states where there is consolidated development of social enterprises. Tutorship could also be included as a tool to facilitate knowledge transfer on how to exploit networking.

ESF should provide substantial support to organisations and networks that play a key role in supporting the scaling up of social enterprises.

g. Developing a strategy aimed at enhancing the embedded voluntary culture

In the context of the development of social enterprises across Europe, several initiatives developed to respond to emerging needs that were ignored by for-profit enterprises and were not adequately addressed by public policies. Many social enterprises were, indeed, initially started as groups of volunteers or self-help groups within local communities and managed to organise concrete responses by instigating entrepreneurial initiatives and mobilising a mix of resources. They have responded to new and unmet needs, often relying substantially on voluntary work, especially in the start-up phase.

In Croatia, national as well as local and regional government support for the development of volunteering is still rather weak and the potential of volunteers in supporting the growth of social enterprises is not fully acknowledged. Voluntary work takes place in some of the activities of associations and is present especially in the following areas: ecology, charity work, children and youth, the elderly and sick, etc.²⁵ However, despite a growing number of associations, the extent of civic engagement, measured through membership of organisations and level of volunteering, is considered to be the weakest aspect of civil society in Croatia. The 2010 Civil Society Index Country Report

²⁵ http://www.vcz.hr/userfiles/SMART_Volunteering%20infrastructure%20in%20Croatia.pdf

for Croatia indicates that only 17% of citizens are members of a civil society organisation, while, on average, less than 7% of the population undertakes voluntary work. There were 25 000 volunteers that donated more than 1.5 million volunteer hours within NGOs, but only 500 NGOs reported organising volunteer programmes in 2013.

In 2013, the offices of the Croatian Government and other public institutions included more than 48 000 volunteers throughout Croatia in the implementation of projects and programmes of civil society organisations funded by government bodies. The largest number of volunteers was involved in the implementation of projects and programmes for democratisation, civil society development and volunteerism, strengthening social cohesion and the development of philanthropy. The 264 projects and programmes within this area included a total of nearly 18 000 volunteers.

Compared to other EU countries, the contribution that volunteers could make in Croatia is far from being fully harnessed.

When looking at the social enterprise experience, one explanation is that not all entities that compose the social enterprise landscape are allowed to engage volunteers. Social co-operatives are not allowed by law to involve volunteers in their membership. Conversely, similar to other countries, the contribution of volunteers in supporting the growth of social enterprise is key. Thus, social co-operatives that rely on voluntary work are either obliged to deny the engagement of volunteers or set up associations to institutionalise the involvement of volunteers, with a consequent increase in costs and organisational complexity.

A number of key reforms are required to fully give value to the contribution of volunteers to the development of social enterprises:

- Revise article 66 of the Co-operatives Act to legitimise the engagement of volunteers²⁶.
- Create bridges with Volunteer Centres so that social enterprises may have access to the training programmes, activities, etc. promoted by the Volunteer Centres.
- Encourage/develop volunteering in schools.
- Launch special programmes to create a new civic service in Croatia.
- Recognise volunteering in the process of employment and formal education.
- Strengthen collaboration between the academic community and civil society organisations in the field of planning and conducting research studies on volunteerism.

²⁶ According to the legislation in force co-operatives are not allowed to engage volunteers.

h. Raising awareness of public authorities and practitioners on the potential and specificities of social enterprises

In Croatia, public authorities and practitioners still struggle to understand the characteristics, roles, and potential of social enterprises.

For this reason, the development of a “common language” among public/local authorities and the social enterprise community is very important. At the same time, it would be particularly useful to link the responsible authorities (and more specifically the ESF managing authority), to their member state’s corresponding network and gradually establish “learning networks”, to facilitate the transfer of best practices and peer learning in supporting and promoting social enterprise development in Croatia.

This report suggest that the Ministry of Labour and Pension System, which also manages the ESF in Croatia, takes the lead in promoting a set of activities in co-operation with the stakeholders who participated in developing the National Strategy for the Development of Social Entrepreneurship. Activities promoted should aim to increase the awareness of policy makers, public authorities and practitioners on the importance of social enterprises in Croatia.

