

POSSIBLE PATHS FOR SOCIAL ENTERPRISE DEVELOPMENT IN CENTRAL EAST AND SOUTH EAST EUROPE

Croatia Case Study

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NOT-FOR-PROFIT LEGAL FORMS MOST SUITABLE FOR SOCIAL ENTREPRENEURSHIP

- **Association:** can be established by min 3 domestic or foreign physical or legal persons; no financial requirements; performance of economic activity is limited; about 29000 registered units so far
- **Foundation:** can be established by one or more domestic or foreign physical or legal persons; financial resources or assets needed for establishment; performance of economic activity is limited; about 100 registered units so far
- **Not-for-profit Institution:** can be established by one or more domestic or foreign physical or legal persons; financial resources needed for establishment

MAIN AREA OF ACTIVITIES

BEFORE 1990

- Employment of people with disabilities

1990-2000

- NGOs were mostly focused on its missions, its target groups but on entrepreneurship; to significant extent NGOs were financed by foreign donors

AFTER 2000:

First attempts of systematic entrepreneurship by NGOs

- **SOCIAL CARE** – Providing non-standard social services on the local level
- **INCOME GENERATION/EMPLOYMENT** – Initiating different activities and providing range of services in order to secure its own sustainability or to increase employment in it's surrounding

LIMITATIONS OF THE LEGAL FRAMEWORK

GENERAL:

- Not-for-profit legal entities can directly perform very limited scope of economic activities
- Full scale of economic activities can only be performed indirectly, through establishment of commercial enterprise
- There are no special tax or other benefits or incentives for those who perform business with social dimension

ECONOMIC ACTIVITIES OF NGOs

ASSOCIATIONS

- An association is generally permitted to conduct those activities that advance the purposes set forth in its charter. Within certain limitations it can engage in for-profit activities so long as the profits are devoted exclusively to advancing purposes set forth in its charter. The for-profit activities it can perform are precisely described in specific laws and are very limited

FOUNDATIONS

- According to the Law on Foundations and Funds, foundations can perform for-profit activities relating to its property as well as certain fundraising activities: lease its land or license its patents; It can organize fundraising activities, like humanitarian shows, occasional lotteries, production and sales of publications and badges, and the like

PROFIT TAX

- General rule is that **not-for-profit entities** (religious communities, political parties, trade unions, chambers, associations and foundations) **are exempt from profit tax**
- Tax is imposed if not-for-profit entity engages in economic activity and exemption from the tax would, in the view of the Tax Administration, confer upon not-for-profit entity an **"unjustified privileged position"** in the market. The fact that there are no clear criteria for definition of "privileged position in the market", give the Tax Administration **discretionary authority** to decide on this
- The entity which is established for the purpose of professional rehabilitation and employment of people with disabilities pays only 25% of generally imposed profit tax rate

VAT

- **The Law on VAT does not recognize special benefits for social entrepreneurs**
- **The VAT is required to be collected by entities, including not-for-profit ones, that have turnover exceeding 85,000 Kuna (approximately US\$14,500) in a given year**

SUMMARY ON LEGAL FRAMEWORK FOR SOCIAL ENTREPRENEURSHIP IN CROATIA

- **The Legislator:** does not recognize social entrepreneurship as a specific activity which needs to be supported
- **The Administration:** is rigidly applying the rule according to which not-for-profit legal entities can only perform the activities for which they are in particular entitled, but not those which are not in particular forbidden for them
- **The Consequence:** legal framework for social entrepreneurship is far from stimulative

PRO & CONTRA

PRO

- Existing need for SE
- Some tradition and experience
- Recognition of SE by some authors

CONTRA

- Legal framework is unfavorable
- Local governments don't recognize opportunity in social entrepreneurship
- No incentives or policies which support social enterprises
- Limited interest of donors
- Lack of skills within NGO leaders

FINAL REMARKS

- **SE needs to be indicated as one of the priorities in the Government's policy**
- **Legal framework for SE needs to be developed**
- **Continuation of decentralization can have positive impact on development of SE**
- **NGO leaders must develop entrepreneurial skills**

**I appreciate your attention.
Thank you.**

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