



Social Innovation Policy Framework for Croatia



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Social Innovation Policy Framework for Croatia

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FOREWORD

For most of recent history, governments have been responsible for providing and financing the services needed to confront the social, economic and environmental challenges facing their societies. However, the 21st century has seen the emergence of an increasingly complex and fast-evolving set of social needs which the public sector alone can no longer meet, and in which the private sector may find unprofitable to invest. In a context of rising social expenditures and falling tax receipts, policy makers are searching for innovative and inclusive ways to “do more with less”.

Social innovation seeks to find new solutions to these challenges by engaging all of society’s stakeholders – government, academia, industry, civil society and private citizens – to transform the way public services are delivered. It covers a wide variety of sectors and brings about new products, processes, actors and models. The digital revolution has also enabled the emergence of numerous collaborative platforms, allowing these relationships to bloom.

The growing success of these types of initiatives has increasingly prompted policymakers, businesses and citizens to turn to social innovation to tackle challenges in their own countries. To achieve optimal outcomes, governments are tailoring their actions to the creative and flexible nature of social innovation, while also drawing on existing innovation frameworks. By developing the right mix of measures and financial incentives, policy makers can facilitate social innovations that successfully address multifaceted social, economic and environmental challenges from unemployment and population ageing to migration and climate change.

The European Union 2020 strategy, through the Innovation Union initiative clearly commits to smart sustainable and inclusive growth, all relevant to social innovation. The Croatian government has requested OECD support in designing policies on social innovation and social entrepreneurship that can respond to its specific needs and context. This report presents a broad concept of social innovation and aims to support social innovation actors in Croatia by highlighting relevant research, emerging trends, and offering a menu of options for reforms in this ground-breaking policy field. Given the recentness of this field, the report could also provide a basis for OECD member countries in assessing their social innovation frameworks and underpin future analyses to compare national social innovation ecosystems.

The report provides an overview of the existing Croatian social innovation system, including key local actors, policies and institutions. It outlines a proposed social innovation policy framework for Croatia consisting of specific policy instruments and gives examples of good practice relevant to the Croatian context. Finally, the report suggests options for reforms aiming to create a comprehensive and sustainable framework for effective social innovation initiatives. In a parallel document which is currently being developed, the OECD will specifically focus on social enterprises in Croatia. Both reports seek to provide Croatia with relevant policy options and help policy makers make better use of available European Union structural funds, which prioritise both social innovation and social entrepreneurship.

OECD support to the Croatian government on social innovation is part of the Western Balkans Enterprise Development and Innovation Facility (EDIF) of the European Union. EDIF aims to improve access to small and medium-sized enterprise (SME) finance in the Western Balkans, and supports governments in improving the business environment for innovative and high growth SMEs in particular. The Global Relations Secretariat (GRS), in partnership with the OECD Local Economic and Employment Development (LEED) Programme, prepared the report, drawing on a wealth of OECD publications on social innovation and entrepreneurship.

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This report was written under the guidance of Marcos Bonturi, director of the OECD Global Relations Secretariat, and Marzena Kisielewska, head of the OECD South East Europe Division.

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ACRONYMS AND ABBREVIATIONS

BEPA	Bureau of European Policy Advisors
CDFI	Community development finance institution
CEDRA	Cluster for eco-social innovation and development
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme
CSO	Civil society organisation
DIY	Development, Impact and You
EaSI	Employment and Social Innovation Programme
EC	European Commission
EDIF	Enterprise Development and Innovation Facility
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EVPA	European Venture Philanthropy Association
FP7	Seventh Framework Programme (European Union research and development funding programme)
GDP	Gross domestic product
GECES	Expert Group on Social Entrepreneurship
GEM	Global Entrepreneurship Monitor
GERD	Gross expenditures on research and development
HAMAG-BICRO	Croatian Agency for Small Business, Innovation and Investment
ICT	Information and communication technologies
MoE	Ministry of Economy
MoEC	Ministry of Entrepreneurship and Crafts
MRDEUF	Ministry of Regional Development and European Union Funds

OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
SEE	South East Europe
SEFOR	Social Entrepreneurship Forum
SI	Social innovation
SIB	Social impact bond
SIS	Social Investment Scotland
SI-Drive	Social Innovation – Driving Force of Social Change
SME	Small and medium-sized enterprise
SPRC	Stanford Prevention Research Center
SROI	Social return on investment
SRS	Social reporting standard
STP	Science and technology park

EXECUTIVE SUMMARY

Social innovation has emerged to respond to complex social, economic and environmental challenges by involving a range of stakeholders, such as national and regional authorities, businesses, researchers and citizens. It seeks to identify and help deliver new solutions to meet societal needs and address diverse challenges ranging from resource scarcity and climate change to unemployment, ageing populations, rising health care costs, migration and the impact of mass urbanisation. The creative and flexible nature of social innovation fosters the delivery of new products, services and processes by engaging all relevant social actors in new collaborative relationships. In this context, governments can facilitate linkages between science, technology and other policies, going beyond silo thinking and harnessing new modes of collective action.

Social innovation has spurred a new wave of stakeholder collaboration to deliver social value more effectively and ultimately improve the quality of people's lives. Examples of recent initiatives can be found across OECD member countries and beyond, where policy makers have successfully engaged a variety of actors to facilitate and promote social innovations. Studies have shown that structural collaboration between academia, the public sector, the private sector and civil society (the so-called "quadruple helix" partnership) can prove very effective in bringing together their unique competencies to create socially valuable and sustainable work that would not be possible without their combined presence.

Meeting social challenges through innovative solutions requires a paradigm shift to integrate social value into different inter-related policies and incentive mechanisms. These solutions require forward-looking policy making, inter-agency coordination, stakeholder participation, and funding for research in natural and social sciences. Monitoring nascent initiatives, measuring their impact and drawing policy conclusions are all important to enable innovation to effectively support a more balanced path to growth and well-being. The multidisciplinary nature and broad scope of societal challenges makes it difficult to define a single method for measuring social innovation overall; therefore, the different existing methods are tailored to different forms of social innovation.

In Croatia, public-sector awareness of social innovation is growing, and a community of social innovation actors is relatively active. However, social innovation is a recent field, and several components that are key to an enabling environment – i.e. a clear definition of social innovation, inter-ministerial co-operation and governance, co-ordination mechanisms to promote partnerships and financing instruments – are still missing or need to be further developed.

The policy framework presented in this report aims to address these challenges through a policy mix focusing on four key pillars: framework conditions, financial instruments, human capital and infrastructure.

Pillar 1: *Framework conditions* constitute the foundational pillar for social innovation and are essential to developing the necessary preconditions for supporting the three other pillars described below. The main policy recommendations for consideration in this pillar include:

- creating an efficient governance system for social innovation, possibly featuring a single point of contact that takes the lead on implementation

- boosting demand-side policies, by introducing social or environmental clauses for public procurement
- developing a national social innovation portal, which would act as a marketplace for the social innovation community to share their ideas and gather information on social innovation.

Pillar 2: The *financial instruments* to support social innovation include public and non-public financial measures. Key policy recommendations to consider in this field include:

- offering a variety of direct support instruments, including social-innovation vouchers, business-support vouchers and collaboration grants
- creating regulatory frameworks to facilitate the development of non-public support instruments, such as crowdfunding, impact investing and business angel networks
- fostering matchmaking between investors and investees, by developing a series of events or structure to facilitate matchmaking.

Pillar 3: The *human capital* dimension focuses on the necessary skills and capacities to support social innovators. Important policy recommendations for reform include:

- developing a training course on social innovation to raise awareness among civil servants and the general public
- promoting peer-to-peer learning and mentorship, by developing and implementing adequate tools and partnerships
- developing partnerships between academia (also involving young graduates) and social innovators to support them through internships programmes and volunteering.

Pillar 4: An *enabling infrastructure* encompasses the environment facilitating social innovations, such as incubators and collaborative spaces. Although social and more traditional innovation have similar needs, social innovation requires, in particular:

- providing training to existing incubator managers on the subject, relevant business models and and the right tools to support social-impact measurement methods
- developing infrastructure, e.g. dedicated collaborative spaces and incubators, specifically tailored to social innovators' needs
- developing services – e.g. through science and technology parks, as well as technology transfer offices – to commercialise research in the natural and social sciences and humanities, and conducting other relevant work.

Moving forward, Croatia could benefit from applying a number of policy measures focused on strengthening collaborations between academia, the public and private sectors, and civil society. In the short term, awareness-raising efforts could be formalised through a knowledge-sharing platform and seminars; in the medium term, creating a one-stop shop supporting social innovators and devising financial instruments, such as social innovation vouchers and grants, could kick-start a “smart growth” cycle; in the long term, these initiatives could cement sustainable collaborations between businesses, public institutions, civil society and academia and contribute to stronger and more inclusive growth.

1. INTRODUCTION TO SOCIAL INNOVATION

This chapter seeks to define the concept and role of social innovation. It also highlights the importance of developing a policy framework to foster an “ecosystem approach” to social innovation. Finally, it presents the different social innovation systems and seeks to provide an understanding of how Croatia might adapt them to its specific needs and context.

1.1. Why social innovation?

According to the OECD Innovation Strategy new sources of growth are urgently needed to help the world move to a stronger, more inclusive and sustainable growth path following the financial crisis. Innovation – which involves the creation and diffusion of new products, processes and methods – can be a critical part of the solution. While not a goal in itself, innovation provides the foundation for new businesses, jobs and productivity growth and is thus an important driver of economic growth and development. Innovation can help address pressing social and global challenges, including demographic shifts, resource scarcity and the climate change. Moreover, innovation can help meet these challenges at the lowest cost. Innovative economies are more productive, more resilient, more adaptable to change and better able to support higher living standards (OECD 2010a). The OECD Innovation Strategy clearly states the importance of the fact that innovation tackles social challenges.

In the past decade, policy makers have shown a growing interest in social innovation. In 2010, President Obama established the Office of Social Innovation and Civic Participation with the objective of strengthening and supporting the social sector. In the same year, the OECD launched its Innovation Strategy acknowledging that the social dimension is no longer peripheral to science, technology and innovation and that new policies can enable innovation to support the creation of shared economic and social value. In 2011, the European Commission launched the Social Innovation Europe initiative to promote and gather knowledge on the many social innovation initiatives across the European Union. This section will examine why social innovation has suddenly become such a popular concept.

Societies have faced multiple multifaceted social, economic and environmental challenges – e.g. poverty, unemployment, population ageing, migration and climate change – since the dawn of time. Over the centuries, society has created ways to deal with these challenges, for example by creating a social protection system for single mothers in Sweden in the 18th century, which was subsequently expanded to free education and social security for all.

The classical approach to tackling societal challenges in a fast-growing economy has traditionally been led by the government and financed through tax receipts. Government services were provided either for free or for a low fee, and the tax levy was justified by the intent to solve societal challenges. In the 21st century, however, increasing societal demands have exerted even stronger pressure on government budgets. In France, for example, social expenditure alone has increased from 20.6% of gross domestic product in 1980 to 31.9% in 2014 (OECD Stat database, n.d.). Social expenditures have become especially difficult to bear in countries that have experienced economic slowdown, placing additional pressure on the fiscal space in government budgets. Many national governments cannot continue to apply the “tax-and-spend” model, and have realised they lack the skills and capacity to tackle societal challenges. Consequently, they are now investigating new models and approaches, whose costs could be at least partially covered by the users.

Many see social innovation as a new approach governments can use to solve societal challenges, by involving new actors and creating new and more financially sustainable operational models that can help reduce the strain on public finance. Social innovations are currently being tested in many countries to

determine whether they can help governments use their resources more effectively while providing the same quality of service. For example, in a pilot project in the Basque region of Spain, hospitals offered terminally ill cancer patients the option of hospice care in the comfort of their own homes, under the care of trained nurses. Patients were happier, new people were employed and trained as nurses, and hospitals had additional beds available for other patients. Along with these positive outcomes, an independent study has confirmed that these services provided a more cost-effective solution than confining the patients to a hospital.

Another example of a successful social innovation is the Specialist People Foundation in Denmark, which has transformed the way society perceives autism. The Foundation connects a group of people – individuals with autism – with leading information technology and telecommunications companies in the world, helping them solve faults in software programmes. Autistic people have a ten times lower fault rate in software testing and other tasks, giving them a great competitive advantage in the labour market. The Foundation's impact analysis report found that every krone invested in a Foundation employee with autism creates DKK 2.20 (krone) in taxes compared to unemployment and welfare benefits. This translates to a one-to-six ratio of public spending savings. Moreover, it creates new possibilities for individuals with autism and influences society to adopt a more positive attitude towards them (Specialist People Foundation, 2013).

Social innovation can help remedy both government and market failure. Government failure happens when governments cannot regulate or solve all societal problems on their own, owing to a lack of resources or capacity. Market failure arises when private actors do not find it profitable to provide a socially valuable service or product. Social innovation can address market failures by involving new actors and developing new partnerships involving the private sector or academia. One example is microcredit, which in a traditional market would be seen as a market failure. Involving systems where private actors can provide a loan product that meets the needs of low-income populations who cannot access traditional loans (using, for example, a state guarantee) could help solve such an issue. Many forms of microcredit initiatives have sprung up across the world to meet the specific needs of the local clientele, enabling them to expand the scope of their activities (including entrepreneurial projects).

Another reason for social innovation's rising popularity is that recent technological advances – especially in the area of the information and communications technologies (ICTs) – have generated new models and tools that foster better collaboration among various actors, including citizens. A prime example of ICTs enabling social innovation is the rise of the sharing economy. Sharing is becoming a real pathway to ownership for an increasing number of goods and services in a growing number of locations. These sharing platforms encourage social interaction, community development and environmental sustainability by engaging idle resources. They are disrupting current business models and are anticipated to have a major societal impact. Some sharing platforms take the form of non-profits, such as co-operatives and time banks, while others are businesses, such as the well-known Airbnb, ZipCar and Couchsurfing (Hamari et al., 2015; Belk, 2014).

Social innovation allows new actors to engage in the process and develop innovative solutions, integrating the latest technological developments and knowledge gathered at the grassroots level. New approaches, such as the quadruple helix model (Section 1.3.1), cross traditional boundaries between public, for-profit and non-profit sectors to develop new impactful solutions to societal challenges. These new partnership/collaboration models can leverage each actor's experience to develop a new solution. Civil society can identify and provide a better understanding of societal issues, challenges and stakeholders. Businesses can provide better customer understanding, commercialise know-how and provide cost control. Academia can help develop a theoretical background and understanding of societal trends. Finally, the public sector can both promote and facilitate social innovation through law-making and creating the necessary frameworks, as well as acting as a source of innovation in itself.

Many products and processes intended to tackle social needs have not had the planned impact because they failed to understand – and hence to design a product tailored to – all the beneficiaries’ needs. Design thinking directly addresses this challenge, thanks to its human-centred approach to all stages of creating innovative products. Design thinking is innovation “powered by a thorough understanding through direct observation, of what people want and need in their lives and what they like or dislike about the way particular products are made, packaged, marketed, sold, and supported” (Brown, 2008). Design thinking highlights the importance of understanding end users’ preferences in all stages of the product or service design process to ensure the result is well-suited to their needs. In social innovation, this translates into closely working with targeted beneficiaries to ensure the developed initiative is tailored and valuable to them.

Social innovation cannot solve all societal issues at once. However, it can be a powerful tool to help governments address market and government failures, as well as produce fresh and dynamic approaches to mobilising and building the resilience of different actors and communities. Acknowledging its inherent value, numerous governments have in recent years established dedicated programmes to promote and support social innovation.

1.2. What is social innovation?

1.2.1. Definition

Social innovation inspires a variety of definitions, reflecting its broad multidisciplinary scope and the leadership of practitioners – rather than researchers – in defining it. This document refers to the following definition, based on the academic and grey literature:

*Social innovation seeks to **deliver impactful new solutions to meet societal needs**, resulting in new social relationships (including beneficiaries) achieved through new products, processes and models.*

The current definition builds on a literature review (Caulier-Grice, 2012; Mulgan, 2007; European Commission, 2013c), as well as on a selected number of social innovation definitions (Annex I). It brings together several important elements of an individual social innovation, including:

- **New practice:** the social innovation is not necessarily a novel concept, but it must be new to the context.
- **Response to societal need:** the social innovation must primarily aim to *meet a societal need*, thereby differentiating itself from innovations with societal impacts. An example of an innovation with societal impacts – but not a social innovation – is the introduction of mechanised industrial production, which primarily increased factory profits and labour productivity, but also but also resulted in safer and higher-paying jobs.
- **Openness to involving diverse actors:** the social innovation engages a variety of actors in developing or governing the initiative. New actors can participate, either directly or through a trusted intermediary, to facilitate ownership and alignment of the innovation with their needs. This can also result in shifting roles and relationships and new collaboration models.
- **Social in its ends and means:** the social innovation is dedicated to delivering a societal impact in a socially impactful manner.

The OECD has played an active role in defining social innovation and providing other relevant definitions, further described in Annex I. OECD LEED developed an initial definition of social innovation as early as 2000.

1.2.2. Actors

Social innovation does not belong to any particular actor or sector. Rather, it can occur in all, and especially in overlapping, sectors. Government, academia, industry, civil society and individual citizens can all be sources of social innovation, either individually or collaboratively.

The **government** (or **public sector**) has historically acted not only as a facilitator of social innovation, but also as an important source of socially innovative initiatives, creating great social value through public services provided at the national and local levels. Governments have the budget, regulatory powers and networks to facilitate social innovation and help actors in different fields to develop socially innovative ideas. In fact, governments throughout Europe (e.g. in France, Germany and Sweden) have created dedicated offices to promote social innovation in government activities.

Civil society/citizen engagement can be an important source of social innovation. Civil society comprises associations, non-governmental organisations, social enterprises and foundations that represent or act in the interest of citizens. As such, the needs and preferences of individuals and potential beneficiaries are at the heart of its activities. Thanks to its understanding of the grassroots, civil society can quickly identify and address societal challenges. Its flexibility, familiarity and trusted relations with local communities mean that it can help develop feasible solutions and implement a great variety of social innovations.

The private sector – including inclusive and socially responsible businesses – can also design social innovations, i.e. new products and services tailored to marginalised sectors of society. As social and environmental factors have a growing impact on businesses' bottom line, they must tackle these factors to remain competitive in the market. Some companies employ a "shared value" approach, recognising the mutual dependence of a company's competitiveness and the health of the surrounding communities (Porter and Kramer, 2011).

Academia provides a fertile environment for developing new solutions with a potentially positive impact on society. Academia can conduct research focusing on novel solutions to tackle such problems as global warming and waste management. Organisations increasingly value their ability to commercialise their research – including as it relates to social innovation; many universities have created dedicated technology transfer offices and departments. For example, the official commercialisation agent for MaRS Innovation, Canada's largest research cluster focusing on social innovation, secures commercialisation grants and encourages researchers to spend more time commercialising their ideas (MaRS Innovation, n.d.).

These groups of actors are not mutually exclusive and can also include some hybrid models. For example, social enterprises combine the characteristics of both industry and civil society: "any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment" (OECD, 1999). Great variation exists in how social enterprises balance and achieve their goals for social responsibility and accounting profitability. This hybrid approach, which can prove

successful in reaching social goals along with financial sustainability, has been a rich source for social innovations. Box 1.1 below provides an example of the manner in which different actors can collaborate.

Not all social enterprises are innovative or led by social entrepreneurs; moreover, not all social entrepreneurs lead social enterprises (EC, 2010; EC/Social Innovation Europe, 2012). However, social enterprises often provide innovative solutions to unsolved societal problems. While they often go hand-in-hand with social innovation processes aiming to improve people's lives by promoting social changes, they are not the only source of social innovation, and other actors can also initiate them (OECD, 2010).

Box 1.1. Action Tank – Company and Poverty, France

The Action Tank "Entreprise et Pauvreté" ("Company and Poverty") is a non-profit association that aims to implement and develop innovative and sustainable business models to alleviate poverty and social exclusion in France. Launched by the French government, Company and Poverty provides a relevant example of how the government can initiate a socially innovative idea and involve various actors in resolving a societal challenge.

Today, the Action Tank brings together a number of large multinational companies (including DANONE, Schneider and Renault), civil society (including the Red Cross and Habitat et Humanisme) and the research community (HEC Paris), which have joined forces with the same purpose: to contribute to reducing poverty and social exclusion in France.



In 2011, the Action Tank helped ophthalmologists establish the "Optique Solidaire" association, whose aim is to provide disadvantaged groups with high-quality optical equipment produced in France.

Over 140 000 low-income senior citizens living in France do not have access to reading glasses. French social security does not provide complete coverage for ophthalmological services and products. Optique Solidaire has brought together a variety of actors, including several ophthalmologists, 550 opticians, 15 assistance centres and 6 eyeglasses manufacturers. The "bon Optique Solidaire" voucher allows senior citizens to obtain the necessary ophthalmologic assistance and a pair of glasses every three years. The vouchers are automatically distributed to seniors who fulfil the necessary income and other criteria.

The Pass Optique service was developed in such a way that it does not cost more money to the social security administration; it is built around cost-cutting and taking advantage of opticians and ophthalmologists' free time. The eyeglass manufacturers only offer 11 kinds of eyeglasses, allowing them to significantly lower the unit price of production.

Since 2011, 6 000 Optique Solidaire vouchers have been sent, and 550 people have benefited from them, representing over 9% of potential beneficiaries. This number could grow even further through awareness-raising and trust-building within the communities of disadvantaged older people.

