



Social Enterprise In Croatia



Key findings from NESsT's research and activities in Croatia

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NESsT mission

NESsT is an international nonprofit organization dedicated to finding **lasting solutions** to systemic poverty and social injustice through the development of **social enterprises** -- mission driven businesses that increases the **financial sustainability** and **social impact** of civil society organizations (CSOs).



Overview of social enterprise in Croatia

- NESsT's focus: social enterprises (SE) run by CSOs
- Around 30 000 CSOs, only about 25% active
- motivations – mission, financial sustainability and diversification
- wide range of fields of activity, target groups
 - Environmental, social services, education and research, law and advocacy, health, culture, community development
- self-generated revenue from 1 to 40% of total organizational budgets
 - mostly comprised of fees for services
- social enterprise is still a rare practice

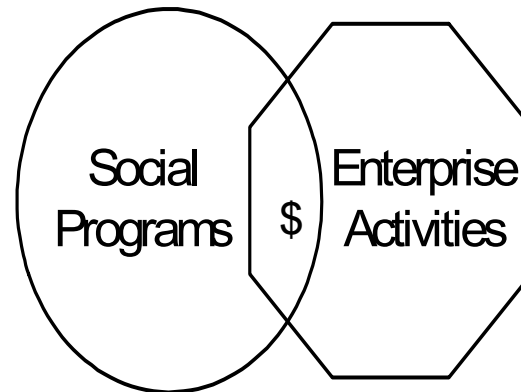


Social Enterprise Archetypes

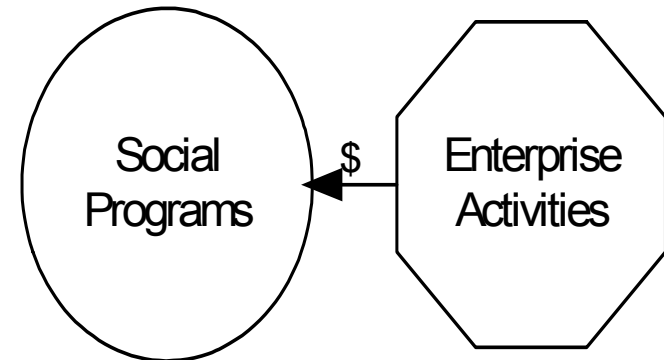
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Integrated



Complementary



Source: Alter, Kim, *Social Enterprise Typography*. The Inter-American Development Bank, Washington, DC, 2003.



Applications of social enterprise archetypes in Croatia

Possible to operate social enterprise:

1. within existing legal entity:

- blanket income tax exemption applies (unless unjustified privileged position)
- optimization of resources
- potential for unclear separation of finances, tasks, internal tension, etc.

2. Through a separate for-profit entity (commercial company):

- 20% income tax rate automatically applies
- clear separation of finances, tasks, responsibility, etc.



Legal framework for social enterprise: opportunities

Generally an enabling environment, because (provided that the non-distribution requirement is met):

- **Wide range of activities:** CSOs can engage in any type of economic activity not prohibited by law
- **Can be both mission and non-mission related:** mostly and strongly mission related in case of Croatian CSOs
- **no maximum income threshold:** amount of self-generated revenue is not limited
- **blanket income tax exemption:** if revenue is used for nonprofit activities



SE models in Croatia - Case study examples

- Provision of social services
 - Udruga MI
- Employment generation
 - Udruga Slijepih, Slap
- Fee for service
 - ECCIB, Zelena Akcija, Slap
- Use of assets
 - ECCIB



Legal framework for social enterprise: limitations

- vague interpretations, leaving wide room for discretion:
 - “unjustified privilege on the market”
 - unclear whether commercial activity should be explicitly included in the statute
- narrow definition of public benefit status
 - no direct recognition of public benefit status
 - no uniform definition; unclear regulations on criteria, benefits
- little involvement from CSOs in policy-making and legislative process
- other practical implications:
 - VAT, filing requirements



Legal framework: Recommendations

1. further clarify criteria for CSOs to engage in commercial activities
2. provide solid and unequivocal interpretation of “unjustified privileged position” criterion, or drop it
3. introduce a uniform and clear concept of public benefit organization, specifying corresponding criteria, rights and obligations
4. increase CSO involvement in the process



Further obstacles to social enterprise development

- Lack of awareness of SE and legal regulations
- Lack of skills
- Lack of capacity
- Lack of financing for start-ups
- Lack of supporting environment and infrastructure: including public, private and civil sector



Addressing these obstacles: NESsT in Croatia

- Legal guide - for NGOs, donors, businesses, etc.
- Survey and Case studies
- NESsT Venture Fund: capacity-building + investment
- Business planning and management skills, tools and experience
- Building relationship with business sector, seminar series, social enterprise manual



Thank you for your attention!

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