Activities to be developed may include:

- Organisation of seminars and conferences (in co-operation with researchers and universities) aimed at learning from the experiences of other countries.
- Creation of a website, linked to the Ministry of Labour and Pension System website, where examples from Croatian and international social enterprises are described and widely disseminated.
- Organisation of study visits to other EU countries with a consolidated social enterprise sector (in co-operation with consortia of social enterprises).
- Support for research activities in co-operation with Croatian researchers.
- Support for the participation of policy makers and networks of social enterprises into capacity building activities, such as those organised by the EC and the OECD.

The Social Innovation Policy Framework for Croatia report (OECD, 2016) also refers to the importance of the awareness raising of public authorities and practitioners on the potential and specificities of social enterprises and social innovation and suggests a number of awareness raising measures.

i. Building the skills and competences of relevant stakeholders, including: practitioners, public officials, policy makers, financial providers, donors

A lack of public understanding about the role of social enterprises and their impact on well-being means that social enterprises are not widely recognised as an important and specific form of entrepreneurial activity. Moreover, education on social enterprises is either limited or absent from most public and private educational programmes. Consequently, social enterprises are often unable to find trained personnel and end up copying the management practices, organisational strategies, and impact-assessment methodologies of investor-owned firms.

It is recommended that:

- The MLPS builds bridges with the research community to promote a management culture that is consistent with the values and principles of social enterprises.
- Seminars, workshops and conferences should be promoted with a view to building the skills and competences of practitioners, public servants, policy makers, financial providers, and donors.
- Capacity building initiatives and conferences should be aimed at:
 - supporting a shared understanding of what constitutes a social enterprise
 - promoting a stronger awareness about the intrinsic features of social enterprises
 - reversing the practice of altering the management of social enterprises to that of for-profit enterprises
 - supporting new research on management practices and governance models, in co-operation with social enterprise networks, umbrella bodies and universities already committed to studying social enterprises, and seeking to develop the managerial skills of co-operative leaders through innovative training and university courses based on recent research findings.

5. IMPLEMENTATION PLAN

Recommendations to improve pre-conditions and facilitate the successful launch of the National Strategy for the Development of Social Entrepreneurship:

WHAT	HOW	WHO
Short to medium-term		
Improving pre-conditions and facilitating the successful launch of the Strategy	<p>Monitor the implementation of the Strategy at the highest possible political level and delegate its implementation/co-ordination responsibilities to a competent Ministry (preferably the MLPS as the managing authority for ESF)</p> <ul style="list-style-type: none"> ● Provide the necessary resources to secure its timely and coherent implementation ● Provide for the establishment of a “competence centre” to connect theory with practice and policy development by co-ordinating available resources and capacities (in co-operation with other stakeholders) ● Support awareness-raising programmes aimed at promoting understanding of the intrinsic features of social enterprises ● Support new research on social enterprises and develop innovative training and university courses based on recent research findings ● Include all relevant stakeholders in all stages to ensure transparency of design and implementation of interventions ● Support the creation of a single portal or “one-stop-shop” funding website, to facilitate matching of demand and supply in co-operation with interested stakeholders ● Develop and support appropriate transnational co-operation initiatives, to accelerate and 	<p>Central Government, MLPS, social enterprise networks and associations, universities, research community</p>

	secure quality of the implementation phases and actions, peer learning, technical assistance and dissemination of good practices (study visits, conferences, workshops, seminars, round tables etc.)	
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Recommendations to improve the legal and fiscal environment:

WHAT	HOW	WHO
Short to medium-term		
Improving the legal environment	<ul style="list-style-type: none"> • Develop a shared definition of social enterprise that draws on the EU operational definition delivered by the EU Mapping Study (See Table 1) • Clarify debated issues related to social enterprise (e.g. nature of incomes generated by contractual agreements with public authorities must be considered market incomes, fields of activity of social enterprise) • Continue to reduce constraints hampering the free conduction of economic activities by associations (in co-operation with Governmental Office for Co-operation with NGOs) • Support revision of the law on co-operatives by introducing proper means of verification of the achievement of social aims by social co-operatives (e.g. specify the percentage of disadvantaged workers over the total workforce that must be integrated into work to qualify as a social co-operative) • Support revision of the law on co-operatives by foreseeing the possibility that social co-operatives involve volunteers as members (e.g. revise Article 66 of the Co-operatives Act), as well as other concerned stakeholders (e.g. multi-stakeholder membership) 	MLPS in co-operation with other concerned Ministries

	<ul style="list-style-type: none"> • Broaden the fields of activity in which social co-operatives are entitled to perform (e.g. include local development) 	
Improving the fiscal environment	<ul style="list-style-type: none"> • Support advocacy for further revision of law on co-operatives and exemption of non-profit co-operatives from tax on reinvested profits • Envisage fiscal and social security deductions for social co-operatives that re-integrate disadvantaged workers • Apply a favourable VAT regime to products and services delivered by social enterprises • Introduce proper fiscal treatment with a view to encouraging the creation of reserve, development, and mutual funds among social enterprises • Encourage social enterprise start-ups through a supportive fiscal framework 	Ministry of Finance
Developing supportive public procurement policies	<ul style="list-style-type: none"> • Design a clear and transparent public procurement regulatory framework and monitor its implementation • Establish working groups involving concerned governmental departments to secure the adoptions of all required provisions related to public procurement • Ensure that a permanent dialogue is established between contracting authorities, the social enterprise community and experts • Develop a public procurement guide to be distributed among all public authorities across the country • Design proper training activities to facilitate the timely and efficient implementation of public procurement by public actors 	MPLS, Ministry of Economy, Ministry of Finance, Ministry of Youth, Croatian Research Community

Recommendations to implement subsidiarity at all administrative levels:

WHAT	HOW	WHO
Short to medium-term		
Implementing subsidiarity at all administrative levels	<ul style="list-style-type: none"> • Create enabling conditions that allow local units to take on more responsibilities • Build capacities of local units in the planning, financing and management of decentralised functions • Ensure consistent co-ordination between different levels of government • Award financial autonomy to local units so they have sufficient revenues for the realisation of delegated functions 	Central Government

Recommendations to ensure an optimal use of European Structural Funds:

WHAT	HOW	WHO
Short to medium-term		
Ensuring the optimal use of European Structural Funds	<ul style="list-style-type: none"> • Remove any technical obstacle that might prevent access and eligibility of social enterprises in a) programmes supporting SMEs; and b) social policy experimentation and social innovation projects • Define consistent rules to manage ESF/ERDF resources • Monitor and assess impact of projects financed through Structural Funds 	Central Government, MLPS co-ordinating all Ministries involved in the implementation of OPs
	<ul style="list-style-type: none"> • Conduct pilots and assess results before mainstreaming support • Support the start-up of new social enterprises, as well as the transformation of existing organisations towards a social enterprise model • Support the creation of new employment, including employment of youth and promote the role of social enterprises as 	MLPS, Ministries involved in the implementation of OPs

	<p>welfare providers</p> <ul style="list-style-type: none"> • Use EU/public money to mobilise private and social investors • Avoid massive use of grants. Organise grant schemes around calls on specific thematic and release grants according to milestones. 	
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Recommendations to create a social finance community:

WHAT	HOW	WHO
Short to medium-term		
Nurturing a social finance community and culture	<ul style="list-style-type: none"> • Focus on and involve all relevant stakeholders (public administration, financial intermediaries and investors, social enterprises and their associations) in capacity building activities to improve the understanding of social enterprises and their funding/financial needs • Enhance development of the demand side (analyse, monitor and assess needs and engage social enterprises in all possible stages) • Promote investment readiness of social enterprises: Support the parallel provision of business support, preferably throughout the entire start-up phase, but also during subsequent development phases • Ensure that investment readiness programmes will be supported by a “pool” of potential investors • Support the development of non-public social finance initiatives and providers • Develop a fiscal framework to incentivise channelling of investors/private funds to social enterprises • Link and develop synergies with existing (SMEs) guarantee and 	<p>MLPS, Croatian Banking Association & individual banks, social enterprises & their associations, Croatian Centre for Co-operative Entrepreneurship, Croatian research community, dedicated and conventional business support structures</p>