Source: Optique Solidaire (n.d.), <http://optiquesolidaire.fr>.

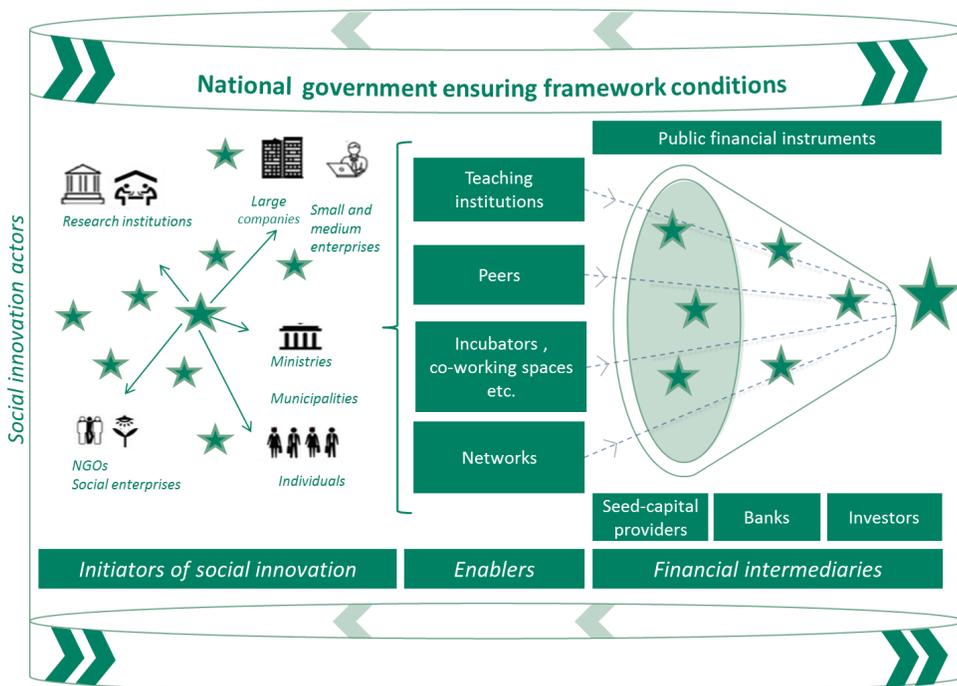
1.3. Social innovation ecosystem coordination

Social innovation can act as a catalyst for systemic transformation because it changes the way civil society achieves impact, governments work, and business behave. While a wide range of actors are involved in developing, nourishing and growing social innovations, co-ordinated action is necessary to have a real impact on society. Systemic social innovation happens when a number of social innovations occur in parallel and are interconnected, impacting on a given social challenge.

The recent European Policy brief developed by the EU Seventh Framework Programme (FP7) project, which analyses the scaling-up process of social innovations across Europe, indicated that the overwhelming majority – 82% of a sample 240 scaling social innovations – have a revenue-generating model; most social innovations that wish to scale prefer to do so alone (Benisi, 2015). They do so for a variety of reasons – including a lack of infrastructure to support internationalising these traditionally local initiatives, and a lack of supporting frameworks to enable ecosystems to function and bring together the right players. Providing a co-ordinated approach to scaling would make the system more efficient and help social innovation create systemic change – a goal that is yet to be achieved.

The growing use of the biological term “ecosystem” emphasises that organisations can no longer perform social innovation in isolation. As in nature, innovative ideas and projects are interdependent, and co-evolve in an endless reciprocal cycle. Many innovations require the support and co-operation of various organisations to provide them with the necessary services and infrastructure. Figure 1.1 features an example of a social innovation ecosystem and showcases the numerous actors who play a role in initiating, developing and scaling social innovations. To leverage this ecosystem, governments can create a dedicated policy framework that defines a more structural approach to identifying and nourishing these ideas, and highlights those elements that are crucial to their development.

Figure 1.1. Schematic example of a social innovation ecosystem



Numerous examples of national social innovation frameworks exist. Understanding the linkages among the actors involved and defining their motivations is crucial to the policy process. How well the

framework performs will depend on how well these links function, and how the framework removes barriers and creates collective and collaborative systems of knowledge creation and use.

Chapter 3 details a suggested policy framework, building on an analysis of the opportunities and obstacles facing Croatia. It studies the framework conditions – including the legal framework, demand-side policies and procurement rules – for fostering social innovation and a functioning ecosystem. It looks at creating a community of social innovators and raising awareness of social innovation. Finally, it determines ways to further improve the supply side and create the necessary capacity-building to create human capital, the required infrastructure to initiate and scale up social innovations, and the available financial instruments and mechanisms to support social innovations at different stages of development.

The framework for social innovation addresses social innovations at different stages of development, from initiation to scaling up. It suggests dedicated policies government can use – with the support of other actors – to build the necessary components for a solid ecosystem. The framework can act as a glue, linking the various actors and institutions, laws and instruments, and fostering a co-ordinated approach to the ecosystem so that it functions better. The sections below present the characteristics that distinguish social innovation from more traditional forms of innovation.

1.4. What characterises social innovation?

Despite its wide variety of forms and sources, social innovation features several important unifying elements – a collaborative approach, financial sustainability, social impact measurement and social impact scalability – that policy makers should take into account.

1.4.1. A collaborative approach to social innovation increases its impact

Recent publications find that social innovation creates new partnerships and ways of collaborating that can fundamentally transform social systems beset by significant societal challenges (e.g. related to housing, unemployment, health systems, education or the environment) (European Commission/Social Innovation Europe, 2012; European Commission, 2013a; OECD, 2011a).

A popular innovation model for a knowledge-based economy and society is the “triple helix” of university-industry-government relations. The triple helix departs from earlier linear models of innovation development (input/output) in that it suggests a more collaborative, iterative model based on relationships between these primary actors to facilitate knowledge-based economic growth and social transformation (Etzkowitz and Lydesdorff, 2000).

Although the triple helix model has been effective in promoting technological innovations, it has proven less efficient in providing solutions to society’s complex challenges. By engaging a social actor, the quadruple helix model arguably proposes a better answer to societal challenges. Social innovations are mainly developed at a local level, and often struggle to grow and scale on their own. Adopting a systemic collaborative approach – as well as linking social innovations to other relevant actors – will help fully exploit their potential. The quadruple helix builds on the network of relationships proposed by the triple helix and introduces a fourth group of actors – civil society. This additional dimension focuses the innovation model on improving social welfare and contextualising globally innovative ideas to the local area (Carayannis and Campbell, 2009; Carayannis et al., 2012). A holistic approach to a defined health challenge is one example of a quadruple helix approach (see Box 1.2). Each group of actors is an individual source of social innovation with the potential to contribute unique strengths in collaborative settings.

Box 1. 2. Health in North Karelia, Finland

An early and powerful example of a quadruple helix innovation is the North Karelia Project, which demonstrates the benefits of involving multiple actors from different fields to develop the best possible solution to a societal challenge.

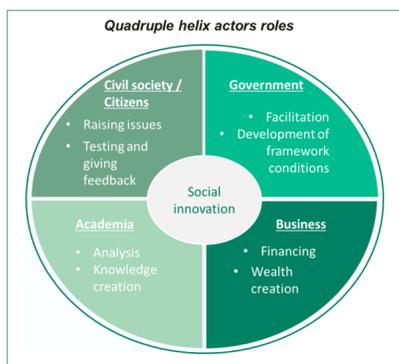
Challenge: in the 1970s, the North Karelia region in eastern Finland was suffering from very high cardiovascular disease levels, particularly among male residents. In response, the region developed a community-based intervention strategy, the first of its kind designed to shift the risk factor profile in this area.

Solution: a wide variety of programmes were established to tackle the issue of poor diet and lifestyle, drawing on resources and expertise across sectors. These included a workplace programme to help employees lose weight and stop smoking; media collaboration to produce a popular TV show following individuals losing weight; cholesterol-lowering competitions among villages; strong anti-smoking legislation; collaboration with the food industry to reduce the salt content in food products; and collaboration with vegetable oil manufacturers to produce healthier spreads.

Impact: as a result of these targeted interventions, the age-adjusted coronary heart disease mortality rate among the male population aged 30-64 years old plummeted by 73% between 1970 and 1995.

Success factor: a collaborative approach, working with numerous community organisations within the quadruple helix model – the National Public Health Institute and schools (public authority); the Stanford Prevention Research Center (SPRC) and local health research centers (academia); the food industry (private sector); and associations and local NGOs (civil society) – was key to the success of this initiative.

National expert recommendations and programmes were prepared and implemented, with the involvement of the media, to develop communication campaigns and share knowledge with citizens. The National Public Health Institute, linked to the Ministry of Social Affairs and Health, co-ordinated the project at the national level. This project was academically researched by the SPRC. Established in 1972, the SPRC is a US-based consortium of renowned experts who are world leaders in investigating ways to prevent disease and promote health. SPRC investigators collaborate on numerous long-term projects aiming to translate research into effective ways of promoting well-being.



Source: World Health Organization (n.d.), http://www.who.int/chp/about/integrated_cd/index2.html.

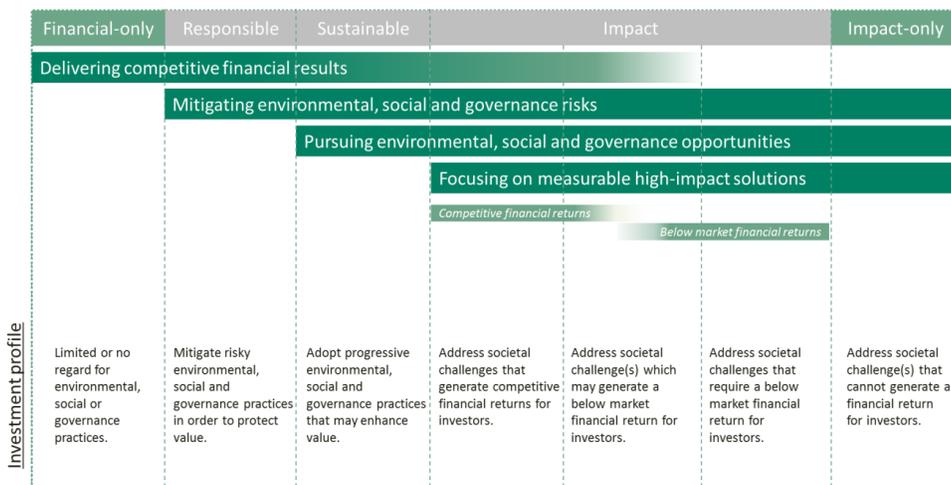
1.4.2. Social innovations can be financially sustainable

Based on the historical model of the welfare state, governments are often expected to finance social innovations. Yet social innovators are increasingly finding ways to self-finance their activities and develop revenue-generating activities that can make them more financially sustainable and independent. While donor-supplied grants from governments, the European Union and foundations can finance specific activities to support social innovation, other options are gaining traction as donor budgets become constrained. Figure 1.2 below indicates the wide range of solutions available.

Social innovators should strive to be financially sustainable and develop revenue-generating activities related to their core activities or supporting a specific social innovation. The intended beneficiaries – or other stakeholders – can also contribute to the social innovation. Some initiatives – such as MyBnk in the United Kingdom (Box 1.3) – are beginning to offer expertise in designing investment-readiness programmes. Some social innovations rely only on donations or public support; dedicated donor organisations and philanthropic organisations may be interested in supporting such initiatives.

Like traditional innovations, social innovations need to have access to finance to start a new activity, or expand and scale. Unlike with traditional innovators, social innovations need funders who understand their needs and appreciate the societal value they create. In recent years, a wide range of new players focusing on social impact investment have emerged. Funding sources range from grants (by foundations, the government, or private philanthropic organisations/individuals) to impact investment capital offering various levels of return on investment. Social impact investment involves private investment that contributes to the public benefit. Investors range from people or organisations that are willing to provide funding for organisations that are not able to generate market returns, to more traditional investors with an interest in generating a social impact (OECD, 2015a).

Figure 1.2. A spectrum of capital



Source: Social Impact Investment Taskforce (2014), <http://www.socialimpactinvestment.org/reports/Asset%20Allocation%20WG%20paper%20FINAL.pdf>.

The Global Impact Investing Network defines impact investments as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” (Global Impact Investing Network, n.d.). A recent study by JP Morgan and the Global Impact Investing Network confirmed a 19% increase in commitment to impact investments in 2014 compared to 2013 (Saltuk et al., 2014).

Social innovation is also relevant to traditional for-profit organisations: not only can they engage more meaningfully in innovation activities through their corporate social responsibility programmes, but they can also apply it on a much larger scale, through a new wave of development. A recent paper by Michael Porter and Mark Kramer (2011) on the “shared value” approach explain that social innovation can

also become a source of sustainable competitive advantage for traditional for-profit organisations. “Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success”, they write. The main idea behind creating shared value is that a company’s competitiveness and the health of the communities around it are mutually dependent. Recognising and building on the dependence between societal and economic progress can create a new wave of global growth, similar to industrialisation. An example of a shared value approach is the “bottom of the pyramid” concept, where for-profit companies conceive products and services for the poorer segment, reflecting both greater social needs among this group and the new markets in which they operate. The bottom of the pyramid creates a double win, on one side allowing lower-income groups to benefit from a product or service they would otherwise not have received, and on the other side allowing the company to make a profit – for example, through selling a service or product in smaller increments.

Chapter 3 provides further information on the public and non-public financial instruments available to social innovation.

Box 1.3. MyBnk, United Kingdom

MyBnk is an award-winning UK charity that teaches young people how to manage their money and set up their own enterprise. It gives them hands-on experience in organising, running and using financial services, through “MyBnk Branches”, also known as “MyBnk-in-a-Box”. MyBnk designs and delivers programmes for 11-25 year-olds in schools and youth organisations. Together with young people, MyBnk created innovative, high-impact workshops on topics such as saving, budgeting, public finance, social enterprise and start-up entrepreneurship. MyBnk has formed the first-ever independent online and in-school youth-led saving and lending banking scheme.

The logo for MyBnk, featuring the word "MyBnk" in a bold, red, sans-serif font. The "My" is in a smaller size than "Bnk".

MyBnk’s founder, Lily Lapenna, has a background in international development in Africa and Asia. She saw how a small loan could unleash potential, leading to enterprise, better money skills and self-sufficiency. After returning to London, Lapenna set about creating a project that would allow young people in the United Kingdom to benefit from the same principles. The idea was to use financial services as a practical learning tool, encouraging young people to take responsibility for helping themselves and the wider community. The central ethos was to get young people involved in all stages of project development and delivery.

The organisation makes it an exciting experience to go through budgeting and calculations. When working with vulnerable young people, MyBnk combines activities with discussions, personal experiences and story sharing. Most youngsters do not have skills in money management and lack the “soft skills” needed for enterprise; the programmes challenge negative attitudes, building self-belief and aspirations that help them move forward financially.

Since 2007, MyBnk has helped over 100 000 young people in more than 550 schools and youth organisations learn to manage money and start their own enterprises with financially sustainable business models. Providing financial education at the early stage has proven so successful that the programmes are now being replicated nationally and internationally.

The MyBnk example highlights the importance of promoting financially sustainable models and sustainable thinking among young people. Even though financial literacy and investment-readiness programmes are increasingly in demand, there is still space to promote them, even in OECD countries.

Source: MyBnk (n.d.), <http://mybnk.org/about/what-is-mybnk/>.

1.4.3. Social innovation is part of the new technological developments

Recent research and practice of social innovation in Europe has focused on new models for providing welfare services. EU Member States have often turned to social innovation as a way to modernise and enhance their social protection systems. However, social innovation should not be restricted to traditional welfare services; it should look ahead, taking into account recent technological developments and new social trends.

The Fourth Industrial Revolution is building on the digital revolution and is characterised by a fusion of technologies, blurring the lines between the physical, digital and biological spheres (World Economic Forum, n.d.). It has brought about new technologies and new ways of collaborating – e.g. based on open hardware, digital fabrication and rapid manufacturing – that have changed the way products are produced and services delivered. These new trends are also transforming the way goods may be manufactured and distributed in the future. They have also affected the way products are consumed, shifting society's demands from product ownership to product usage and resulting in a shared economy.

The increasing digitalisation of the manufacturing economy, the decreasing cost of tools and technologies, the rise of open-source software, the growing interest in “open innovation” and collaborative intellectual property models create many opportunities for new modes of organisation and production, possibly including social innovations.

A recent report highlighting the opportunities at the crossroads between social innovations, new technologies, open-source ICT and manufacturing confirms the potential to generate large-scale employment, as well as new skills, education platforms and economic development, while simultaneously solving societal challenges (European Commission, 2015a). More specifically, the report explores the new concept of “social manufacturing”, looking at the industrial manufacturing processes that are being displaced by new forms of molecular-scale manufacturing.

Social manufacturing taps into a social and economic transformation by developing new production models that are both socially sustainable and economically advantageous. It can provide a stimulating environment and create an enterprise that is oriented towards employees' social well-being, aware that these actions impact on the company's economic prospects and value creation.

New methods of manufacturing systems and devices have shown that expensive large-scale infrastructures are not always required: for example, 3D printing allows manufacturers to rethink the traditional approach of producing large quantities of highly standardised products, focusing instead on customising their products through a wide network of geographically diverse production facilities (which can even act as independent bodies). On the one side, social manufacturing allows developing unique products – but with similar characteristics; on the other side, it allows existing local small and medium-sized enterprises (SMEs) to morph from subcontractors to owners of a new brand of products connected to social demands.

According to the European Commission report (2015a), “we are witnessing the emergence of opportunities to reinvent business clusters with networks for horizontal innovation [*transfer of technology or innovation from one sector to another*] and more inclusive economies; the re-empowerment of vertical supply chains built on transparency and fair relationships; and corporate leadership built around shared value. Together these practices are creating the framework for a whole new generation of social innovation”. The Mondragon movement (Box 1.4) in the Basque region can be considered a relevant example of the alternative organisation of such a cluster of production and work relations, which has proven both sustainable and crisis-proof over the last four decades.

Box 1.4. Mondragon co-operative, Spain

Mondragon is the largest co-operative in the world. Founded in the Basque region of Spain, it is a corporation and federation of worker co-operatives that act as autonomous and independent co-operatives, where the shareholders are the workers themselves. At the heart of the co-operative is the culture of the organisation, which is rooted in a shared mission as well as a number of principles, corporate values and business policies that each worker should agree with and share. These values have been embodied in a series of operating rules, approved on a majority basis by the co-operative congresses.



Although the co-operatives share a culture of participation and solidarity, their unification within the federation of co-operatives allows them to act as cluster of production and compete with large multinational companies on a global scale. They are responding to the growing globalisation process and strongly promoting expansion abroad by setting up production plants in a number of countries, offering competitive products without compromising their production facilities in Europe.

Mondragon co-operatives number 74 117 workers in 257 companies and co-operatives. In 2014, sales totalled about EUR 11 000 million, and investments amounted to EUR 345 million. Internationalisation continued, with 125 production subsidiaries abroad – 3 more than in 2013. In 2014, Mondragon co-operatives created some 1 000 jobs.

As the Basque experience demonstrates, relatively small independent structures can compete internationally, as long as they are federated and federated into a production cluster. The availability of these structures gives Mondragon the flexibility to integrate the latest technologies and production processes. The interrelationships between the co-operatives also allow them to scale up internationally, without compromising their structure and values. Mondragon ensures a fair redistribution of benefits among the workers while fostering a competitive culture. The Mondragon example proves that social innovation can also be applied successfully to advanced manufacturing and re-industrialisation.

Source : Mondragon Corporation (n.d.), <http://www.mondragon-corporation.com/>.

1.4.4. Social impact measurement is crucial for social innovation

Since social innovation focuses on creating social impact, proving it is an effective and sustainable pathway to this goal is essential. Measuring social impact can help determine whether social innovation has achieved its objectives; it can also justify potentially favourable treatment on the part of the public sector, providing its contribution to solving societal challenges is proven. However, as each social innovation measures its own, unique impact, developing a single methodology that would fit a wide variety of societal impacts is no easy task. To date, no common language exists on social impact measurement (OECD/European Union, 2015). Moreover, evaluation processes are very challenging: first, they ideally require a large comparison group to determine what the situation would have been in the absence of a particular social innovation and second, they need to take into account extensive variables, depending on the location.

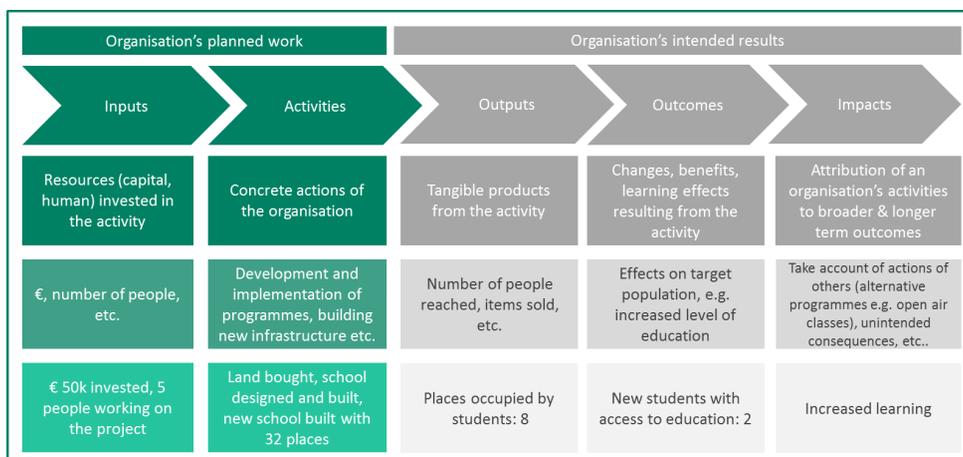
Both micro-level measurement (how successfully a social enterprise is contributing to this goal) and macro-level measurement (social enterprises grow in an ecosystem composed of a favourable governance framework, capacity-building tools and learning processes) have become necessary (BEPA, 2014).