	<p>loan schemes</p> <ul style="list-style-type: none"> • Ensure that a combination of different tools (grants, loans, guarantees, quasi-equity etc.), from multiple sources (public, ESF, ERDF, financial products, private funding etc.), is implemented to meet the diverse needs of social enterprises • Work to keep a balance between start-up grants and expansion/scale-up funding • Require the use of appropriate agreed impact assessment methodologies and reporting systems • Confirm that social enterprises and their co-ordinating bodies will be closely involved in defining the impact measurement techniques, in the process of standardisation of impact assessment tools, and in adapting them through practice • Work on risk management: Develop comprehensive mechanisms and tools for monitoring the progress of financed projects • Spread the culture and develop skills in financing social enterprises among conventional banking institutions and investors 	
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Recommendations to strengthen self-organisation by the social enterprise community:

WHAT	HOW	WHO
Short to medium-term		
Strengthening the role of networks	<ul style="list-style-type: none"> • Support the growth of social co-operatives by lobbying for an improvement of existing legislation in Croatia 	Croatian Centre for Co-operative Entrepreneurship
	<ul style="list-style-type: none"> • Create a network of individual researchers, research centres and universities interested in studying 	Croatian research community

	<p>social enterprises</p> <ul style="list-style-type: none"> Strengthen collaboration with civil society organisations in the field of planning and conducting research on volunteerism 	
	<ul style="list-style-type: none"> Set up a self-regulatory co-operative body representing the interests of members (e.g. consortia) 	Social co-operatives
	<ul style="list-style-type: none"> Create bridges with organisations supporting training activities addressed to non-profits 	Volunteer Centres and Social Enterprise Networks
	<ul style="list-style-type: none"> Encourage volunteering in schools and create special programmes to create a new civic service in Croatia Recognise volunteering in the process of employment and formal education 	Central Government, Ministry of Education, MSPY
	<ul style="list-style-type: none"> Establish partnerships with similar networks across the EU 	Croatian Centre for Co-operative Entrepreneurship and other existing SE Networks in Croatia

5. ANNEX

Annex 1.

The 9 criteria set the National Strategy for the Development of Social Entrepreneurship to identify social entrepreneurs

The National Strategy for the Development of Social Entrepreneurship has identified 9 criteria to recognise social entrepreneurs

1. Social entrepreneurs achieve a balanced social, environmental and economic goal of business;
2. Social entrepreneurs are engaged in the production and transport of goods or services or art that generate revenues on the market, and has a favorable impact on the environment, contributes to the development of the local community and society at large;
3. Social entrepreneurs create new value and ensure financial sustainability in a way that three years after the establishment of business at least 25% of the income is planned to be or is realized by their entrepreneurial activities;
4. Social entrepreneurs use at least 75% of the profit to invest in the development of their activities and the achievement of its primary business objective;
5. Social entrepreneurs are characterized by voluntary and open membership and a high degree of business autonomy;
6. The Republic of Croatia, local and territorial (regional) self-government or a public authority may not be the sole founder of the social enterprise ;
7. Social entrepreneurs are characterized by participatory decision-making process (involvement of stakeholders in transparent and accountable management), or the decision making is not exclusively related to the ownership or membership structure but includes other stakeholders: employees, members, consumers, and other relevant organizations;
8. Social entrepreneurs monitor and evaluate their social, economic and environmental impact. Results of the evaluation are used in the planning and future steps to increase the impact of the business.
9. In the case where social entrepreneurs cease to perform their activity the assets must be transferred to the ownership of another social entrepreneur with same or similar goals or to the ownership of local and territorial (regional) authorities, which will be used for the development of social entrepreneurship. "

Source: Strategy for Social Entrepreneurship Development in the Republic of Croatia 2015-2020

Annex 2.