The process of measuring an individual social innovation's impacts to evaluate the initiative is critical to the innovation process, to ensure the initiative is indeed having the intended results and determine whether it can be updated to have an even greater effect. Studying multiple individual initiative-impact analyses can identify which characteristics of the greater social innovation ecosystem are best supporting initiatives, and which need to be updated to further facilitate the development of individual initiatives.

A number of working groups have been established to define the best approach to measuring social impact. The most popular is the European Commission’s Expert Group on Social Entrepreneurship (GECES), which recently released the working paper “Proposed approaches to social impact measurement” (GECES Sub-group on Impact Measurement, 2014). Following a consultation with the leading experts, GECES issued a set of recommendations and areas requiring follow-up. GECES highlights the benefits of an internationally agreed standard for social impact measurement, but notes the absence of a single set of indicators that can measure the social impact of all social innovations.

This does not mean that measuring social impact is impossible. Organisations can measure their impact against their objectives, both with regard to the organisation itself (internal) and its engagement with stakeholders (external). A number of organisations have adopted an “input-output-impact” framework to measure the impact created, based on particular activities, projects or initiatives. Figure 1.3 below provides an example of the framework used by the European Venture Philanthropy Association (EVPA)².

Figure 1.3. EVPA impact framework



Source: EVPA (2015), “A practical guide to measuring and managing impact”, European Venture Philanthropy Association <http://evpa.eu.com/publication/guide-measuring-and-managing-impact-2015/>.

EVPA has adopted the following five stages of the impact measurement process: i) identify objectives, ii) identify stakeholders, iii) set relevant measurement, iv) measure, validate and value, v) report, learn and improve.

These steps, known as the “theory of change” (Weiss, 1995) or “impact value chain”, represent a cornerstone of most existing impact-measurement methodologies. The theory of change shows and explains the causative link between the activities performed and their targeted outcomes and impact; it is often applied to long-term initiatives aiming to promote social change.

Governments can apply the theory of change to determine how particular initiatives are impacting on societal challenges; they can also refer to standard statistics to evaluate the impact of particular initiatives on particular challenges. Table 1.1 presents examples of some of the indicators used. This is a non-

exhaustive list; further indicators could be developed specifically for a particular change or challenges. Nevertheless, good practice shows that a combination of different (quantitative and qualitative) approaches is needed to cover the various aspects of the evaluation process, regardless of the policy under scrutiny.

Table 1.1. Sample indicators to measure social impact by challenge area

Challenge area	Unemployment	Demographic challenges	Poverty	Environment	Education
Sample indicators	Net increase of jobs	Population growth and distribution	Poverty rate	Greenhouse gas emissions	Early school leavers
	Unemployment rate	Population distribution	Poverty gap	Share of renewable energy in energy production	Literacy
	Youth unemployment	Life expectancy	Income share held by lowest 20%	Percentage of waste being recycled	School life expectancy

As analysis of the academic literature suggests that the public sector, civil society and funders have adopted a number of different methods to measure their social impact. Existing methods include social return on investment (SROI), the Universal Standards for Social Performance Management, the Impact Reporting Investment and Standards, the Social Reporting Standard (SRS), the Global Reporting Initiative and others developed by private players, such as the Phineo method (Phineo, n.d.). SROI is a principles-based method for measuring extra-financial value (i.e. environmental and social value that is not currently reflected in conventional financial accounts) relative to resources invested. The SROI method can provide a consistently quantitative approach to understanding and managing the impacts of a project, business, organisation, fund or policy. Box 1.5 provides further information on the SROI method for measuring social impact.

Box 1.5. Social return on investment (SROI) methodology

SROI is an evaluation tool that values a project’s impact beyond financial objectives. Seeking a better and complete analysis of an organisation’s impact, SROI tells the story of the changes created by measuring activities’ social, environmental and economic outcomes, and attributing monetary values to represent them.

In theory, SROI generates a ratio that will indicate to what extent social and environmental returns, expressed in financial terms, relate to the investments made. SROI can be used by investors to better assess and orient investments, by organisations to target priorities and monitor progress, and even by policy makers to track externalities and the outcomes of investing in certain programmes.

In practice, SROI can be calculated by setting an “impact map” – i.e. an overall analysis of the relationships between the inputs, outputs, outcomes and external factors surrounding the organisation’s activities.

First, the impact map framework stresses the importance of involving every relevant stakeholder when calculating value creation; this guarantees efficient calculation of the value created, by considering everyone affected and avoiding double counting.

Second, non-cash inputs – such as time and volunteer work – are included, and non-monetised outcomes are continuously analysed and tracked. The outcomes are then valued in comparison to market prices, after which they are used as a figure for future calculations – for example, volunteer work can be valued in comparison to the average price of the working hour in that sector.

Finally, establishing the activity's real impact requires analysing whether the outcomes really stem from that activity. For that, four deductions should be considered:

- Deadweight is a percentage indicating to what extent the changes would have happened anyway.
- Displacement is an assessment of how much outcome has displaced other outcomes.
- Attribution determines the amount of outcome arising from the contribution of other organisations.
- Drop-off is the value/outcome the organisation failed to distribute owing to time constraints.

As a result, the complete impact map enables the organisation to tell the story of the changes generated by its activities and to explain the decisions made. The principle of SROI is to measure and expose all things that really matters to that organisation, including subjective externalities. It allows the organisation to quantify them judgementslly to understand their degree of social and environmental impact, and assess which activities can best be scaled up.

In Croatia, the National Foundation for Civil Society Development is co-operating with the NGO - Autonomous Centre (ACT) to develop a common methodology to establish a system based on the SROI methodology for monitoring, measuring and reporting social impact in Croatia..

Source: Adapted by OECD analysts from the *Guide on Social Return on Investment*, <http://www.neweconomics.org/publications/entry/a-guide-to-social-return-on-investment>.

Admittedly, defining the right indicators and metrics to measure social impact takes time; in the long run, however, it will guide and help the organisation achieve its goals. A social impact metric also allows donors, investors and financiers in the non-profit sector to select, assess and compare different projects and initiatives. The Ashoka organisation in Germany is starting to measure its social impact through the SRS, thereby facilitating goal-oriented management and generating a better understanding of past achievements (Box 1.6).

Box 1.6. Social Reporting Standard (SRS) at Ashoka, Germany

Ashoka is a global platform bringing together social change makers. Founded in 1981, the organisation currently supports over 3 000 social entrepreneurs and innovators in 80 countries worldwide, providing both start-up and professional support services. Ashoka Deutschland was launched in Germany in 2006 and is mainly involved in three activities: i) a venture programme aiming to identify new members for the Ashoka network, ii) a fellowship programme providing financial and strategic support to elected fellows, and iii) market-building initiatives supporting the development of social entrepreneurship in Germany.



From the very beginning, Ashoka co-developed the SRS, encouraging over 50 German fellows (organisations and individuals) to apply the standard as both an internal strategy and organisational learning tool. The SRS is inspired by the Financial Reporting Standards applied to for-profit companies. The SRS promotes impact-oriented reporting, especially for social organisations, and a standardised reporting guideline for initiatives and projects in the non-profit sector. In particular, it helps document and communicate the results chain of individual projects. In addition, the SRS report systematically captures several fundamental reporting elements, such as the organisational structure and finances, creating a comprehensive picture of the organisation. The SRS methodology begins with the societal challenge the organisation is addressing. The organisation states its vision and goals, and then works through the resources used, documenting the work performed (outputs) and the results achieved (impact and income on target groups).

In 2012, Ashoka Deutschland drafted its own annual report for the first time along SRS guidelines. Besides providing common information about the organisation's structure, team and finances, the report focuses on the outcomes and impacts achieved according to SRS guidelines. This allowed Ashoka first to ascertain which societal problems it was tackling, and second to determine the existing problem-solving mechanisms related to its three main

activities, detailing the processes and highlighting the causalities of the interventions in regard to the problems identified. Third, the report illustrated the outputs and outcomes for each area, by depicting the impact value chains in a structured manner.

The 2014 annual report highlighted the following impacts:

Output: the organisation performed constant outreach to a growing interested public – from 1 900 to 3 500 Facebook fans and over 8 000 newsletter receivers.

Outcome (excerpt):

- *Venture programme*: the selection process had an identity-building effect for 63% of the Ashoka Fellows who joined the network in the last three years.
- *Fellowship programme*: 71% of the German Ashoka Fellows say they improved their knowledge of financing models and 43% were able to improve their financial model in 2014; 60% were able to improve their impact-scaling model.
- *Market-building/ecosystem programmes*: the programmes improved connectivity among social sectors with regard to scaling social innovations, initiating partnerships between social entrepreneurs and welfare organisations, and empowering young change makers (90% of the engaged youth felt they could make an impact [average among society: 25%]).

SRS is now available to all socially innovative organisations as a reporting template. The Ashoka Deutschland example demonstrates the importance of social impact measurement at the entity level. A variety of social impact measurement metrics exist, and each organisation is free to use the one that best fits its structure.

Sources: Ashoka (n.d.), www.ashoka.org; "Change Maker" magazine (2014/15), <http://issuu.com/ashokade/docs/ashokamagazin2014-15>; GECES Sub-group on Impact Measurement (2014).

1.5. Social innovation system typologies

Although a burgeoning body of literature on social innovation exists, the demand for categorising the field is growing (Rüede and Lurtz, 2012). While little research has focused on defining social innovation systems, the consensus among academics and research practitioners is that social innovation systems differ from one country to another.

In Europe, the structure of a country's social and welfare model has direct implications on the structure of the social innovation system. There is no consensus on social innovation systems, and further research on the subject should be conducted. Nevertheless, anecdotal evidence suggests that different systems have evolved. For the sake of simplicity, this publication will look at three systems: Anglo-Saxon, Continental and Eastern European.

The **Anglo-Saxon** social system emphasises personal responsibility; the more limited collective provision of social protection is intended merely to cushion the impact of events leading to poverty. The system is structured around the concept of social enterprise, based on the premise that the solutions provided should be self-sustainable. Social innovations are grassroots-driven and collaborative. A large number of independent actors (charities, foundations, impact investors) provide finance. The role of the government is to create an efficient market for social innovations, where investors along the whole spectrum – philanthropists (who only expect social impact), social investors (who expect social impact with financial sustainability) or impact investors (who expect social impact and financial profitability) – can invest efficiently and in keeping with their objectives. The government co-ordinates the process and provides the right incentives for the main stakeholders to develop and scale up the social innovations.

Government finance intervenes mainly in cases of proven market failure and is managed according to a value-for-money approach.

The advantage of the Anglo-Saxon system is its optimised use of resources, as well as its ability to connect various actors at the micro, meso and macro levels to achieve increased social impact. Its weakness may lie in its lack of an overarching strategic approach.

The **Continental** social system is defined by its dependence on social contributions, insurance-based unemployment benefits and old-age pensions. Employment is the basis of social transfers; benefits are moderate and linked to income. The system differs slightly in various regions. In the Mediterranean countries, for example, the low level of social transfers is partly counterbalanced by the strongly supportive role of family networks; in the Nordic states, social partners and the government have traditionally engaged in strong social dialogue and co-operation. Social innovation is driven by policy goals, based on the notion of creating public services for the “common good”. Social systems differ between Northern and Southern Europe. As has been identified by the recent BENISI project (EU Seventh Framework Programme), most social innovations in Northern Europe focus on smart growth, while social innovations in Southern Europe focus on inclusive growth. In the Continental system, the government leads efforts to initiate social innovations through competitions as well as create demand, and plays an important role in financing them through grants and subsidies. Even though social innovations are sometimes initiated by a number of actors working together, individual initiatives prevail. As government funding is substantial, the financial sustainability of the initiatives is less of an issue, and there is less focus on scaling the initiatives.

The advantage of the Continental system is its long-term vision of social progress and ability to find resources for large-scale projects and initiatives. Its weakness lies in its insufficient monitoring of government spending efficiency, resulting in a suboptimal cost-of-service ratio. Moreover, the project-based approach carries with it the risk that many social innovation efforts – including successful, socially impactful initiatives – could go to waste without guaranteed funding. Finally, some of the smaller initiatives that lack experience in working with government or EU funding could be at a disadvantage.

The **Eastern European** social system is characterised by greater differences in quality of life and confidence in the public system. Although social contributions cover non-employment benefits and old-age pensions, family networks play a strong support role. The system is characterised by the relatively larger size of the grey economy and the lower level of trust in the government sector, leading individuals to take greater responsibility for themselves. The culture is less collaborative, even though personal networking and informal relationships play an important role. Social innovation is rarely institutionalised. The word “social” may still have a negative connotation in many countries, further hindering its advancement; hence, sectors tend to engage in awareness-raising, policy support and advocacy on top of their primary activities. In the absence of significant finance from the government, foundations or private charities, social innovation efforts are mostly initiated at the grassroots by local NGOs, associations and committed individuals. Some funding is provided by international NGOs, associations, charities or donor-led initiatives. Access to EU structural funds and programmes, such as Horizon2020, should be seen as an opportunity to build a solid base for social innovation in the Eastern European systems; however, this requires substantial preparatory capacity-building and awareness-raising.

The advantage of the Eastern European system is its ability to leapfrog and adopt the most relevant models, bringing in social innovations that have been tested and proven in other countries. Its weakness lies in its lack of awareness of social innovation as a concept, as well as in the absence of a structural approach to funding a particular aspect, thereby promoting rather small-scale initiatives.

During the preparation of this report, social innovation practitioners were interviewed with a view to defining the major characteristics of the three social innovation systems described above. Table 1.4 summarises the initial findings.

Table 1.4. Comparison of social innovation systems

Aspect of the Social innovation system \ Type of Social innovation system	Anglo – Saxon	Continental	East European
Structure	Liberal market	Top-down	Grassroots
Social Innovation Efforts	Focus on societal impact through income generation	Focus on societal impact	Focus on societal impact Advocacy actions
Institutions (leading actors)	Social enterprises	Governmental institutions	Non-for profit associations
Financing Conditions	Private (foundations, impact investment)	Government EU-funds mainly (ESF/ERDF)	Government EU-funds / Donor support
Scaling promotion	Promotion by government to scale	No focus on scaling	No focus on scaling
Openness for collaboration	Open for collaboration	Individualistic approach	Individualistic approach

The systems were analysed based on a number of criteria. An analysis of the **structure** of the social innovation market shows that the Continental approach is more top-down and the Eastern European approach more grassroots. The Anglo-Saxon system, for its part, focuses on creating a liberal market for social innovations, where investors can find ways to invest in ventures matching their objectives (and likewise, where social entrepreneurs can find the right financing for their project).

An analysis of **social innovation efforts** reveals that actions in the Continental system are designed to create social impact. In the Anglo-Saxon system, they focus on achieving social impact through income-generating efforts. In the Eastern European system, social innovation actors are also involved in a number of advocacy efforts to explain their role and defend their space.

Social entrepreneurs in the Anglo-Saxon system are the **leading actors** of social innovation. In the Continental system, the government often leads and initiates actions. In the Eastern European system, associations take the lead. It should be specified that these are just trends ; each system features examples of actions undertaken by the various actors.

An analysis of the **financing conditions** for social innovation shows that the Anglo-Saxon system clearly has much higher private-sector involvement, including from impact investors and large foundations (see also Box 3.12). In the Continental system, the government and EU structural funds play an important role, but impact investors and other players are emerging. The Eastern European system suffers from an

overall lack of funding; existing funding is generally provided by the government and some rare international donor agencies or foundations.

An important dimension of **scaling promotion** looks at the support social innovations receive to grow and internationalise. In the Continental and Eastern European systems, social innovations tend to remain at the local/national level, and few support structures exist to promote their scaling. The Anglo-Saxon system promotes international and interregional scaling through a variety of options, such as franchising or branching, with the aim of developing a global good or service for social innovation. The Anglo-Saxon system seems to create most opportunities for facilitating social innovations and accelerating their growth from the micro to the macro level through a number of incentive schemes.

Finally, the analysis examined the systems' **openness to collaboration** and ability to connect various actors at the micro, meso and macro levels. Here again, it emerged that various actors gladly co-operate in the Anglo-Saxon system to achieve higher impact and opportunities for growth. The Continental and Eastern European systems, on the other hand, exhibit a natural propensity for individual action, unless a particular project or call requires different actors to co-operate.

This very simplified typology will help determine whether any of the above models for social innovation can be relevant to Croatia. Based on this assessment, the report will propose a framework for action in the country.

Chapter 1 introduced the concept of social innovation as it relates to Croatia. It provided different definitions of social innovation and means to apply it from a theoretical standpoint. It has been proven that a dedicated policy framework facilitate a co-ordinated approach to fostering a social innovation ecosystem. Policy makers can see that a collaborative approach increases the impact of social innovations, while bearing in mind the objective of financial sustainability. Chapter 1 presented recent methods to measure social innovation and scale its impact. It concluded with a typology of relevant social innovation systems to promote an understanding of where Croatia might fit in. This requires first examining the structures in place in Croatia, then using the theoretical elements evoked earlier to consider how they could be improved.

2. STATE OF PLAY OF THE CROATIAN SOCIAL INNOVATION SYSTEM

This chapter introduces the reader to the current state of play of Croatia's social innovation system. It starts by identifying the most relevant policy documents, then lists the actors of social innovation in the public and private sectors, academia and civil society. Finally, it highlights the major challenges to promoting social innovation in Croatia, as identified through desk research and interviews.

2.1. Relevance of social innovation to Croatia

Croatia builds on a strong legacy of social innovation from the Socialist era (1945-90). Democratic transition in the 1990s was unfortunately accompanied by war on Croatian soil, which further set back the economy and the well-being of the population. The development of the market economy following the 1995 peace agreement brought about a new era of prosperity until the outbreak of the global economic crisis. In this period, the benefits of liberalism became apparent as Croatia strived to regain lost ground with regard to economic well-being.

Since 2009, the Croatian government has faced tremendous challenges – a declining gross domestic product (GDP), decreasing labour participation and rising welfare payments – stemming from the economic recession. The negative economic outlook has inevitably affected the social realm, driving up inequality, poverty and exclusion. At-risk-of-poverty rates rose from 17.3% in 2008 to 32.6% in 2012 (Eurostat data). The Croatian government is facing a “government failure”: it has largely exhausted its welfare model, government debt now exceeds 90% of GDP, and little or no fiscal space exists to cover the country's growing social needs. Box 2.1. below presents the macroeconomic context in Croatia.

Box 2.1. Croatia's macroeconomic context

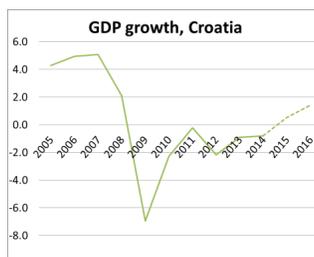
Over the past two decades, Croatia has made substantial progress towards a market economy, while also integrating closely into the European and global economies. Annual GDP growth between 1996 and 2008 averaged 4.6%, compared with only 2.1% in the European Union.

Despite solid economic growth – also accompanied by contained inflation and stable exchange rates – Croatia has experienced a sharp economic downturn, caused by the global financial crisis and recession (OECD, 2014a). After a sharp 7.4% decline of GDP in 2009, GDP continued its downward trend, reversing only during the third quarter of 2014. Croatia is only expected to attain its 2008 real GDP level far beyond 2020.

Croatia's debt sky-rocketed between 2008 and 2014, from 38.9% to 85.1% of total GDP; it is expected to further increase, reaching 92.8% of GDP in 2017 and only decreasing gradually thereafter. The Croatian government has faced the country's many fiscal vulnerabilities by running continuous fiscal deficits (averaging 6.5% of GDP) since 2008. Even though the European Commission consequently put Croatia under its Excessive Deficit Procedure in the second quarter of 2014, the country is not expected to reach the -3% threshold until at least 2018.

Eurostat data show that the unemployment rate stood at 17.3% in 2014, remaining constant compared to its 2013 level; youth unemployment ceded the 2013 record high of 50% to 45.5%, ranking it as the third-highest in the EU28 (after Greece and Spain) in this respect. Moreover, the pool of long-term job seekers represents 50% of total unemployment; an alarming 18% receive unemployment benefits for more than three years. The number of young people not in education, employment or training has also increased continuously.

Source: European Commission (2014a), Eurostat (database), <http://ec.europa.eu/eurostat/>; International Monetary Fund, *World Economic Outlook April 2015* (database); adapted from *Hrvatska Narodna Banka. IMF Macroeconomic Forecasts* (2014).



New societal demands and challenges may create opportunities for the private sector to become involved in social innovation and provide new services or products in Croatia. However, creating a profitable business model around societal challenges is a complex task, owing in part to the population's habits, its inability to pay for a service previously provided free of charge by the welfare system, and more generally its lack of trust in for-profit solutions. Private-sector actors might also find it difficult to justify margins on services and products previously offered on a not-for-profit basis. In Croatia and elsewhere, answers to societal challenges mostly fall under the "market failure" category, where for-profit actors are unable to find profitable ways to offer a social service or product. For example, the high rate of youth unemployment in Croatia is driving huge demand for career training. This service is currently provided either by government institutions – which cannot address all the population's needs – or non-profit organisations – which have not proposed financially sustainable solutions. A new approach is required, where various actors pool their knowledge and experience to find optimal, cost-efficient solutions.

As suggested in Chapter 1, social innovation is particularly well placed to develop solutions to societal challenges. Croatia already has the basic foundations for building effective social innovations, including a large and vibrant community of small and medium-sized enterprises (SMEs); relatively high entrepreneurial intention; a large number of associations, co-operatives and civil society organisations; a strong research base in the social sciences and humanities; and high ecological awareness. According to the European Social Survey, Croatia scores relatively high compared to its European peers (e.g. Slovenia) in regard to equal treatment of individuals and the importance of caring for others' well-being (European Social Survey, 2010). Moreover, welfare reforms have been ongoing since 2000, mainly focusing on creating a welfare mix – i.e. a new combination of social service providers – through de-institutionalisation, diversification and decentralisations (OECD LEED, forthcoming). This, in turn, can help develop new opportunities for creating social enterprises and other social innovation actors.

Finally, since integrating the European Union in 2013, Croatia has become eligible for all existing EU structural funds and programmes, namely the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF). Social innovation is an important element of EU structural funds. The Competitiveness and Cohesion Operational Programme 2014-2020 strongly emphasises the need for social innovation and eco-innovation development, especially within Priority Axis 1 ("Strengthening the Economy through Application of Research and Innovation"), thus enabling the ERDF to fund social innovations. The Efficient Human Resources Operational Programme 2014-2020 sets investment priorities and activities to be funded by the ESF, and also promotes social entrepreneurship and social innovation. However, Croatia needs to develop the right set of policies to benefit from these funds.

2.2. Policies affecting social innovation in Croatia

Although social innovation is not new in Croatia, support for it has until recently been sporadic. In the 1990s, civil society organisations focused on solving specific societal problems caused by war, high unemployment and the generally unfavourable economic situation. Their projects (some of which promoted social entrepreneurship, employment and social inclusion) were financed by various international programmes (e.g. the United States Agency for International Development or Swedish International Aid Agency) and donor organisations. Once Croatia gained access to Instrument for Pre-Accession Assistance finance, it started funding projects designed to foster employment and social inclusion.

Croatia recently drafted a number of policy documents (see below) that enable the country not only to benefit from EU structural funds, but also to promote social innovation initiatives.

- **Croatia's Smart Specialisation (S3) Strategy** was adopted in 2015. It promotes priority measures in Croatia and highlights the importance of including knowledge and skills in technological, organisational, marketing and social innovations. The Strategy emphasises the importance of social innovation development as a whole, rather than merely as one area of intervention. The Strategy is structured around five pillars – health and quality of life; energy and sustainable environment; transport and mobility; security; agri-food and bio-economy – representing societal challenges. Social innovation is mentioned under Strategic Objective 5, “Working in partnership to address societal challenges”. The S3 draft also recognises several important cross-cutting themes, such as key enabling technologies; information and communication technologies (ICTs); engineering; tourism; and creative and cultural industries.
- **The National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012-2016)** states that social innovation is not sufficiently developed in Croatia (Government of the Republic of Croatia, 2012). It points to social innovation as one of the ways in which civil society organisations can contribute to social and economic development. It emphasises supporting and enhancing the impact of social innovations on social and economic development. It also advocates developing training programmes on social innovation and social entrepreneurship in schools and universities.
- **The Strategy for Innovation Encouragement of the Republic of Croatia 2014-2020** was adopted in December 2014 (Government of the Republic of Croatia, 2014). One of its thematic pillars is to provide support for co-operation and knowledge transfer between business, academia and government. One of the two priorities defined under this pillar is to deploy innovation to solve social challenges through three specific activities: providing grants to support innovative projects addressing societal challenges, based on triple or quadruple-helix principles; promoting international collaboration for innovation, through joint military-private sector collaboration projects; and applying innovation to the public sector and public services.
- **The Strategy for the Development of Social Entrepreneurship for the Period 2015-2020** was developed by a working group of 42 members, including major stakeholders in Croatia, and adopted by the Croatian Government on 30 April 2015. The Strategy lays out the terms and definitions, measures and activities of social entrepreneurship, as well as the methodology for developing and monitoring the process. It aims to establish and improve the legislative and institutional framework for social entrepreneurship. It sets out a number of measures to establish a financial framework, increase awareness, and promote formal and informal education.

2.3. Social innovation actors in Croatia

Social innovation actors include civil society organisations, public authorities (local and regional governments), research organisations, social enterprises and even informal entities. The subsections below present the main government, business, academic and civil society actors in Croatia.

2.3.1. Government actors relevant to social innovation

A number of government stakeholders are relevant to social innovation in Croatia. The most active are the Ministry of Labour and Pension System; the Ministry of Social Policy and Youth; the Ministry of

Economy; the Ministry of Entrepreneurships and Crafts; the Ministry of Science, Education and Sports; the Government Office for Cooperation with NGOs; and the National Foundation for Civil Society Development.

The **Ministry of Economy** is currently enforcing the Operational Programme for Competitiveness and Cohesion 2014-2020, which includes two strategic projects: i) the Competitiveness cluster initiatives support project, ii) the Development of innovation network for industry and creation of thematic innovation platforms project. Both initiatives indirectly cover social innovation. Public tenders for private sector research and development (R&D) are expected to begin by mid-2016. Interest is also growing in public procurement promoting innovative solutions and ideas.

The **Ministry of Labour and Pension System** is responsible for employment and labour market policies, social partnerships, and relations with trade unions and employers' associations, as well as international co-operation in the area of labour market and employment. Under Specific Objective 9.v.1, the Ministry received EUR 400 000 (euro) for the "Establishment of an institutional and legislative framework for social entrepreneurship development" project, which focuses on establishing a register of social enterprises, as well as developing a methodology to monitor their impact and contribution to solving societal problems and challenges in the local community. In parallel, EUR 3.4 million were allocated to an open call for grants for "Enhancing business activities for social entrepreneurship – Phase 1", expected to take place in 2016. The project aims to support developing new social enterprises and improving the business sustainability of existing ones; improving the knowledge and skills of social enterprise employees through different types of education; and opening new jobs, with a focus on previously unemployed persons, particularly from vulnerable groups.

The **Ministry of Entrepreneurship and Crafts** is currently designing two main innovation support schemes. The first grant scheme (with a budget of EUR 80 million) will support innovation-driven SMEs – including start-ups and spin-offs – in commercialising their innovative products/services. All kinds of innovations, including social innovation, will be eligible; during the evaluation process, innovations addressing societal challenges will receive a higher score. The second grant scheme (EUR 100 million) aims to establish innovation-driven production capacity for SMEs in sectors related to the S3.

The **Ministry of Science, Education and Sports** intervenes to achieve "increased R&D capacities of the R&D sector to perform excellent research and to serve the needs of the economy". It aims to enhance research organisations' capacities to perform enhanced research, to elicit the flow of knowledge and skills that can effectively contribute to social development and economic growth. Interventions aim to strengthen the organisational reform and infrastructure of the research, development and innovation sector; support Centres of Research Excellence performing excellent science; and support R&D projects building on co-operation between the scientific and business sectors through knowledge and technology transfer. Within this scope, projects enhancing or implementing social innovations are likely to be supported if they focus on the needs of the economy. Ten projects currently come under Societal Challenge 6 of the EU Framework Programme for Research and Innovation/Horizon 2020 for 2014-15. The FP7 Social Innovation Communities (SIC) project relates to social innovation and is implemented in co-operation with the Austrian Centre for Social Innovation. Croatia also participated in the SI Drive project in the context of the Seventh Framework Programme (FP7).

The **Ministry of Regional Development and EU Funds** is in charge of preparing multi-annual strategic planning and programming documents to be used when applying for EU funds and international financial mechanisms. It co-ordinates the preparation, monitoring and evaluation of accession and post-accession period strategic documents – including for the use of EU structural and investment funds for the 2014-20 financial period, under the scope of which Croatia has been allocated EUR 10.7 billion. However, the current institutional and legislative framework is incomplete when it comes to successfully preparing

and monitoring the implementation of strategic documents. The Ministry is not directly involved in social innovation, but is instrumental in developing programmes that use EU structural funds. It is also involved in preparing strategic documents at the national level and establishing an effective quality control system.

The **Croatian Agency for SMEs, Innovation and Investment (HAMAG-BICRO)** is an independent institution under the supervision of the Ministry of Entrepreneurship and Crafts, with links to other ministries. The Agency's activities include promoting the establishment, development and financing of small business entities and promoting investment in small businesses. The Agency also provides financial support to innovative and technology-oriented enterprises in Croatia; helps commercialise knowledge and raise awareness on the value of innovations; supports the transfer of knowledge and technological solutions from the scientific sector to the economy; helps establish and develop the technology infrastructure; and participates in creating and developing the venture capital industry. Although it is not directly involved in social innovation, the Agency has a number of relevant methodologies and staff who could play an important role, especially at the implementation level.

Croatia is in the process of establishing an **Industry Innovation Council**, chaired by the Minister of Economy and comprising representatives from various ministries (including the Ministry of Science, Education and Sports; the Ministry of Regional Development and EU Funds; and the Ministry of Entrepreneurship and Crafts), as well as HAMAG-BICRO, universities and private-sector representatives. It will comprise five thematic platforms – health and quality of life; transport and mobility; food and beer industry; energy and environment; security – involving the chairperson of the competitive cluster responsible for that particular field, as well as representatives from research institutes and the business sector. An additional 12 thematic clusters focus on themes directly relevant to societal challenges, and can therefore be assimilated with social innovation.

The **Ministry of Social Policy and Youth** deals with activities related to social welfare institutions; the care and protection of persons and families at risk of poverty or social exclusion; youth; persons with disabilities and other vulnerable groups; and foster care and adoption.

The **Ministry of Agriculture, Fisheries and Rural Development**, through its Rural Development Programme (2014-2020), has been involved in developing local action groups (LAG) that can help promote social innovation and create co-operatives.

The **Government Office for Cooperation with NGOs** creates conditions for co-operation and partnership with the non-governmental and non-profit sectors, particularly associations.

The **National Foundation for Civil Society Development** is the main public institution responsible for funding, linking and developing co-operation among civil society organisations in Croatia.

2.3.2. Research community

The Croatian higher education sector has grown considerably in recent years. Although it was initially concentrated in Zagreb, a number of new public universities and private institutes have contributed to a more geographically balanced distribution over the past decade. The higher education sector is also characterised by a great deal of institutional complexity. The four older universities (Zagreb, Split, J.J. Strossmayer in Osijek and Rijeka) are divided into faculties and academies, which are set up as separate legal entities and possess considerable autonomy (OECD, 2014a). The University of Zagreb is the highest-ranked university among the country's 28 higher education institutions; it also appears in global ratings of leading universities. The number of international scientific co-publications per million inhabitants has increased 2.2 times over the last 8 years; in 2011, Croatia numbered 8 698 academic staff employed full-time.

In terms of the distribution of graduates by discipline, Croatia has the largest combined share of social sciences and humanities graduates among comparable countries (e.g. Estonia, Poland, Finland and Czech Republic) (OECD, 2014c). The recent expansion of tertiary education provision (including private tertiary education) has contributed to the imbalance: the social sciences and humanities garnered the largest share (36.7%) of doctorates (17.5% in the humanities and 19.2% in social sciences), followed by biomedicine and health (22.5%), and life sciences (18.4%). The remaining 22.4% doctorates were in engineering, biotechnical science and interdisciplinary scientific fields (METRIS, 2011).

Croatian universities have been active in the area of social innovation as well. The University of Zagreb has been a partner in the FP7 WILCO project, which studies welfare innovations at the local level. The Zagreb School of Economics and Management, the Faculty of Economics at Osijek University and the University of Applied sciences in Vrnjačka Banja have also been offering courses in social enterprise and social innovation.

2.3.3. Business community

The 2013 OECD innovation review of Croatia (OECD, 2014c) noted that a majority of Croatian businesses do not report systematic innovation activity in the EU Community Innovation Survey. In such a context, the overarching challenge is to get more companies to innovate, and to incite already innovating companies to increase the intensity, ambition and variety of their innovations. More efforts should go into persuading the business community to become more involved in social innovation. In Croatia, formal R&D capacities and expenditures are concentrated in a relatively small number of large firms (ERAWATCH, 2012); however, social innovation provides numerous opportunities for smaller companies.

According to the Global Entrepreneurship Monitor (GEM), Croatia ranks among the EU economies with the lowest perception of entrepreneurial opportunities, but the highest perception of entrepreneurial capabilities – and indeed, entrepreneurial intention (J.J. Strossmayer University Osijek, 2014). In 2013, the percentage of adults in Croatia who intended to start a business within three years stood at 19.6%; the corresponding average percentage in the European Union was 13.5%. This difference could be also linked to the high unemployment numbers in Croatia, which may push people to start a business once they lose any hope of finding a job. The bulk of Croatian businesses do not report systematic innovation activity. According to the GEM, Croatian companies are characterised by a high share of need-based entrepreneurship, a low share of businesses with new products and a persistently high fear of failure. Croatian companies are generally less likely to engage in innovation compared to their EU counterparts, but even when they do, they devote fewer resources to it. Only 42% of Croatian firms engaged in innovation activities in 2008-10; the average EU corresponding figure was 53%. The low propensity of Croatian companies to collaborate with universities, and public research institutes in particular, is evident. Croatia could further promote opportunity-based entrepreneurship, where individuals seize a business opportunity (often linked to innovation) and turn it into a viable business.

The Croatian Employers' Association and Croatian Chambers of Economy are becoming increasingly involved with social innovation and social entrepreneurship.

2.3.4. Civil society actors

Civil society is a relatively new phenomenon in Croatian society, where it began to emerge during the 1990s. Croatia numbers many civil society actors; as Table 2.1 below shows, over 55 000 relevant organisations are registered in the country. The OECD/LEED report *Boosting social entrepreneurship and social enterprise creation in Croatia* (OECD/LEED, forthcoming) provides a detailed analysis of the legal framework for each type of Croatian civil society actor.

A survey carried out in 2012 by the National Fund for the Development of the Civil Society (Nacionalna Zaklada za razvoj civilnoga društva, 2012) on a sample of 651 associations found that 16% of the associations had a social mission as their primary goal – second after a cultural objective (30%).

Although the number is impressive, they are dominated by micro-associations, 51% of which have no employees, and only 5% of which have 10 employees or more. Similarly, their financial resources are scarce, since half of the associations have a budget of less than EUR 14 000 euros a year, and only 9% have more than EUR 140 000 a year. A majority (71%) cite insufficient financing as the main barrier to implementing projects. Even though the civil society is often referred to as the non-governmental sector, the bulk receive at least part of their financing from local government (74%) or central government (65%).

An encouraging finding of the same study is that a majority of civil society organisations (65%) do co-operate with the private sector, and some (28%) receive financial support from the business sector. A full 94% also network and co-operate with each other, most often collaborating on projects or joint requests for donor funds. About two thirds of the associations are members of domestic or international networks.

Civil society should play a key role in promoting values such as peace and non-violence, tolerance, defence of human rights, defence of vulnerable groups, anti-corruption and environmental action. Whereas the overall impact of civil society is significant (for example in terms of its work with handicapped persons or marginalised groups of citizens), its influence on policy making is still relatively limited, as is its contribution to strengthening social capital overall. The reasons for this can be found in the population's relatively low participation in civil society and low rate of volunteering, as well as in governmental entities' lack of trust towards civil society organisations (Bežovan and Matančević, 2011)

As a result, few organisations are actively involved in social innovation. Annex III highlights examples of social innovation initiatives in Croatia. As part of the country's development strategy, several initiatives are taking place to map the relevant actors; for instance, the Social Innovation Lab is doing so as part for the Horizon 2020 project, and Impact Hub Zagreb is mapping the actors in the impact ecosystem scene. Those actors are organisations actively working to create infrastructure, spaces and content supporting the development of entrepreneurship for social impact. The mapping will help strengthen collaboration among those actors. More concretely, it will help find ways to connect them, providing access to the necessary resources so that entrepreneurs can develop and thrive.

Table 2.1. Number of registered civil society actors in Croatia

Type of organisation	Total number (registered)
Associations (2015)	> 52 450
Private institutions (2013)	600
Foundations (2014)	193
Co-operatives (2014)	1 247
Co-operative members	20 192
Employed persons	2 716
TOTAL:	> 55 000

Source: European Commission (2014b), *A map of social enterprises and their eco-systems in Europe: Country Report: Croatia*, <http://www.ec.europa.eu/social/BlobServlet?docId=12991>; Government of the Republic of Croatia (2015), *Register of Associations* (database, accessed 19 November 2015).

Table 2.2. Main social innovation actors in Croatia

Name	Location	Description
Impact Hub Zagreb	Zagreb	Co-working space and an incubator for socially innovative projects <ul style="list-style-type: none"> • Incubator for social entrepreneurs • Capacity-building and mentoring activities for social initiatives • Social Impact Award for students for the best idea • Advocacy
CEDRA	Six locations (Zagreb, Čakovec, Split, Osijek, Rijeka, Dubrovnik)	Cluster for eco-social innovation and development <ul style="list-style-type: none"> • Network of social enterprise consultants • Consulting, education activities, networking • Pilot microfinance projects • Capacity-building activities for social enterprises
SLAP	Osijek	Association for Creative Development in Croatia (SLAP) <ul style="list-style-type: none"> • Promotion of social entrepreneurship and social entrepreneurship education • Mentoring social entrepreneurs, and social economy actors • Managing a database of social enterprises • Providing microcredit through co-operation with Unicredit
SEFOR	Osijek	Social Entrepreneurship Forum (under SLAP) <ul style="list-style-type: none"> • Promotion of social entrepreneurship through networking, advocacy and capacity building • Informal network activities for around 30 organisations and individuals from the private, public and non-profit sectors • Received first-ever Croatian award for social entrepreneurship
Autonomous centre – ACT Group	Čakovec	Regional consortium of social entrepreneurship actors <ul style="list-style-type: none"> • Non-formal education • Organisation of events related to social entrepreneurship • Incubator/consulting for social entrepreneurs • Advocacy/public-policy making
SIL	Zagreb	Social Innovation Lab (SIL) <ul style="list-style-type: none"> • Participation in international research projects (e.g. FP7-SI Drive focusing on social innovation and Horizon 2020 – Social Innovation Community project) • Mapping, education, policy work, networking and support for social innovation across the Balkan Region • Public-sector social innovation
NESsT	Zagreb	An international non-profit organisation promoting initiation and development of social enterprises and initiatives (e.g. Rodin), though with limited activities since 2015 <ul style="list-style-type: none"> • Capacity-building of 32 innovative social projects (e.g. Rodin let) • Mentoring and coaching of social enterprises • Awareness-raising
CIPA	Zagreb	Croatian Independent Professionals Association (CIPA) <ul style="list-style-type: none"> • Promoting the ecosystem for independent professionals in Croatia • Legal support, education and professional development, networking and job opportunity platforms for members • Launch of co-working Croatia initiative

Source: Adapted from European Commission (2014b), *A map of social enterprises and their eco-systems in Europe: Country Report: Croatia*, <http://ec.europa.eu/social/BlobServlet?docId=12991&langId=en>.

In recent years, several initiatives relevant to social entrepreneurship and social innovation have proven successful. Table 2.2 provides an overview of the major social innovation players in Croatia. It shows that Croatia benefits from broad geographic dispersion of civil society actors, covering a whole range of business support services and networking activities across the country. In some cases, the initiatives below were privately driven (e.g. Impact Hub Zagreb), while others were initiated by the government or donors (e.g. CEDRA HR). These actors have recently supported a number of new initiatives focusing on solar energy collection, promotion of organic agriculture, social services, and waste management and reuse. One example is informing the citizens of Zagreb on the use of “green lighting” to raise awareness of the green economy concept.

2.4. Challenges to social innovation

Despite the existence of some initiatives, a common approach to social innovation is still lacking in Croatia. As the 2012-2016 National Strategy for the Creation of an Enabling Environment for Civil Society Development notes, “The importance of the concept of social innovation on the systemic level has not been sufficiently recognised yet, and thus, it is important to work on raising awareness about social innovation as a means which can lead to positive social change and can be effective in many important areas such as employment, poverty, ageing, family and housing policy” (Government of the Republic of Croatia, 2012). Box 2.2 below also highlights the challenges identified through the 2015-16 Social Innovation Competition in Croatia, which the team of OECD experts were able to observe at a micro level.

Box 2.2. OECD Social Innovation Competition – Findings, Croatia

In 2015, the OECD initiated a social innovation competition in Croatia, in partnership with the Croatian government and the Enterprise Development and Innovation Facility (EDIF). The objective was to foster co-operation between academia, the public sector, the private sector and civil society (“quadruple helix” co-operation). Individuals or organisations were asked to form consortia to develop socially innovative ideas. Applicants were offered free capacity building to help them improve their application materials. A jury of five international experts in social innovation evaluated the proposals. A total of 30 proposals received capacity-building support; the authors of 10 initiatives also met the OECD experts for additional coaching in Zagreb. The three winners received additional technical assistance to develop their business plan and benefit from legal assistance and marketing research support. The analysis of results led to several observations at the micro level:

1) *Awareness of the importance of social innovation:*

The high level of participation (30 applications received) highlights a relatively high appetite for social innovation. In fact, innovation is one of the national development priorities; more precisely, social innovation has been emphasised in several official documents, including the Social Entrepreneurship Development Strategy 2015-2020. However, some confusion persisted over the definition of social innovation and societal impact.