Boosting social entrepreneurship and social enterprise creation in Croatia. Study visit programme and list of participants.

Study visit programme 20-24 October 2014

MONDAY 20 OCTOBER

14:30-16:00 MLPS (Petračićeva 4/II)

Meeting with representatives of the Ministry of Labour and Pension System (MLPS)

TUESDAY 21 OCTOBER

09:00-11:00 MLPS (Petračićeva 4/VI)

Meeting with representatives of MLPS, Ministry of Social Policy and Youth, Ministry of Science, Education and Sport, Ministry of Entrepreneurship and Crafts

<http://www.minpo.hr/default.aspx?id=68>

11:10-12:30 MLPS (Petračićeva 4/VI)

Meeting with representatives of the Government Office for Co-operation with NGOs, National Foundation for Civil Society Development

<http://www.uzuvrh.hr/defaulteng.aspx>

<http://zaklada.civilnodrustvo.hr/frontpage>

12:30-14:00 Lunch break

14:00-16:00 MLPS (Petračićeva 4/VI)

Meeting with representatives of financial institutions (Croatian Bank Association, Croatian Bank for Reconstruction and Development, Ethical Bank, UniCredit Foundation)

<http://www.hub.hr/en>

<http://www.hbor.hr/Sec1237>

WEDNESDAY 22 OCTOBER

08:30 **Study visit to Čakovec**

10:00-12:00 **ACT group – example of social enterprise**

(Čakovec, Dr. Ivana Novaka 38)

Autonomous centre - ACT is a civil association which provides information, counselling, training and other forms of support to the development of community social capital and civil society.

Autonomous Centre has so far helped create four social enterprises:

- ACT Printlab
- ACT Account
- Social Co-operative Humana Nova
- Centre for Eco-Social Development CEDRA Čakovec

12:00-13:30 Lunch break

13:30-15:30 **Regional Development Agency Međimurje REDEA**

(Čakovec, Bana Jospipa Jelačića 22)

<http://www.redea.hr/en/>

17:00 Returning to Zagreb

THURSDAY 23 OCTOBER

09:00-10:45 **Rodin let – example of social enterprise + NESsT**

(Zagreb, Ilica 133)

<http://www.roda.hr/article/category/about-us>

11:00-12:30 MLPS (Petračićeva 4/VI)

Meeting with academic representatives (research institutes and higher education institutions)

12:30-14:00 Lunch break

14:00-15:15 **Croatian Centre for Co-operative Entrepreneurship**

15:45-16:30 MLPS (Petračićeva 4/II)

Debriefing with representatives of MLPS

FRIDAY 24 OCTOBER

Debriefing and departure

List of participants

Ministry of Labour and Pension System

Viktorija Rončević

Katarina Ivanković Knežević

Filip Miličević

Ministry of Social Policy and Youth

Jasna Bubić

Ministry of Science, Education and Sport

Mihaela Dubravac Šigir

Ministry of Entrepreneurship and Crafts

Goran Ševo

Mirjana Kolaić

National Foundation for Civil Society Development

Lucija Rosandić

Government Office for Co-operation with NGOs

Stela Fišer Marković

Croatian Bank Association

Martina Etlinger

Croatian Bank for Reconstruction and Development

Marina Marasović

Maja Rajačić Pavlović

Ethical bank

Goran Jeras

UniCredit Foundation

Sandra Cvetko

ACT group

Igor Roginek

Zrinka Šajn

Regional Development Agency (REDEA)

Sandra Polanec Marinović

Jako Horvat

Petra Pavičić

Rodin let

Tijana Bogdanović

ZŠEM

Tina Lee Odinsky Zec

NESsT

Andreja Rosandić

UNIZG - Faculty of Political Science

Davorka Vidović

UNIZG - Faculty of Law

Danijel Baturina

VERN

Višnja Grozdanić

Gordana Ćorić

Institute Ivo Pilar

Dražen Šimleša

Croatian Centre for Co-operative Entrepreneurship

Ilda Stanojević

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