2) *Further demand for business skills:*

Most applications lacked basic information on the project’s financial projections, as well as the available basic marketing research. The low quality of some applications highlighted the need for capacity-building activities to improve the quality of project proposals in order to compete for funding programmes and competitions, as well as make them more bankable.

3) *Non-governmental organisations (NGOs) are the key actors in social innovation:*

A full 75% of applications were submitted by NGOs, compared to 17% for private companies. Public institutions and academia together accounted for a negligible share – only 4% – of applications. These results highlight on the one hand, the existence of a socially innovative and prolific civil society in Croatia, and on the other hand, the lack of interest of other actors in social innovation.

4) *Social innovation is diversified and inter-sectorial:*

The project proposals came from many different sectors – agriculture, manufacturing, energy, the food industry, ICTs, social services, tourism and the knowledge industry; 32% of the projects were inter-sectorial. The three most prominent sectors were manufacturing/recycling (26%), the knowledge industry (23%) and ICTs (20%). However, the results also indicate that the primary sector/agriculture is underrepresented (only 6% of total project proposals), highlighting the need to further support primary-sector innovativeness in Croatia.

5) *Lack of collaborative partnerships:*

Prior to receiving coaching, 36% of the applicants had already established partnerships. Nevertheless, the perceived need for co-operation between academia and the public and private sectors remains low. While some incentives exist for co-operation between business and academia, they have not bridged the gap between the two communities. More should be done to ensure a collaborative environment, including public procurement policies and incentives for collaboration.

6) *Financing difficulties:*

Many applicants stated their need for funding opportunities. Croatia has functioned within the “Eastern European” social innovation system, where NGOs and social entrepreneurs establish their own supporting structures, based on donor funds, and provide their own resources to develop innovative projects. No special financing instrument focusing on social innovation is operational yet, apart from financing provided by foundations and CSR-type initiatives.

7) *Education and environment are the main societal challenges:*

The applications addressed several societal issues: education, environment (including eco-tourism, recycling and energy management), social inclusion and access to finance. The predominance of topics related to the environment (47% of projects) and education (37%) highlights Croatian society’s clear interest and willingness both to respect the environment and to develop innovative and inclusive education.

Recent studies, as well as stakeholder meetings held in Zagreb in 2014, have identified the following major challenges pertaining to social innovation in Croatia:

Legislative barriers: stakeholders consider administrative constraints among the most significant challenges to social innovation. For example, Croatian law does not recognise some professions related to social innovation – the national jobs classification does not take into account many professions linked to creative industries and other sectors, which may have negative effects on capacity building. Local legislation does not clearly define the term and usage of social innovation – nor does it give a clear legal form to social enterprise, possibly hindering future policy design and implementation. Co-mentorships of PhD theses by joint academic and private-sector bodies are not allowed, resulting in overly academic studies. Legislation also does not allow for adjunct professors to come from the worlds of industry or business, or for professors to take entrepreneurial leaves of absence to spend time in the private sector. According to existing laws, students lose all of their student privileges if they establish a company.

Access to finance: although a number of initiatives support SMEs and civil society, only limited funds focus on social innovation. Some initiatives have been financed by private foundations (e.g. UniCredit Foundation) and CSR-type schemes (e.g. Adris Group), but most are funded through project-based funding by donor agencies. Little funding is available at the seed-prototyping stage, and even less at the crucial scaling-up and internationalisation stages. A number of dedicated initiatives targeting social innovation – i.e. financial instruments and investors that consider innovations’ societal impact; a legislative framework fostering the creation of new financing instruments (such as crowdfunding and microfinance);

and an awareness-raising campaign involving banks and other relevant institutions – are required. Croatia’s new ability to access European structural funds committed to social innovation is expected to change the current state of affairs.

Lack of a systemic approach: the importance of social innovation at the systemic level is yet to be fully recognised, as confirmed by the National Strategy for the Creation of an Enabling Environment for Civil Society Development. Social innovation can lead to positive social change in many crucial areas, such as employment, poverty, ageing, family and housing policy, environmental protection and tourism. International experience has shown that successful social innovation systems should be orchestrated, as is done in Belgium with the Social Innovation Factory programme (Box 3.13), or in the United States through the Office of Social Innovation and Civic Participation at the White House. It is the government’s responsibility to ensure that all players are supported at different stages of the system. Croatia currently has pockets of good researchers and some existing infrastructure, but much more needs to be done to grow a social innovation idea into a solid project or business. A systemic approach would allow linking dedicated infrastructure, available capacity-building activities and a variety of stakeholders so as to leverage the impact created.

Weak incentives for collaboration: some incentives for co-operation (e.g. joint research programmes and innovation voucher schemes) have recently been launched, but they have not yet bridged the gap between academia and the business community. More should be done to ensure a collaborative environment, including establishing public procurement policies and incentives for collaboration. The implementation of the Strategy for the Innovation Encouragement of the Republic of Croatia 2014-2020, as well as the utilisation of European structural and investment funds, are expected to yield positive effects. Further promotion of multidisciplinary research might also spur social innovation, which often aims to address complex social issues spanning many different fields. Additional measures, such as promoting internship mechanisms, industrial PhDs (linking academia and business) and entrepreneurial leaves of absence, would also be beneficial.

Limited understanding of social innovation: much confusion persists over social innovation, even if many stakeholders agree on “*društveno korisne inovacije*” as the most appropriate wording for “social innovation” in Croatian. The confusion may stem from the fact that the word “*socijalna*” connotes social welfare, rather than innovation for societal challenges. Moreover, as entrepreneurial success is less appreciated and entrepreneurs less respected than in other countries – such as the United States or the United Kingdom – the government has less incentive to promote collaboration and to conduct a public-awareness campaign on social innovation. Highlighting good-practice examples from Croatia and abroad would contribute to a more positive perception of change-makers. A clear definition that would be most appropriate for Croatia should be agreed at a national level.

Many of the obstacles highlighted above are not unique to Croatia, and are actually quite common in the bulk of countries embarking on social innovation. Many of these obstacles owe to the fact that Croatia comes from the Eastern European system, characterised by a lack of financial instruments and incentives for collaboration, as well as inflexible administrative constraints. Chapter 3 addresses these and other obstacles, focusing on the suggested policy framework.

Chapter 2 presented the state of play of social innovation in Croatia. Since 2009, the Croatian government has struggled to overcome the economic recession and declining GDP, and has faced increasing pressure on the welfare system, with limited available fiscal space. Social innovation can help Croatia find new solutions to address these increasing societal challenges and foster co-operation among various actors. The availability of EU structural funds to promote social innovation is an important element

that could multiply its effect. Croatia has adopted a number of relevant strategies, including the S3, which has identified social innovation as one of its priorities. Numerous social innovation actors are active in Croatia, and a particularly vibrant civil society has been evolving rapidly.

Chapter 3 further discusses the strengths and weaknesses of the Croatian social innovation system and other relevant points. It provides good practice examples and presents policy recommendations, as well as social innovation success stories around the world and in Croatia.

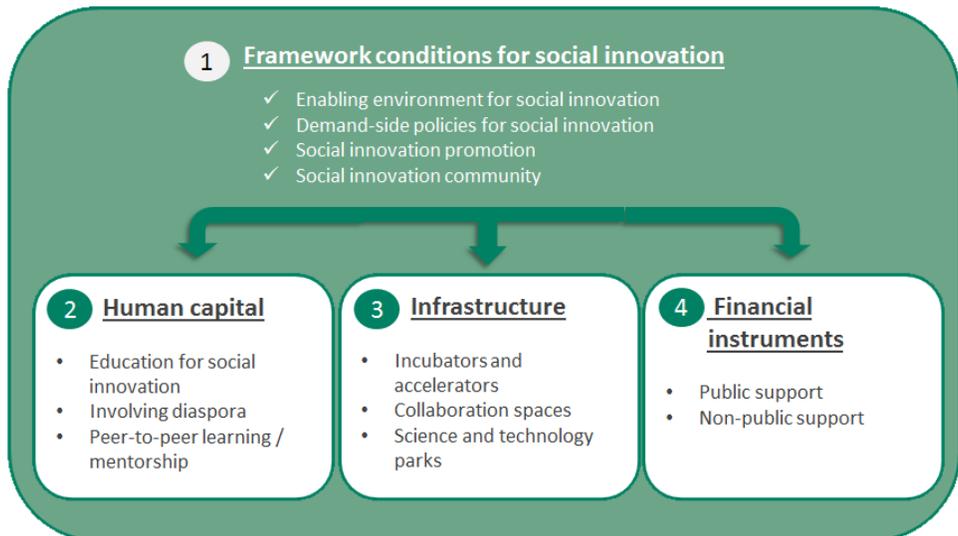
3. POLICY FRAMEWORK

Chapter 2 highlighted some of the drivers of, and constraints on, the social innovation system in Croatia. Overall, the country has the potential to create a solid environment for social innovation, based on a well-educated population; relatively well-developed social science research; significant environmental awareness; some existing infrastructure (e.g. incubators); and, more importantly, a willingness on the part of the government to promote social innovation. At the same time, Croatia needs to overcome a number of challenges, including legislative barriers; access to finance; the absence of a systemic approach to social innovation; weak incentives for collaboration; and a lack of understanding of social innovation and good practices.

This again confirms Croatia’s current positioning within the Eastern European system, as described in Section 1.6 of this report. Recent accession to the European Union (and consequently to its financial mechanisms and networks) has created an opportunity for Croatia to move towards the Continental system of social innovation, entailing a more institutional and systemic approach. In the context of limited access to resources, the current policy framework pushes for more financially sustainable models – often inspired by the Anglo-Saxon model, and initially supported by the government – that could not only create a competitive edge for Croatia, but also help it solve pressing societal issues.

This chapter proposes a policy framework for promoting social innovation in Croatia. The framework is structured around four areas – human capital; infrastructure (enablers); financial instruments; and the enabling environment that links them together. Figure 3.1 graphically displays how these elements, and their corresponding two to four policy subareas, fit together.

Figure 3.1. Social innovation framework elements



3.1. Framework conditions for social innovation

Building on Section 1.2, the existence of a functioning ecosystem that facilitates effective collaboration among the various actors is a precondition for achieving real impact through social innovation. Governments can support the ecosystem and foster collaboration by engaging in awareness-raising and adopting the right policy mix. Furthermore, each social innovation actor must contribute to the process. This section reviews practical ways to facilitate a functioning ecosystem, and outlines initiatives and incentives to consider.

3.1.1. An enabling environment for social innovation

This section provides recommendations relating to Croatia's governance structure that could maximise the societal impact of institutions, organisations and businesses. Various public institutions are already involved in social innovation in Croatia, including the Ministry of Economy; the Ministry of Entrepreneurship and Crafts; the Ministry of Science, Education and Sports; and the Ministry of Labour and Pension System. No single entry point, and no single agency or ministry co-ordinating efforts, currently exist in the area. This section also looks at how governments can intervene to enable fruitful co-operation among policy makers, businesses, the research community and third-sector actors. The Danish interministerial unit MindLab (Box 3.1) offers an example of a platform for communication and co-operation between government structures and active citizens.

International practice shows that a strong innovation council can play such a co-ordination role and ensure overall success. A recent review of 14 national research and innovation councils as instruments of innovation governance has shown some key characteristics that are determinants of success (Scwaag Serger et al., 2015):

- a mandate, composition and anchoring at the top political level to give legitimacy, as well as foster the government's receptiveness and willingness to act upon suggestions or decisions made in the council
- a focus that is relevant and anchored in the national context, taking a broad perspective on innovation and a systemic approach, including to aspects such as education and sustainability
- a focus/approach and composition that acknowledges the increasing internationalisation of research and innovation, by including foreign experts in the council or establishing an advisory group consisting of foreign experts connected to the council
- resources (budget and staff) that allow the council to produce and/or commission relevant analysis and work with forward-looking activities, which are necessary to work proactively and promote broader visibility.

Policy recommendations for Croatia

Create an efficient governance system for social innovation: while many institutions may be active in social innovation, efficient co-ordination of the overall process is required, with each actor playing a dedicated role. In particular, this requires:

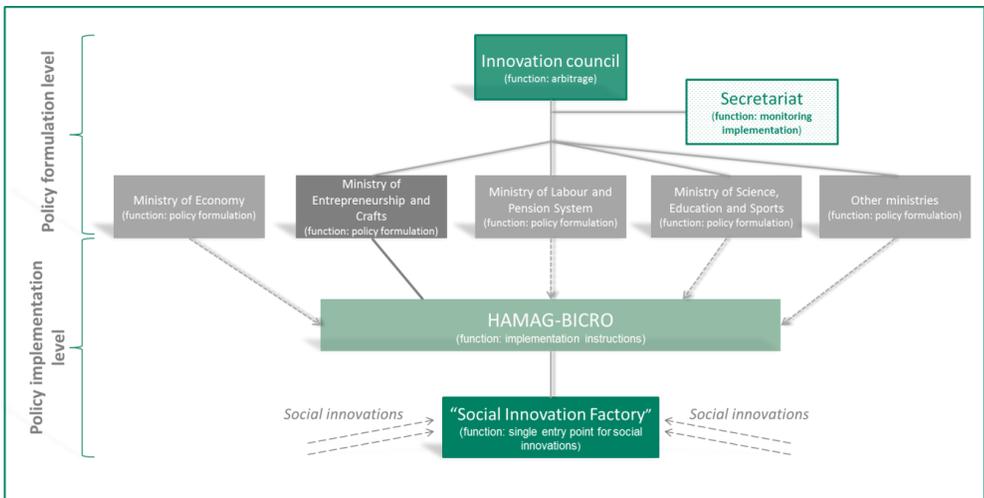
- a high-level co-ordinating mechanism – which could take the form of a board or council, possibly anchored at the prime minister level – to ensure arbitrage among the ministries and implement suggestions related to social innovation bottlenecks

- a technical secretariat to monitor implementation of policies and develop relevant peer reports, along with analytical capacity to support decision-making (which could be developed at a later stage if resources are unavailable)
- a dedicated implementation agency, with a mandate to implement the policies developed by the ministries

From an operational standpoint, establishing a “social innovation factory” (further discussed in Chapter 4) would guide social innovation initiatives at the grassroots level and generate an adequate flow of viable social innovation projects for further development.

Figure 3.2 graphically displays how these elements could be integrated to optimise the policy formulation and implementation processes.

Figure 3.2. Suggested social innovation governance structure in Croatia



Combine a bottom-up and top-down approach: new policy development requires collecting ideas from the field and checking their feasibility to help validate policy directions and raise awareness of potential new demands arising at the local level. The OECD recommends the following policy development approach: (i) survey societal challenges through widespread consultation of stakeholders (see the Navarra Moderna Plan in Box 3.2), (ii) tender public procurement for pilot actions that could provide experimental solutions, (iii) evaluate pilot programme results, (iv) institutionalise solutions arising from successful pilots. Such an approach ensures that government-issued calls for proposals are based on actual local needs and trends at a particular period. From an operational standpoint, randomly selected citizens could also be involved in discussions on new projects and policy development (see the example of MindLab in Box 3.1).

Box 3.1. MindLab, Denmark

MindLab is a cross-ministerial innovation unit in Denmark that involves citizens and businesses in creating new solutions for society – “a neutral zone for inspiring creativity, innovation and collaboration”. MindLab works with civil servants of one municipality and three Danish ministries – the Ministry of Business and Growth, the Ministry of Taxation and the Ministry of Employment. These ministries cover broad policy areas affecting the daily lives of virtually all Danes. MindLab has been active in promoting innovative processes within the government, empowering citizens to make a change.



“*Away with the Red Tape*” is one initiative in which the Government of Denmark has asked MindLab to intervene, with the objective of eliminating outdated and unnecessary rules, as well as digitising and simplifying complicated administrative procedures and processes. Deregulation has often focused on objective criteria, such as time consumption and the number of rules. But the three MindLab studies deliberately avoided predefining a rule or procedure as “red tape”. Instead, they examined citizens’ subjective experiences with public-sector regulations, communication channels and services. This resulted in concrete simplification mechanisms, applied by the Danish Tax and Customs Administration.

MindLab is relevant to social innovation because it highlights how new models of co-operation between government structures and active citizens can be created. Its overall purpose is to find new and effective ways of devising solutions and producing better ideas, for example on eliminating citizens’ perception of red tape and improving their experience when using government services.

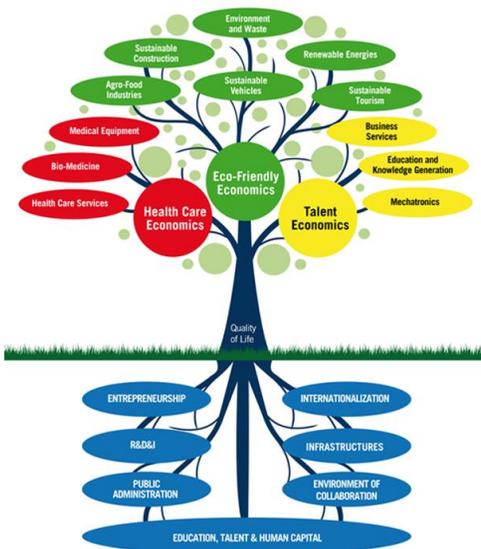
Source: MindLab (n.d.), <http://mind-lab.dk/en/>.

Box 3.2. Navarra MODERNA plan, Spain

The MODERNA Plan is a medium and long-term strategic plan that promotes change in the economic development model of Navarra, moving towards a knowledge-based economy focused on people. The Plan defines the major actions for 2010-30 in the areas of health economics, green economics and talent economics. Navarra is the first Spanish autonomous community to launch a strategic plan for these areas. The MODERNA Plan combines both technological and social innovation. Key aspects of its preparation and drafting were citizen participation and institutional consensus; the development process was highly participatory, involving key regional stakeholders.

More than 3 000 people were involved in consultations, including citizen surveys, expert interviews, consultation committees and discussions with organisations, such as trade unions and business representatives. The Plan uses the image of a tree to illustrate how the strategy works.

The MODERNA example highlights the use of a bottom-up approach to define a strategy that can be applied in a regional context through a large-scale consultation process, with the aim not only of developing more sustainable ideas, but also of



ensuring ownership of the strategy. Impact analyses of the strategic plan are forthcoming.

Source: Fundación MODERNA (n.d.), *MODERNA plan*, <http://www.modernanavarra.com/en/moderna-plan>.

3.1.2. Demand-side policies for social innovation

Governments introduce demand-side policies through various mechanisms (including public procurement), from new standards and regulations to functional requirements that provide organisations with an opportunity to innovate. Demand-side innovation policies allow governments to spend money more efficiently. They have elicited growing interest in recent years in the context of slow growth and lagging productivity performance, and could also increase demand for innovative solutions to social issues – especially in areas that lack an existing supply. Governments’ considerable purchasing power allows them to pull demand for innovation, creating a signalling effect as lead user and influencing the broader diffusion of innovations (OECD, 2011).

Social impact bonds (SIBs) – a financing arrangement where the government pays a contracted service provider for social outcomes, rather than for inputs and outputs – are gaining traction as a means to obtain better societal results with efficient public spending (Box 3.3). Service providers only make a return on their investment if their services produce the required social outcome targets.

A SIB is best suited for services that can produce measurable, clear outcomes, as well as when the government wants to facilitate the market for innovative financing. Feasibility studies are important to assess the expected costs and benefits of using this form of financing over others (UK Government, 2013). The novelty of this financing model means that little research has been conducted to date on the overall effectiveness of SIB models.

SIBs are currently being developed in a number of countries and areas, including health and education, recidivism and employment. Some 22 SIBs currently exist in the United Kingdom and 12-15 SIBs elsewhere, many still in the feasibility stage (OECD, 2015b).

Box 3.3. Social impact bond for offender rehabilitation, United Kingdom

The first social impact bond was initiated in 2010 for the prison in Peterborough, United Kingdom, to reduce the share of short-term prisoners, i.e. those with less than 12-month sentences who re-offend after being released from prison. Over a seven-year period, two social enterprises provide intensive support to 3 000 short-term prisoners, both inside prison and after release to help them resettle in the community. The partnership involves the Ministry of Justice, private investors, social enterprises and local authorities. In the event that the SIB reduces re-offending by at least 7.5%, investors receive a minimum 2.5% interest on investment. In its first evaluation, in 2011, the Peterborough SIB was shown to have reduced reconviction by 8.4% compared to a control group.

The Peterborough example highlights how a government could use SIBs to foster demand for innovation in a particular field and ensure more impactful procurement mechanisms.

Source: Disley, E. et al. (2011), *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough*, www.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf.

Overall, very few demand-side policies for innovation exist in Croatia. As discussed in Chapter 2, the new Strategy for Innovation Encouragement of the Republic of Croatia 2014-2020 envisages introducing demand-side policies for innovation, pre-commercial procurement, and standards and regulations to facilitate innovation (Government of the Republic of Croatia, 2014). Although the Strategy primarily targets innovation development in general, it does emphasise the importance of solving societal challenges through social innovation. Hence, the Strategy features such measures as awarding grants for major

innovative projects related to social challenges, fostering innovation co-operation with foreign countries through army-industry projects, and supporting the use of public-sector innovations in public service offerings. In each of these areas, demand-side policies can also be introduced to complement supply-side policies.

Governments are major purchasers of goods and services in every country, which makes public procurement a primary demand-side tool. On 17 April 2014, the new Public Procurement Directive (2014/24/EU) came into force. EU Member States have until April 2016 to transpose the Directive into national legislation. The new Directive gives contracting authorities an opportunity to achieve social and environmental goals by developing social clauses and “reserved contracts” for restricted economic operators. By introducing social requirements in public procurement, governments can further promote participation and contribution of civil-society actors in a variety of fields. Moreover, a possible secondary effect is that demand-side innovation policies could create a “lead market” for specific social innovations, thereby influencing the development of services and products that can later find acceptance on the open market.

Further information on public procurement in Croatia references the OECD/LEED report *Boosting social entrepreneurship and social enterprise creation in Croatia* (OECD/LEED, forthcoming). The report specifically mentions that no legal obligation exists in Croatia for contracting authorities to take into account any other criteria than price. Box 3.4 provides an example of how the city of Barcelona implemented the new EU Directive on Public Procurement by placing greater importance on social and ecological clauses.

Box 3.4. Public Procurement, city of Barcelona, Spain

The Municipal Charter of Barcelona, Spain, leads the country in its early adoption of a new guideline in line with the new EU Directive 24/2014 on Public Procurement, which the country plans to transpose on 18 April 2016. The new Directive gives contracting authorities an opportunity to achieve social and environmental goals by developing social clauses and “reserved contracts” for restricted economic operators. Article 47 of the Directive explicitly mentions social innovation, and addressing societal challenges through procurement. In line with the Directive, the new Barcelona guideline places greater emphasis on socially responsibly contracting, and improves the quality of the process of procuring social, welfare and personal care services. Illustrative examples of the clauses adopted in Barcelona include:



**Ajuntament
de Barcelona**

- Contracts should prioritise promoting for employment persons at risk of exclusion.
- The provision of certain social-services should be reserved to non-profit specialised organizations (Article 77).
- There shall be a possibility of contract exclusion due to anti-social conduct (e.g. labor or tax fraud, corruption) or anti-environmental conduct (Article 57).
- The contractor is obliged to ensure a minimum level of continuity, justified on the basis of public interest and proper service provision.
- Minimum required qualifications must be achieved by people executing the service.

With the adoption of the new guideline, Barcelona’s City Council has strengthened the enabling ecosystem for social enterprises to act and overcome barriers such as restricted access to markets, poor impact evaluation and lack of co-ordination between agencies. Additionally, the integrated Mayoral decree on Responsible Public Procurement further facilitates better public spending efficiency. For example, one SROI based methodology calculated EUR 1

invested in companies employing people with disabilities returns more than 3 EUR in social savings. The Mayoral Decree on Responsible Public Procurement will strengthen social enterprises' competitiveness, thereby contributing to social and environmental goals. It will set an example for citizens and businesses to incorporate social practices.

Source: OECD (2016), "Capacity Building Seminar", <http://www.oecd.org/employment/leed/social-oecd-eu-cbs.htm>.

Policy recommendations for Croatia

Use innovative forms of public procurement to address societal challenges: given the limited experience of using demand-side policies to facilitate innovation in Croatia, policy makers should focus on relatively simpler demand-side instruments (e.g. introducing social and environmental clauses while procuring goods or services, compared to introducing dedicated standards and regulations encouraging the involvement of civil society in particular areas). Therefore, the government should be encouraged to consider more formally and systematically the societal value created when awarding services in a tender process through the following actions:

- design a clear public procurement regulatory framework
- establish working groups involving concerned governmental departments to adopt all required provisions related to public procurement
- ensure a permanent dialogue is established between contracting authorities, the social innovation community and experts
- design trainings for public servants so that they will be prepared to implement public procurement procedures timely and efficiently.

Monitor existing policy implementation: developing an assessment and monitoring methodology on the existing policies would be beneficial so as to evaluate their impact and effectiveness in Croatia. Policy learning is particularly important in underdeveloped areas. Croatia should play an active role in implementing the European Union's Demand-side Action Plan, launched in 2012, focusing on social innovations in lead markets (e.g. eHealth and renewable energy) that are aligned with its Smart Specialisation Strategy. Experimental actions should be monitored and analysed, and the learning taken into account when developing new proposals or initiatives.

3.1.3. Social innovation promotion

Although social innovation is not new, there is little understanding of the concept outside of a circle of specialists. Croatia is no exception.

Promoting social innovation to the general public is an important element of the social innovation ecosystem. Not only does it increase awareness of a greater number of citizens and organisations to encourage them to become social innovators themselves, it also enables them to develop innovative solutions to tackle societal challenges. Sharing existing concepts more widely helps social innovators build on existing ideas and develop better ideas in a more competitive innovation environment.

Croatian organisations and individuals are eligible to participate in all of the EU programmes promoting social innovation, including COSME, Horizon2020, the Programme for Employment and Social Innovation, the European Social Innovation Competition and the European Social Entrepreneurship Fund (see Annex II for additional details on existing EU financial support schemes for social innovation). Promoting the topic of social innovation could enhance their links with the relevant international organisations and increase their participation in existing programmes.

In recent years, academic institutions, private entities and the government have launched several small-scale initiatives and campaigns promoting social innovation and social entrepreneurship – e.g. a competition by Impact Hub Zagreb in partnership with the UniCredit foundation. In 2015, the OECD organised a competition promoting social innovation (Box 3.5).

The Strategy for Incentivising Innovation in the Republic of Croatia 2014-2020 foresees the drafting of a specific Communication strategy and Action plan. A series of events will be defined to emphasise the significance of social innovation in tackling societal challenges.

Box 3.5. OECD Social Innovation Competition – Promotion, Croatia

In 2015, the OECD initiated a social innovation competition in Croatia in partnership with the Croatian government and the Enterprise Development and Innovation Facility (EDIF). The objective was to foster co-operation between academia, the public sector, the private sector and civil society (“quadruple helix” co-operation). Individuals or organisations were asked to form consortia to develop socially innovative ideas. Applicants were offered free capacity building to help them improve their application materials. A jury of five international experts in social innovation evaluated the proposals. A total of 30 proposals received capacity-building support; the authors of 10 initiatives also met the OECD experts for additional coaching support in Zagreb. Following an independent evaluation of proposals, the three winning teams were:

1st Prize: Eco-Lika Wool project – focusing on local economic development based on reuse of waste wool and creating a real ecosystem at a national level for collection, recycling and reuse of the product

2nd Prize: Pokreni.to – a new-generation crowdfunding web platform enabling new ways to finance civic initiatives in Croatia, combining a subscription model and individual donations

3rd Place: Free Wi-Fi hotspot for refugees. A dedicated router that could help quickly connect people to the internet at a lower cost compared to market competitors. The product comes with installation and maintenance service and could be applied world-wide.

The three winners received additional technical assistance to develop their business plan, as well as legal assistance and marketing-research support. They benefited from media exposure, participation in a European-level event and connection to the international community of social innovation actors. Furthermore, promoting the three winning projects increased public understanding of social innovation and expanded the range of initiatives.

Policy recommendations for Croatia

Engage in an awareness-raising campaign promoting social innovation: a national campaign, using television, radio and social media, would develop public understanding of the nature and forms of social innovation. The campaign should focus on successful examples of social innovation initiatives in Croatia and abroad in a wide range of sectors and areas, ranging from projects to integrate disadvantaged groups to solutions promoting eco-tourism and showcasing design thinking solutions. This could be done, for example, through a series of short video-spots of 1-2 minutes each aired at peak air time, perhaps after the evening news.

Organise regular national competitions on social innovation: a yearly campaign collecting socially innovative ideas from the public would help integrate new actors and innovators in the social innovation community; some of the ideas presented might also help resolve Croatia’s societal challenges.

3.1.4. Social innovation community

Developing a community of social innovation actors is essential, not only to link a variety of actors together, but also to promote learning and collaboration across sectors and fields. Community is vital to developing solid and meaningful partnerships, identifying success stories and learning from failures. The success of the Social Innovation eXchange (SIX) in the United Kingdom clearly demonstrates the importance of community in building a functioning ecosystem (Box 3.6).

The community of socially engaged people is growing rapidly in Croatia and is already managed by several organisations, including the Social Entrepreneurship Forum (SEFOR), the Cluster for Eco-Social Development and Innovation (CEDRA HR), and Social Innovation Lab (SIL). Although these centres represent most Croatian regions, no real platform exists currently for sharing information on related developments, or connecting citizens and ideas for social innovation, to leverage collective intelligence and action to address sustainability challenges. However, a few initiatives are underway. SIL is developing a platform bringing existing social innovation actors as part of the Horizon2020 “Social Innovation Community” project and is linking it to the other networks developed across the European Union. In addition, ACT Group is developing a Croatian social entrepreneurship portal, which should be active in the course of 2016.

The Strategy for Incentivising Innovation in the Republic of Croatia 2014-2020 foresees the establishment of an innovation portal as a “one-stop shop” for innovators.

Box 3.6. Social Innovation Exchange (SIX), United Kingdom

The Young Foundation created SIX as an independent initiative in 2008. A global steering group (including the Young Foundation and Nesta) governs the SIX secretariat, located at the Young Foundation offices. SIX is a community platform for social innovation practitioners.



SIX was designed to fill an innovation networking gap. Networks of social innovators – both groups and individuals – already exist in particular sectors (e.g. health, environment, cities), fields (e.g. social entrepreneurship, policy, and design), countries and regions. SIX does not aim to compete with, or supplant, any of these initiatives; rather, it intends to link them together to promote learning and collaboration across sectors, fields and countries.

Since 2008, SIX has been inspiring, connecting and supporting thousands of individuals and organisations engaged in social innovation at the European and international levels. The SIX network has played a role in developing social innovation in the United Kingdom and around the world, putting great projects (e.g. Social Innovation Europe, TEPSIE, the European Social Innovation Award) on the map; aggregating global social innovation resources; and curating experiences bringing together practitioners, entrepreneurs, academics, policy makers and private companies involved in social innovation.

The SIX example showcases successful management of a social innovation community through the involvement of dedicated facilitators, regular events and information sharing. What made it a success is support from the Young Foundation and Nesta, as well its ability to attract a wide range of actors and inspire them to share knowledge on the platform; on the other side, SIX provides useful information on the funding opportunities and events, which brings visitors to its webpage. SIL is a member of SIX in Croatia.

Source: Social Innovation Exchange (n.d.), *About SIX* (webpage), <http://www.socialinnovationexchange.org/about#about>.

Policy recommendations for Croatia

Develop a section for social innovation in the upcoming national innovation portal: building a national platform for sharing ideas and knowledge in a variety of fields would allow newcomers to

familiarise themselves with existing organisations and projects. Importantly, this platform should be facilitated by a community manager, who provides regular updates, forges links with new players and organises on-site networking events. This recommendation could be linked to the operating platforms, such as the new directory reserved for social entrepreneurship planned in 2016. It is important to ensure that the portal integrates information from the various platforms currently being developed.

Develop international networking: further links should be established between Croatian organisations and international networks (such as ImpactHub, Ashoka and SIX), as well as relevant research projects (e.g. the EU 7th Framework Programme Transition and BENISI projects). Although some organisations are part of international networks, few organisations in Croatia are aware of, or in touch with, their peers in other EU countries or around the world. Linking them would create more opportunities to apply for the many EU grants and programmes. Inviting dedicated networks to events in Croatia, as well as developing case studies on Croatian initiatives for policy makers to share at international events, would help achieve this goal. For example, not only does the BENISI project³ identify and help social innovations to scale up, it also develops a small case study on each innovation and posts it on its project website. Similarly, the Croatian national portal could feature a section dedicated to analysis of Croatian case studies, thereby fostering a better understanding not only of social innovation peers, but also of international demands and benchmarks.

3.2. Human capital supporting social innovation

Human capital plays a key role in spreading knowledge, improving skills and developing the right mindset to promote social innovation. The section below provides further analysis of possible actions to that aim, focusing on crucial educational initiatives and programmes involving the Croatian diaspora.

3.2.1. Education for social innovation

Following the Lisbon strategy, various EU initiatives have emphasised innovation as a key objective of economic development, focusing on implementing research and development (R&D) policies as well as education programmes, which are instrumental in stimulating young people's innovation potential. Launched in 2010, the Sciences Po course on Social Innovation (Box 3.7) exemplifies universities' potential to inspire and educate social innovators, act as communication platforms, and transfer knowledge across public and private sectors.

Several academic institutions in Croatia (i.e. the Zagreb School of Economics and Management and the University of Applied Science VERN, in partnership with the Faculty of Economics in Osijek) teach courses on social innovation and entrepreneurship. In addition, school co-operatives (*učeničke zadruge*) conduct related activities in primary and secondary schools. The Social Entrepreneurs' Forum also provides educational activities related to social entrepreneurship. Social Innovation Lab is part of the consortium running the FP7 Social Innovation "Driving Force of Social Change (SI-Drive)" research, which focuses on mapping social innovations in seven policy field areas and has developed a database of over 1 000 case studies (SI-Drive, n.d.).

Several of the current initiatives are run independently. Creating an understanding of the subject, as well as a pool of academic excellence on social innovation in Croatia, requires adopting a more holistic approach covering not only academic institutions, but also officials, civil servants and youth.

Box 3.7. Sciences Po course on social innovation, France

One of the first courses in the area of social innovation, the Sciences Po course on Social Innovation was launched in 2010; it has trained numerous practitioners and graduated hundreds of specialists. The Management of Social Innovation initiative has two objectives: (i) inspire and educate social innovators, (ii) transfer subject knowledge to future leaders so that they can succeed in areas presenting societal challenges.

SciencesPo

The course has an annual intake of 50 to 70 fourth- and fifth-year Sciences Po students. Its methodology combines theory with best-practice case examples, as well as practical knowledge shared by practitioners working in the field. The course also teaches students to apply tools and implement strategic and comparative analysis of international initiatives and models, so that they may adjust, create and implement the most relevant social innovation models.

The success of the course has allowed Sciences Po not only to offer this subject to its students, but also to develop a specialised course for civil servants, businesses, managers of civil society organisations (CSOs) and the general public interested in the subject.

Source: Sciences Po (2014/15.), *Management of social innovation and social entrepreneurship*, http://formation.sciences-po.fr/sites/default/files/enseignement/2014/OBGP3015_plan.pdf.

Policy recommendations for Croatia

Develop “crash course” training programmes: academic institutions should develop and organise “crash courses” on social innovation showcasing practical examples. These short one- to two-day courses would develop the skills relevant to social innovation (e.g. strategic thinking, communication, analytic acumen, experimentation). The outcomes and competences acquired through this training should be included in the National Centre for External Evaluation of Education programme of work. The course could be incorporated into the programme of the Academy for Industrial Development, or offered as a set of trainings by other bodies on horizontal issues. Success in this training can be included as a necessary objective for civil servants to get a positive evaluation during the appraisal process for relevant positions.

Create an academic course on social innovation: an academic course (e.g. a Master’s programme) established within one or several academic institutions would provide students with in-depth knowledge of social innovation. It would create a new pool of top specialists in areas such as impact-measurement methodologies, sustainable consumption and production, corporate social responsibility, non-profit management, social entrepreneurship, hybrid business models and multi-sector partnerships in Croatia. Special attention should be paid to the financial sustainability. This course could be provided at a reduced price, or a scholarship mechanism involving the private sector could be explored.

Develop an “introductory course” for secondary schools explaining social innovation: building on the work of school co-operatives (*učeničke zadruge*), a short introductory course could introduce secondary students to the concept of innovation – particularly social innovation. This will require the co-operation of multiple organisations, as well as the support of the Ministry of Science, Education and Sport. The courses might provide examples of successful introduction of social innovation in ICTs, as well as in science courses and programmes.

Participate in EU research programmes covering social innovation: civil servants and officials, as well as research teams, would benefit from a course covering the means of applying for funding under existing EU-funded programmes related to social innovation. The course would cover funding rules, procedures and budgets, expand on proposal development and explain the process of creating a partnership. A number of leadership-development and capacity-building courses are currently organised

specifically for civil servants from various countries working on social innovation, e.g. the Ashoka Leadership Programme, URBACT Summer University and OECD LEED capacity-building seminars, conducted in partnership with the European Commission.

3.2.2. Croatian diaspora engagement

The diaspora has proven to be a great enabler of innovation, either by acting as a pool of potential angel investors or by providing mentorship to internationalise new ideas and products.

The diaspora can play even a bigger role in societal innovation. First, its “ambassadorial” function means that it can help scale up innovations internationally: using the links and connections established by community members abroad, it can tap into charities, develop international partnerships for EU-funded initiatives and gather information on existing funding sources. Second, diaspora members have often done very well for themselves abroad, and possess a good understanding of international business and organisational practices. Hence, they are excellent mentors or coaches – even more so when the proposed initiatives have a social or environmental goal.

Finally, remittances could constitute investments in socially innovative projects, especially at the seed level. According to Eurostat, remittances in Croatia averaged EUR 80.2 million a year from 1999 until 2014; unlike in other South-East European countries, they continued to grow even during the financial crisis. Remittances accounted for an ever-increasing weight in the country’s gross domestic product (GDP), totalling more than 2.5% of GDP in 2013.

Croatia has some positive experience with the Unity Through the Knowledge Fund, a dedicated grant facility for joint research projects between the Croatian diaspora and institutions in Croatia. However, the networking potential with the Croatian diaspora is still largely underutilised.

Policy recommendations for Croatia

Develop a programme to support collaboration with the diaspora: a dedicated programme would enhance collaboration with the diaspora and slowly generate interest in related activities in Croatia. The programme might comprise the following elements:

- feature a database of individuals who agree to be contacted, including alumni of Croatian universities and eventually the entire diaspora, as well as local businesses, academia and actors in the social economy
- leverage existing social media (e.g. LinkedIn) to host a database of individuals as a special group
- share examples of socially innovative ideas and projects, clearly specifying the needs – whether for financing, coaching or contacts
- organise get-togethers and seminars, bringing diaspora members to Croatia to present their work in short workshops and create a trusted community
- link diaspora groups abroad with social innovation incubators, centres, accelerators, co-working spaces and competitions in Croatia, to increase the diaspora’s awareness of the projects being developed and the support needed

- develop a dedicated programme for diaspora representatives to research subjects relevant to social innovation, and promote academic excellence by developing collaborative programmes with foreign research organisations, enabling part-time lecturing and securing part-time housing solutions.

3.2.3. Peer-to-peer learning and mentorship

Worldwide peer-learning networks are growing. The social innovation community holds considerable knowledge and experience in launching, developing and implementing socially innovative projects. Weststartup (Box 3.8.) and “Réseau Entreprendre” (Box 3.9) can serve as examples for organising peer-to-peer learning processes in the area of social innovation. Local social innovators’ successes or failures, as well as their understanding of the Croatian context, make them excellent allies for peers developing new concepts.

Several Croatian organisations provide consulting services, sometimes free of charge under certain programmes. For example, CEDRA HR works with some 40 consultants to provide education and counselling support on a pro bono basis to socially impactful initiatives. The SLAP Association for Creative Development provides technical assistance and mentoring to non-governmental organisations (NGOs) and co-operatives interested in becoming social enterprises. The Faculty of Economics at the University of Osijek has designed a dedicated “Voluntary Programme” featuring a “Contribution to the Community” project as a major component. Volunteering and internship are not currently common tools in Croatia. The involvement of volunteers and young graduates through internships could both help them integrate into the labour market and provide solid support to social innovations.

There is still space, however, for activities promoting peer exchange of experience, coaching by business or management students, and especially support from online mentors – possibly from the diaspora community.

Box 3.8. Weststartup, Belgium

Weststartup started in 2009 in Brussels with the objective of developing a methodology for the faster and more efficient creation and scaling-up of nascent businesses. Weststartup is an online platform bringing together over 4 500 members – a community of entrepreneurs, mentors and investors working on a variety of fields ranging from health to Information and communication technology.



Every community member can share ideas for new projects online. Mentors are notified when a new project in their area of interest has been created; participants can rate mentors’ advice and level of support through special “karma points”. Mentorship is provided free of charge and is heavily supported by an online community manager.

Depending on the level of development of the project/ideas, Weststartup regularly organises six distinct types of events on site to ensure that mentors meet with mentees. One such event, designed for large audiences, focuses on concept development. Another event, the StartUp Weekend, brings together around 20 people who have already developed ideas, providing them with mentoring and peer-to-peer reviews to improve their business model. Yet another event presents well-functioning start-ups to potential investors and venture capitalists.

The availability of an experienced facilitator is crucial to the success of such a platform. The facilitator – who ideally has previous experience running a business or consultancy – guides the community and provides the necessary advice; the facilitator also identifies and connects, based on their interests, high-quality mentors and coaches on one side, and people wishing to start a business on the other. Some recent successes allowed two new entrepreneurs to obtain venture capital and establish operations in California’s Silicon Valley.

The Weststartup example highlights the importance of a managed approach to peer-to-peer learning, alongside an experienced facilitator and an online tool.

Source: Weststartup (n.d.), www.weststartup.eu.

Box.3.9. Réseau Entreprendre, France

Réseau Entreprendre is a dedicated peer-to-peer networking organisation for entrepreneurs which has coached 8 500 entrepreneurs since 1986 and helped create over 30 000 jobs. In 2015 alone, 978 entrepreneurs received support both in terms of advice and startup capital. Experienced entrepreneurs act as volunteers to coach new entrepreneurs and increase their chances for success. Réseau Entreprendre is present in France, Belgium, Italy, Switzerland, Chile, Morocco and Tunisia.

Coaching of entrepreneurs starts two to five months before the actual start-up, and continues at least two years post start-up. Coaching is provided free of charge.

In addition to coaching, Réseau Entreprendre provides start-up loans without collateral, from EUR 15 000 to EUR 50 000 (and up to EUR 90 000 for innovative projects). This capital is to be reimbursed over five years, interest-free. It is considered as equity and enables entrepreneurs to raise additional bank financing, up to 13 times of the initial amount. The start-up loans are financed from individual and corporate donations.

The result is enhanced survival rate of businesses coached and financed by Réseau Entreprendre; 90% of the start-ups are still active three years after start-up.

The key success factors are:

- A network of regional branches ensures proximity networking events and coaching by experienced entrepreneurs close by (83 branches across France, 29 outside of France).
- A principle of reciprocity: entrepreneurs who are mentees today accept to be coaches in the future, and the coaching is free of charge.
- Professional selection of projects for financing and professional coaching. This in turn helps build trust with banks and facilitates additional fundraising.
- A favourable tax regime, which enables individual donors to Réseau Entreprendre to deduct 66% to 75% of their donations; the tax benefit is 60% for corporate donors.

A new programme was launched in 2015 for growth enterprises, defined as SMEs with more than 50 employees and prospects for high growth. In the first year, this programme selected 55 companies, which received loans worth an average of EUR 210 000 in unconditional loans and six to seven times that amount in bank loans. The companies are projected to grow 160% over the next three years and to create more than 2 000 jobs.

A specific programme exists for innovative technology enterprises ("InnoTech") and another one specifically for social innovation ("Programme Entreprendre autrement"). A specific "Initiative factory" helps shape socially innovative ideas, and the social enterprises created as a result of those ideas benefit from the same type of coaching as the other entrepreneurs within Réseau Entreprendre. Formally, the initiatives can be incorporated as a SCOP (Workers co-operative production company), SCIC (Collective interest co-operative company) or CAE (Business and employment co-operative). Since its inception in 2004, the programme has created 200 socially innovative enterprises.

Source: Réseau Entreprendre (n.d.), www.reseau-entreprendre.org.

Policy recommendations for Croatia

Develop an online platform for knowledge-sharing: either as part of the national social innovation portal or as a smaller stand-alone programme, this single-entry platform would connect mentors and innovators, allowing people to provide their knowledge, time and skills for free, while authors of socially

innovative projects can make themselves known to the community and receive feedback. A dedicated community manager with business acumen will keep track of member requests, provide feedback and actively use social media like Twitter, Facebook or LinkedIn. Typically, mentors have successful businesses; it is crucial to link them with people who work in similar industries, based on their interests and needs. This knowledge-sharing portal could be complemented by the organisation of regular events and provision of regular updates related to the social innovation community. Experience shows that such a platform functions best when it is not run by the government. Hence, several leading actors in the social innovation community should co-develop and manage it, though with government support; this would also enhance the financial sustainability aspect of such platform.

Provide tools: toolkits on different modules and trainings for peer-to-peer support and mentoring – e.g. training start-ups to meet with investors or helping them use tools, such as the Business Model Canvas to develop their business model (Stanford University's Entrepreneurship Corner, 2012) or the Development Impact and You (DIY) toolkit developed by Nesta specifically for social innovators (DIY, n.d.), would be extremely useful. Many such tools already exist internationally and could be translated and made available online, preferably attached to capacity-building programmes providing advice on their execution.

Promote internships and volunteering programmes through dedicated programmes: young people graduating from business schools or universities often have business skills, but lack experience. Giving more opportunities to young professionals and those willing to volunteer would provide additional support to social innovations. Government could establish incentive schemes promoting internships within organisations operating with a social or environmental goal or introducing social innovation into ICT solutions. Academic institutions should encourage internships or end-of-studies projects related to socially innovative projects, where students could practise their newly acquired skills and gain experience. While the Faculty of Economics at the University of Osijek already hosts such programmes, these should be further promoted.

3.3. Social innovation infrastructure

The social innovation infrastructure is crucial to providing social innovation actors with additional content to support project creation, development and scaling up. It may include co-working spaces, living labs or “FabLabs” bringing together people working on similar types of projects; incubators and accelerators featuring dedicated social-innovation programmes; science and technology parks; and technology transfer offices supporting the development of new products and services designed to solve societal challenges. Although Croatia has a network of business centres, incubators and development agencies, organizations in the social economy sector struggle to receive non-financial support. The sections below focus on the most crucial hard infrastructure (buildings and spaces), as well as soft infrastructure that could offer the necessary services.

3.3.1. Incubators and accelerators

Incubators and accelerators provide much-needed technical, managerial and accounting advice for nascent businesses. The main difference between them is that incubators provide start-ups with shared workspaces and a range of business support services on flexible, preferential terms that would otherwise be unavailable through the market, whereas accelerators compress the timescale for launching the business through a focused and concentrated effort or programme. In other words, incubators nurture and allow start-up businesses to develop at their own pace, while accelerators help entrepreneurs leapfrog to the next phase. Business accelerators are often linked to a dedicated venture-capital fund or initiative, which often

operates its own accelerator. A growing trend is creating dedicated incubators focusing on social entrepreneurs and socially minded initiatives, such as the Social Good Lab in Paris (Box 3.9).

The Act on Improving Entrepreneurial Infrastructure (OG 93/2013, 114/13, 41/14) in Croatia classifies support institutions and serves as a basis for different types of support schemes. A Unified Registry of Entrepreneurial Infrastructure has also been established by the Ministry of Entrepreneurship and Crafts⁴. The Registry records and systematises the entrepreneurial infrastructures that have received grants, incentives or benefits.

Three types of incubators and accelerators exist:

- Entrepreneurial incubators provide space for start-ups, as well as a growing range of business-development services to incubated companies and other early-stage businesses, for up to three years. Entrepreneurial incubators provide space for start-ups, generally for up to three years.
- Incubators have a thematic focus (e.g. information and communication technology, biotech). They provide thematic relevant services to start-ups and also link them to each other.
- Entrepreneurial accelerators provide much more focused support services to entrepreneurs in the post-incubation stage of development. A typical acceleration scheme does not exceed several months.

Croatia has 36 entrepreneurial centres, 31 incubators and 8 technology parks, most of them linked to regional or local development agencies. The most ambitious incubator was opened in September 2015. The BIOCentre (a biosciences technology commercialisation and incubation centre) provides state-of-the-art equipment and support to biotechnology start-ups.

Most of these mechanisms are not specifically focused on supporting social entrepreneurs or innovators; rather, they provide support to all new entrepreneurs that satisfy certain (primarily administrative) criteria. The lack of financially sustainable social enterprises or social ideas – the European Commission report (2014b) suggests that Croatia currently numbers fewer than 150 – may be explained by potential entrepreneurs' limited knowledge of opportunities related to social innovations, as well as their ability to pay even a subsidised rent. More ambitious start-ups require longer periods of development and commercialisation; hence, they are likely to be developed in larger cities, where they have easier access to specialised support, networking and financing.

Box 3.10. The Social Good Lab, France

The Social Good Lab is the first Parisian incubator devoted to promising start-ups in the seed or starting stage which developed a technological solution to address social and/or environmental issues. It was initiated in 2013 by Le Comptoir d'Innovation and the City of Paris in order to promote technological innovations that foster social change.



The Social Good Lab provides a collaborative workspace for social entrepreneurs. Following a yearly call for innovative ideas, five most promising social entrepreneurs are selected to benefit from a range of services provided by the incubator.

The programme proposes tailored backing services with high added value:

- *Funding:* access to financial assistance instruments in France (City of Paris and BPI France)
- *Individual support:* networking, fundraising, financial and juridical reinforcement, etc.

- *Collective capacity building*: sessions about key business themes, valorisation and maximisation of social impact
- *Visibility events*: pitch day, demo day, start-up meet-ups, etc.
- *Accommodation*: facilities conducive to start-ups emulations and innovation
- *Co-creation support*: experimentation with big partner accounts allowing start-ups to network with organisations concerned by social impact in order to develop new opportunities.

Launched in 2013, the network Social Good Lab includes more than 40 start-ups. Since the programme's launch, the Social Good Lab has contributed to the conservation and/or the creation of over 150 jobs. Among the supported start-ups, several have been financed by the Comptoir de l'innovation investment fund, for tickets between EUR 200 000 and EUR 700 000 in own funds. Examples of financed enterprises in 2015 include Lemon Tri, Phenix and Centimeo.

The Social Good Lab is an example of a successful social incubator in an OECD country whose model and services can serve as a case study and model for future incubators.

Source: Social Good Lab (n.d.), <http://socialgoodlab.strikingly.com>.

Policy recommendations for Croatia

Build capacity for incubators and accelerator projects: business incubators and accelerators can foster a larger population of social innovation projects. The professionals working directly with entrepreneurs should learn more about the nature of social innovation and how to support such projects. At the very least, capacity-building efforts should target incubators in larger regional centres (i.e. medium-sized and larger cities) to foster a more efficient support network across the country. Moreover, the incubators and accelerators should propose services that help social innovators define and measure their societal impact.

Adjust acceptance criteria: adjusting the criteria for acceptance of CSO actors to benefit from the space and services provided by incubators and accelerators will allow them to benefit from the existing infrastructure without needing to develop new ones. It might be advisable to ensure that incubators or accelerators supported publically should provide space to certain number of CSOs at reduced rates or for free under certain conditions.

Improve co-operation with existing support institutions, leading NGOs and social entrepreneurs: even when they operate in the same area, business support institutions are often disconnected from the institutions and organisations that support social innovation and entrepreneurship. Nevertheless, several Croatian regions successfully promote social entrepreneurship and innovation; in addition, CEDRA HR runs five regional centres supporting social entrepreneurship development through education, consulting and information.

3.3.2. Collaborative spaces

A variety of collaborative spaces are spreading across social innovation ecosystems. This makes sense intuitively: collaborative spaces create and enable organisations and individuals to share and enact ideas. Collaborative spaces can be physical (co-working spaces, FabLabs, accelerators) or virtual, enabling users

to collaborate through a digital platform (as with the Living Labs). The global Impact Hub Network (Box 3.10) is the most relevant example in the area of social innovation. Because they create and manage communities, collaborative spaces are critical nodes of social innovation ecosystems.

Croatia already numbers several collaborative spaces. For example, in addition to the incubators mentioned earlier in the chapter, the city of Rijeka hosts an iLivingLab; since 2013, the Faculty of Architecture in Zagreb has hosted a FabLab, which is open to everyone interested in 3D printing and rapid manufacturing. There is also a Living Lab at the Faculty of Electrical Engineering and Computing of University of Zagreb. The capital of Croatia also hosts a co-working space specifically for social innovators: the Impact Hub Zagreb inspires, connects and empowers people to realise enterprising ideas for sustainable impact. Since 2012 CIPA has been promoting creation of coworking centres across Croatia including ZIP. Factory in Zagreb and Coworking Osijek among others.

The advantage of bringing numerous socially engaged people together is that it creates a higher impact and ensures cross-fertilisation of ideas.

Box 3.11. Impact Hub network

Launched in London in 2005, the Impact Hub network currently numbers over 11 000 members, located in 63 cities over 5 continents.



An Impact Hub consists of three distinct elements. First, it is a vibrant community of passionate and entrepreneurial people, who share an underlying intention to bring about positive change and act as peers to cross-fertilise and develop their ventures. Second, it is a source of inspiration providing meaningful content through thought-provoking events, innovation labs, learning spaces, incubation, programmes and facilitated conversations that support positive impact. Third, it is a physical space that offers a flexible and highly functional infrastructure to work, meet, learn and connect.

The magic happens where these three elements connect and are brought to life through the art of hosting. Each location can also initiate some acceleration activities and provide its members with business support services. Members also benefit from a diverse and global community that provides guidance, resources and opportunities, shared among all Impact HUBs.

The Impact Hub example illustrates how collaborative spaces can help individuals develop their socially innovative ideas into business concepts, both through interaction with their peers and targeted support.

Source: Impact Hub Network (n.d.), www.impacthub.net.

Policy recommendations for Croatia

Further develop infrastructure for social innovation: Croatia still needs to solve a number of societal challenges; collaborative spaces may foster innovative ideas on how the government can resolve the most pressing ones. Although a few examples of co-working spaces exist in Zagreb, further promotion of similar initiatives in other cities is needed. A higher number of collaborative spaces across Croatia would help identify the most impactful ideas, as well as allow individuals to connect with other members of the social innovation community and help them verify the feasibility of their ideas.

Consult collaborative space communities when solving societal challenges: the government should establish a pilot programme where collaborative spaces propose innovative ideas, and pilot projects are

implemented to test their effectiveness. Collaborative spaces can also foster public knowledge about the thematic sectors identified by the Industrial Innovation Council.

Promote academic co-operation with collaborative spaces: collaborative spaces (especially co-working spaces) are typically used by beginning entrepreneurs and innovators – a segment that is often difficult to identify from the numerous academic and institutional studies. Social enterprises and social innovators have been found to be more sensitive – and responsive – to social market needs long before the bulk of the marketplace. In this sense, social enterprises are on the cutting edge, which obliges them to innovate as a matter of course (Huysentruyt, 2014). Academics can conduct research on the population of collaborative spaces, identify trends and approach the phenomenon from various angles, valuable information for policy makers and collaborative spaces. Organised workshops or webinars would further increase public awareness of these issues.

3.3.3. *Science and technology parks (STPs)*

Regional and national authorities commonly use STPs (and similar infrastructures, such as technology institutes, or university innovation centres and research institutes) as instruments of regional development. Their main objective is to foster science-based growth and stimulate economic diversification. Not only does concentrating numerous innovative initiatives within the STPs facilitates knowledge transfer among diverse social actors, such as universities, research centres and enterprises, it could also leverage the knowledge of CSOs. The creation of Social Science Research parks could also engage social scientists as social innovators, by translating scientific research into effective solutions to societal problems. This stimulating environment could provide an inspiring ecosystem for developing pilot competitive innovation initiatives. STPs foster networking, entrepreneurship and the external promotion of social innovation projects and as such, play an important role in forming quadruple-helix partnerships. Canada's MaRS Centre for Science and Technology (Box 3.11) offers an example of an STP that successfully responds to and interacts with the interests of the corporate, small-business, government, academic and research sectors.

Several STPs have taken root over the last decade in Croatia. Some – such as the Varaždin Technology Park and the Science and Technology Park of the University of Rijeka (STeP Ri) – have been established with the support of the TEHCRO programme, co-funded by the World Bank through a loan from the Science and Technology Project. Others – such as the Zagreb Technology Park – are the result of ad hoc business initiatives that have developed over the years. Given the underdeveloped technology-transfer and research-commercialisation activities and the lack of space to develop complex services and accept anchor tenants, most of the existing STPs actually function as incubators that also offer some services related to technology and access to finance. This is about to change, however, and the types of services they provide will expand thanks to the support of European structural and investment funds.

Currently, the STPs are open to innovative entrepreneurs, regardless of whether their ideas relate to social innovation. Expanding existing STPs and creating new ones could have a positive impact on developing social innovation in Croatia.

Box 3.12. MaRS Centre for Science and Technology, Canada

MaRS is a Toronto-based science and technology centre registered as a non-profit organisation seeking to maximise the social and economic impact of Canadian innovation. Since its launch in 2000, MaRS has expanded rapidly into a vibrant innovation platform with 100 diverse tenants annually and 2 500 innovators utilising its space daily. MaRS focuses on three main activities: a) training innovators and organisations alike with entrepreneurship skills, b) helping start-up ventures to grow and scale, up to the point where they have the greatest economic and societal impact, c) encouraging partners to develop more innovative new ideas, products and companies.

MaRS Innovation

The unique experience of MaRS combines technological and social innovation. The company is located at the intersection of the corporate, small-business, government, academic and research sectors. This position allows MaRS to contact partners from each of these sectors, foster collaboration and facilitate the convergence of innovative ideas.

The 2013 MaRS annual report highlighted the following impacts:

- Market intelligence: MaRS provided USD 96 million (dollars) worth of market intelligence free of charge to entrepreneurs (2009-14).
- Expert advice and mentorship: 1 000 promising venture clients annually receive hands-on support from expert MaRS staff and seasoned volunteer advisors.
- Connections to customers and capital: MaRS venture clients (2011-13) generated USD 500 million in revenue, including USD 200 million in 2013 alone (55% in export revenue).
- MaRS venture clients raised USD 1 billion in capital (2011-13), including USD 450 million in 2013 alone (78% from private sources).
- MaRS venture clients created 6 500 jobs.
- MaRS directly managed USD 70 million in three active seed funds.
- MaRS entrepreneurship education programmes trained 50 000 people (2009-13).

MaRS provides a concrete example of how technology can be combined with social innovation and further scaled up.

Source: MaRS (2013), <http://marsinnovation.com/>.

Policy recommendations for Croatia

Tailor services provided by STPs to social innovators' needs: analyse the current generic service portfolio of existing STPs (and other relevant organisations, such as technology institutes and university innovation centres) to adapt existing services so that they also serve the needs of social innovators. These services might focus on:

- developing impact-measurement methodologies, as well as hybrid business models integrating societal impact and profitability, with links to potential investors
- improving collaboration with technology transfer offices, focusing on areas of societal challenges and trends, to bridge the gap between research and innovation
- developing spaces combining social innovation and technological innovation through dedicated programmes (such as the MaRS programme, detailed in Box 3.11).

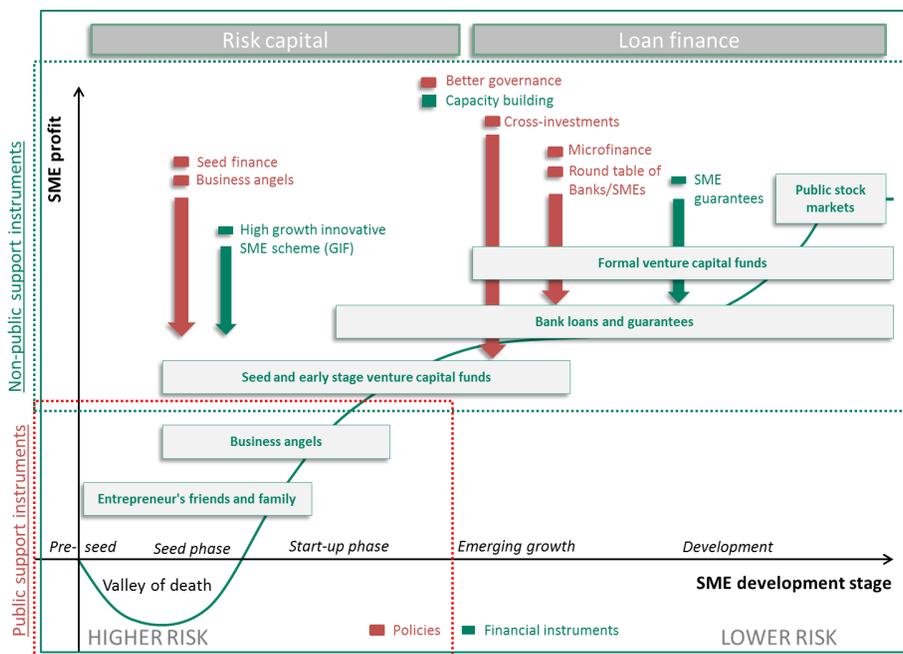
3.4. Financial instruments for social innovation

Financial instruments for social innovation can involve both public and non-public support schemes. The government's role is to develop structures that provide direct and indirect support to social innovation

on the one hand, and enable an environment where non-public support mechanisms (e.g. crowdfunding, impact investment and other relevant schemes) can be applied on the other hand. Non-public support can be initiated by an organisation (such as a bank or foundation), as well as by an individual wishing to invest in a socially innovative initiative (e.g. through crowdfunding). The government can support social innovation through direct or indirect financial support schemes.

Social innovation initiatives have the same financial cycle as traditional innovation initiatives (Figure 3.3). Social innovation initiatives need different type of support – whether public or private – at different stages of development. Existing financial schemes often need to be adapted, recognising that social innovation’s primary objective is to achieve social impact. The sections below focus on the most crucial public and non-public support measures. Because social innovation is still in its early stages in Croatia, the public financial instruments detailed below focus on the venture’s initial development phases, and can thus cover a larger number of initiatives. The few social innovation initiatives requiring high-growth financial support could benefit both from non-public support and the EU support programmes for which Croatia is eligible (indicated under Annex II of the report).

Figure 3.3. Financial cycle of a venture



Note: Adjusted by OECD analysts.

Source: European Commission (n.d.), *Improving the financing environment in Europe*, http://ec.europa.eu/enterprise/policies/finance/financing-environment/index_en.htm.

3.4.1. Public financial support

Public support plays an important role for many organisations launching a new idea or innovation – particularly a social innovation. Even in situations where loan and equity finance are plentiful and legal structures are well established, access to finance remains a challenge. The task is made even more difficult for any initiative pursuing societal goals, where financial profitability is secondary. The government can offer either direct financial support (through subsidies, grants or preferential loans) or indirect financial support (mainly through dedicated institutions, e.g. guarantee schemes to cover funding risks, fiscal incentives for innovation-related activities, or capital risk coverage). As occurred with Big Society Capital in the United Kingdom (Box 3.12.), the government can also take innovative measures to finance socially impactful funds. In order to ensure the optimal use of public finance, it is advised to develop the direct financial support measures that should be carefully designed taking into account potential pitfalls. The recently approved G20 OECD High-level Principles for SME Financing could be helpful in providing guidance to the policymakers (G20/OECD, 2015).

Box 3.13. Big Society Capital, United Kingdom

Big Society Capital is an independent financial institution with a social mission seeking to i) increase awareness of, and confidence in, social investment, ii) provide the necessary capital to social-investment finance intermediaries. It focuses broadly on housing, physical health, community development, mental health, employment, education, financial inclusion and family support. Big Society Capital was established by the Cabinet Office and launched in April 2012 as an independent organisation with a GBP 600 million (pounds) investment fund. Since its launch, it has effectively co-operated with the public and private sector, as well as CSOs, to implement effective social initiatives. Its funds come from dormant English bank accounts (including an anticipated GBP 400 million from the Reclaim Fund Ltd) and UK high-street banks (GBP 200 million over five years).



Big Society Capital became a reference in the way governments can collaborate with the private sector to create positive societal impact. In 2014 alone, the progress report highlighted the following societal impacts:

- GBP 104 million cumulative amount drawn down from Big Society Capital and its co-investors
- 20% of investment funds transferred to employment, training and education projects
- GBP 41.5 million raised by charities to improve housing and local facilities
- GBP 2 million invested in 24/7 online support for individuals suffering from mental-health problems (the Big White Wall project)
- 1 300 vulnerable young people supported through Teens and Toddlers' GBP 3.25 million investment in a mentoring programme
- 85 000 loans worth over GBP 46 million awarded in some of the most disadvantaged areas of the United Kingdom thanks to the Moneyline initiative.

Big Society Capital is a successful example of how policy makers can launch large-scale funds and leverage private-sector involvement, for example by using dormant bank accounts to solve societal challenges.

Source: Big Society Capital (n.d.), www.bigsocietycapital.com.

Direct financial support

Governments can provide direct financial support for social innovation. The European Commission offers direct funding for social innovation through EaSI or Horizon 2020 (particularly under the SME Instrument, which is also open to social enterprises, co-operatives and non-profit organisations). Annex I of this publication provides further information on EU support schemes relevant to Croatia.

National and regional governments can offer direct financial support through their own funds, and/or integrate the EU structural and investment funds promoting social innovation since 2014. The Operational Programme on Effective Human Resources has a priority axis on social innovation and will be funded through the European Social Fund (ESF).

While Croatia currently offers few dedicated subsidies or funding options for social innovation or social entrepreneurship, there is a willingness to improve the situation. Since 2014, the European Progress Microfinance Facility Programme is available in Croatia through banks; moreover, the government has adopted a new strategy for social entrepreneurship with dedicated financial instruments. The case of SocialeInnovatieFabriek (Social Innovation Factory, Box 3.13), implemented in Belgium's Flanders region, may provide insight into organising a governmental programme providing financial backing and mentorship to newly established firms.

Box 3.14. SocialeInnovatieFabriek – Social Innovation Factory (SIF), Belgium

SIF is an accelerator active in Belgium. Founded in 2013 by a consortium of entrepreneurs, the Flemish government and civil society actors, the organisation promotes and supports social innovation and social entrepreneurship in Flanders and Brussels.



SIF promotes good practices of innovative, impact-driven solutions to societal problems both offline and online. Publications, a newsletter, campaigns such as Radical Innovators, all enhance a positive support base for social innovation.

The focus of this “factory” is on supporting and challenging social innovators and social entrepreneurs. The services are open to all individuals and groups, whether commercially oriented or not, who want to tackle an important societal challenge. This challenge can be any relevant societal issue, such as sustainability, green energy, food, poverty, well-being, ageing and enhancing cohesion, or a combination of different issues.

The services include:

- events and workshops, peer tables, one-to-many sessions
- a support model with intake meetings and a learning network that uses its own unique currency to manage peer support
- access to research, surveys, opinions and need-based advisory services
- a resource centre that holds publications, toolkits and guidelines.

The SIF launch was accompanied by a large media campaign and call for innovative ideas which collected some 330 applications for support and provided a starting basis for an initial network. Through the peer-to-peer learning network, SIF manages to support, challenge and upscale more than 150 social entrepreneurs and/or start-ups a year, with an average of 6 months' support. Due to the support, social entrepreneurs can launch their concept on the market faster, more solidly (from a financial standpoint) and more effectively. Popular modules in the reciprocity-based

learning network are social business modelling, impact measurement, partner search, funding and scaling. The questions asked are: What is the concept and what are the challenges social innovators want to address? Is the social impact clear? What is the revenue model? Which partners and stakeholders are and should be involved? How can SIF help the innovator take this idea to the next level?

The organisation connects innovators within a learning network and introduces them to the experts and potential partners who can help find answers to various questions to accelerate the development of the concept. The learning network is managed with a virtual currency: in exchange for knowledge and expertise, participants commit to sharing their own knowledge and expertise with future participants in “strengthening sessions”.

The popularity of social innovation and the work of SIF can be seen in its numbers: in more than 100 events a year, they inspire and challenge more than 5 000 participants; 64% of the innovators report that their concept is more solid, 100% recommend the peer-to-peer learning and 78% would not have found the right partners without SIF. For every euro the Factory receives in government funding, it generates EUR 2.12 on private funding for social innovation and social entrepreneurship.

SIF is partly subsidised by the Flemish government (as a region-specific topic, innovation falls within the competence of the regional government in Belgium). On a yearly basis, it receives around EUR 640 000 for operational activities from the government funding. The social innovations were able to benefit from a dedicated annual budget of EUR 1 million from the Flemish government agency for Innovation by Science and Technology to cover feasibility studies and innovation projects.

SIF demonstrates how governments can create a light structure to promote the creation and development of socially innovative ideas in a region or country.

Source: SocialeInnovatieFabriek (n.d.), www.socialeinnovatiefabriek.be/nl/english; European Commission (2013a), European Research Area – Facts and figures, http://ec.europa.eu/research/era/pdf/era_progress_report2013/era_facts_and_figures.pdf.

Social Investment Scotland (SIS) is a unique partnership between Scotland’s largest banks and the voluntary and public sectors, created to enable social initiatives to grow and become financially sustainable (Box 3.14).

Box 3.15. Social Investment Scotland (SIS), United Kingdom

SIS is a registered charity and social enterprise that provides loans to other charities, social enterprises and community groups across Scotland. Since its launch in 2001, SIS has funded social enterprises by borrowing money from banks and investors, and lending it to the enterprises at affordable interest rates. Its customers are third-sector organisations with the ability to have sustainable social impacts on job creation, community engagement and economic development.



Over the years, SIS has made a lasting and sustainable impact on communities by supporting organisations in expanding their outreach and service provision. SIS is the largest social enterprise in Scotland, with GBP 43 million invested in almost 180 organisations across the country. Its unique ability to co-operate with a variety of investors, as well as with both the public and private sectors, has been crucial in determining its success.

The SIS 2013/14 annual report highlighted the following impacts:

- total income from charitable activities: GBP 1.17 million (+23% from 2012/13)
- 1 354 jobs sustained
- 66% of customers increasing their turnover over the year

- 73% of customers anticipated increase in turnover during the following year
- 30% of beneficiaries of SIS customers' activities are estimated to live in Scotland's most deprived areas
- 61% of SIS beneficiaries are children, young people and families.

SIS is a unique partnership between Scotland's four biggest banks and the voluntary and public sectors.

Source: Social Investment Scotland (n.d.), www.socialinvestmentscotland.com.

Indirect financial support

Indirect support is the provision of governmental incentives to non-governmental entities, which are thus encouraged to finance social innovation. This support generally takes the form of tax relief and risk-mitigation tools, such as credit guarantees for social innovation. Similarly, tax incentives can be used to motivate private donations to listed non-governmental organisations. This is the case in most OECD member countries, for example in Belgium.

The OECD provides frequent overviews tax incentive schemes for R&D in OECD member countries and selected non-member economies. The most recent report (on investment in knowledge capital, growth and innovation) concludes that R&D tax incentives are effective at promoting more R&D investment, but that the impact is sensitive to policy design and implementation (OECD, 2013). Indirect support for social innovation – for example, through the Community Investment Tax Relief in the United Kingdom (Box 3.15) – could include guarantee schemes to provide funding to social enterprises, subsidised interest rates on loans for innovation-related activities and tax credits. Yet another form of indirect financial support is technical assistance to help banks develop dedicated programmes for social enterprises. Several such initiatives have recently been promoted across the European Union; the recently launched Social Impact Accelerator, managed by the European Investment Fund, is an example of a “fund-of-funds” operator that invests in social-impact funds across the European Union.

While a number of mechanisms in Croatia exist to boost organisations' involvement with innovation – the Business Impulse programme promotes R&D and innovation activities in companies, the IRCRO programme aims to encourage SMEs to establish R&D activities and co-operate with public research organisations, and the RAZUM programme supports the commercialisation of products and services stemming from R&D activities – they do not focus on social innovation.

The EC report mapping social enterprises in Croatia highlights the shortage of funds and resources available for social enterprises, particularly start-ups and investment projects (European Commission, 2014b). However, several activities linked to social enterprises have been financed or supported by the government through partnerships with CSOs, EU programmes and other national support schemes for entrepreneurship and co-operation.

A 2013 peer review confirmed the interest of organisations such as the Croatian Banking Association, the Association of Credit Unions and the Croatian Bank for Reconstruction and Development in developing specialised financial instruments to support social enterprises (European Commission, 2013b; European Commission, 2014b). Although the 2009 attempt to establish a social entrepreneurship development fund was not successful owing to insufficient funds, the potential for similar initiatives still exists.

The Operational Programme on Effective Human Resources managed by the ESF cites social innovation as one of the priorities, focusing in particular on innovations contributing to the employment of youth and vulnerable groups (European Commission, 2014c).

Because the Croatian tax system does not provide enough incentive for supporting public good and philanthropy, it is not conducive to developing civil society (in Belgium, by contrast, a taxpayer who donates EUR 40 and over receives a tax deduction for the full donated amount; this has streamlined substantial resources into civil society and improved socially innovative projects' access to finance). However, the Croatian "Code of Good Practice, Standards and Benchmarks for the Allocation of Funding for Programs and Projects of NGOs" is viewed as a success.

Box 3.16. Community Investment Tax Relief (CITR), United Kingdom

The CITR scheme provides a tax incentive for investors in enterprises within marginalised communities. It is available to individuals and companies that invest in accredited intermediary organisations – known as community development finance Institutions (CDFIs) – which in turn invest in enterprises operating within or for disadvantaged communities. The CITR scheme is jointly run by Her Majesty's Revenue and Customs and the Department for Business, Innovation & Skills, which is responsible for matters concerning CDFI accreditation.

The tax relief is available to individuals and companies, and is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

Source: UK Government (2012), *Community Investment Tax Relief*, www.gov.uk/government/publications/community-investment-tax-relief-citr; OECD (2014b), *Social Impact Investment*, <http://dx.doi.org/10.1787/9789264233430-en>.

Policy recommendations for Croatia

Offer direct financial support to social innovation: direct financial support should not be based on a single instrument, but rather on a set of instruments that (i) help develop the idea and initiate co-operation, (ii) help social innovators build their business skills, (iii) initiate and grow a particular social innovation, in partnership with other organisations. The three direct financial support schemes that respond to each of the three needs are as follows:

- **Social innovation vouchers** help transfer ideas into viable initiatives by allowing innovators to obtain the necessary knowledge, or develop a prototype or new product. Social innovators should have easy access to these funds so that they can experiment. Voucher beneficiaries can be businesses or CSOs, which could then pay researchers or consultants to resolve a societal challenge. The voucher amount should not exceed EUR 5 000; it should ideally be co-financed by the applicants (private or CSO partner).
- **Social business vouchers** help social innovators gain better business acumen through skill training on business planning, fundraising, marketing, and identifying tools to measure economic and social impact. Typically, such vouchers should help social innovators feel confident enough to launch an initiative. The voucher amount should not exceed EUR 3 000-5 000; only licensed bodies or individuals should provide the business training. The City of Ontario has just launched a programme to provide 125 social business vouchers to social entrepreneurs (Box 4.1).
- **Social innovation grants** provide more solid support to larger-scale initiatives that have been developed thanks to the social innovation vouchers; they help them test a new product or service, or implement a feasibility study. Typically, initiatives at this stage need to establish trusted partnerships with several organisations (similar to the quadruple helix) to enable them to grow. A

limited number of grants should be made available for such initiatives. The grant amount should not exceed EUR 50 000-100 000; the projects should be selected on the basis of their expected societal impact, their financial sustainability and their feasibility in Croatia. A mechanism similar to Big Society Capital (Box 3.12) in the United Kingdom could finance these grants.

Expand access of support services to CSOs: while several programmes (i.e. Business Impulse, ICRO and RAZUM) support for-profit entities' innovation process, non-profit entities do not always have access to them. The legal basis and rules should be adjusted to ensure that non-profit organisations have access to current mechanisms to develop financially sustainable solutions promoting innovation.

Analyse the feasibility of tax incentives promoting investment in socially impactful initiatives: tax incentives (generally aiming to support R&D) have been introduced in 26 of the 34 OECD member countries, as well as in a number of non-member economies. In Canada, Denmark, Korea and Portugal, they are the main channel of government financial support for business R&D (OECD, 2012, 2011c). This form of indirect financing is increasingly used to complement direct government funding through R&D contracts, subsidies or grants. Croatia should study the potential effectiveness and market feasibility of such a scheme. Tax incentives dedicated to social innovation and social impact investments, similar to CITR in the United Kingdom (Box 3.15), might make a positive impact on the market, although they should be carefully designed taking into account potential risks and investor motivation.

3.4.2. Non-public financial support

The responsibility for fostering social innovation does not only rest on the government – businesses and individuals can play an important role in supporting it. In recent years, a number of new approaches have been used to finance socially innovative initiatives. The section below presents the major non-public support instruments relevant to social innovation.

Crowdfunding

Crowdfunding is an alternative form of financing, generally involving an open call to the public on an online platform to raise funds for a specific project. Crowdfunding especially appeals to small-scale investors – sometimes known as “citizen investors” – who support local initiatives through local investor circles, thereby complementing other forms of traditional financing.

Crowdfunding is still relatively new and is not a homogenous concept. In 2012, crowdfunding or microcredit platforms dedicated to social projects (such as Kiva, Just Giving and Babyloan) gathered 10 % of the total funds (estimated at EUR 3 billion) raised by existing crowdfunding platforms (OECD/European Union, 2013).

The European Commission distinguishes two main crowdfunding categories: crowdfunding with non-financial returns (such as donations, rewards and pre-sales) and crowdfunding with financial returns (such as crowd investing and crowd lending). The difference between these two concepts relates to the projects' investment risks and potential financial profit (European Commission, 2014d). Donations may be purely philanthropic, without any counterpart; rewards promise a product or service in return for the donation if the venture manages to launch the product or service; pre-sales implies an obligation to provide the product or service. Crowd investing provides a share of equity in the venture, while crowd lending promises repayment with or without interest.

A recent study of the current state of crowdfunding in Europe suggests that regulation is a major determinant of its development. In the United Kingdom, crowdfunding already provides a true alternative

to traditional finance and represents over 10% of SME funding, thanks to progressive regulation and tax reliefs. For example, UK banks are obliged to propose crowdfunding options to businesses to which they refuse a loan (CrowdfundingHub, 2016). This explains why the volume of capital raised by UK crowdfunding platforms represents four times the volume of the rest of Europe combined (United Kingdom: EUR 2.4 billion, rest of Europe: EUR 0.6 billion).

A couple of crowdfunding platforms have appeared in the last two years, including Croinvest.eu⁵, the first crowdfunding platform in Croatia launched in 2014, and Croenergy, a platform promoting green energy projects. In 2015, a new initiative promoting awareness-raising on the subject was established with the support of the United Nations Development Programme – Crowdfunding Academy (Crowdfunding.hr). The academy provides lectures and mentors the projects to help them conduct successful crowdfunding campaigns.

Crowd donating and crowd sponsoring are allowed under Croatian regulations. However, crowdlending is strictly regulated by the law on capital markets, which increases the cost of such operations for private entities. According to the official position of the Ministry of Finance, public authorities are not authorised to use crowd lending (CrowdfundingHub, 2016).

Crowdfunding could be relevant in Croatia, since a number of incentives already exist. For example, natural and legal persons could benefit from a tax reduction of up to 2% of their revenues in case of a domestic donation for cultural, educational, scientific, medical, humanitarian, sport and religious purposes.

Socially innovative projects in Croatia can also be promoted on international crowdfunding platforms, such as Indiegogo. The E-Glas initiative, for example, managed to raise over USD 6 000 in its bid to establish electronic-assistance equipment for disabled individuals (for further details, see Annex III). A total of 47 projects were launched on Indiegogo in 2015, and another 8 on Kickstarter.

Business angel network

Angel investors – who are often experienced entrepreneurs or businesspeople – have become an important source of equity capital at the seed and early stages of company formation. The creation and growing formalisation of angel groups and networks serves as an indication of the sector’s expansion. In addition to money, angel networks supply social capital, as well as strategic and operational expertise. Angel investors are interested in local investment, and support a much wider range of innovative projects than venture capital firms. The co-operation between entrepreneurs and the Croatian start-up E-Glas is an insightful example of the significance of angel investors in the region (OECD, 2011). The Social Stock Exchange (Box 3.16), which was created to help matchmake social projects with potential impact investors, is an interesting example of successful soft infrastructure for matchmaking.

The role policy makers can play to enhance angel investment on the supply side is threefold: (i) tax incentives, such as those provided by the United Kingdom (a rigorous cost-benefit analysis is needed to examine the net benefit of such relief), (ii) co-investment funds which have been established in Scotland, New Zealand, the Netherlands and other countries, which match angel investments with public money, (iii) support to business angel networks to help build awareness about angel investing, and train potential angel investors (OECD, 2011a). In addition to this, demand side policies which build capacities of entrepreneurs in order to present “bankable” projects are also needed.

Croatia has one formal business angel network, the Croatian Business Angels Network (CRANE). CRANE is a non-profit organisation established in 2008 with the purpose of connecting entrepreneurs in need of start-up capital with business angels. So far, 13 investments (totalling around EUR 1 million) have

been made through the CRANE network, although none supporting social innovations (CRANE, n.d.). Even though very few Croatian business angels are entrepreneurs with technology-based or internationalised primary businesses, in recent years they have played an important role in helping to create a start-up culture and supporting new technology firms. They have also participated in the evaluation and selection process of Ministry of Entrepreneurship and Crafts activities focusing on innovative start-ups and SMEs.

CRANE points to an insufficiently developed market of capital funds willing to invest in internationally oriented start-ups, the lack of quality projects, and low levels of entrepreneurial training as the main obstacles to widening the scope of activities of business angels in Croatia. Exit opportunities for business angels also remain a problem. While equity aversion has often been mentioned in the past, it seems to be less of an issue for the new generation of start-up entrepreneurs, whose business models require fast product development and access to international markets, capital flows and knowledge (Aralica, Račić and Radić, 2008).

The recently launched Business Impulse programme specifically plans to introduce new support measures, such as seed investments (through the Croatian Seed Fund, which has estimated assets of EUR 2.5 million) and early-stage co-investments in innovative SMEs (which will complement investments by founders, business angels and venture capital funds). The programme will also expand opportunities for social innovation projects. For the foreseeable future, however, business angel investing in social innovation projects is likely to supplement other forms of financing, such as grants, crowdfunding and social-impact investing.

Box 3.17. The Social Stock Exchange

The Social Stock Exchange connects social-impact businesses with investors looking to generate social or environmental change, as well as generate a financial return on their investment. Its mission rests on the belief that robust revenue and growth businesses that focus on social and environmental objectives are best equipped to generate positive, long-term change. These are referred to as social-impact businesses.



The core of the Social Stock Exchange offering is to provide investors with robust information and the evidence needed to identify and compare those organisations that deliver value to society and the environment. The Social Stock Exchange impact reports, admissions panel and rigorous admission process mean that investors are able to make informed decisions about member companies against stated objectives and verifiable, published evidence.

Big Society Capital has invested GBP 850 000 to develop market infrastructure in order to help over 100 charities and social enterprises benefit from the Social Stock Exchange.

The Social Stock Exchange serves as an excellent example of how policy makers can promote matchmaking, ensure potential investors' trust and increase the public appetite for social-impact investment.

Source: Social Stock Exchange (n.d.), <http://socialstockexchange.com>.

Impact investing

Bridging the gap between financial investment and philanthropy, **social impact investing** is defined as “the provision of finance to organisations addressing social need with the explicit expectation of a measurable social, as well as financial, return” (OECD, 2015a). It is seen as a natural extension of the trend of shifting from purely financial investment to responsible investment and sustainable investment. Social

impact investment should not aim to replicate the public responsibility of financing core activities in the social sector, but can rather complement other funding streams.

Venture philanthropy is an approach aiming to build stronger investee organisations with a societal purpose by providing them with both financial and non-financial support to increase their societal impact. This approach includes both social investment (through equity or debt) and high engagement (with grant-making).

While traditional financial investment focuses on financial returns, responsible investment tries to minimise any negative impact on the environment and society; sustainable investment goes further, by totally eliminating negative externalities and potentially introducing positive ones. Social impact investment aims for an even more ambitious goal, focusing on the social return while still keeping an eye on financial sustainability – in other words, profits. Philanthropy, on the other hand, only focuses on the social return and ignores the financial return. The SI² Fund in Belgium, which raises capital from individuals and families, illustrates the process of creating an impact fund (Box 3.17). This example might be relevant to designing an approach involving, for example, the diaspora or successful business people interested in creating positive societal impact in Croatia.

Compared to the most developed economies, the impact investment market is still in its infancy in Croatia. Funds and resources available for socially impactful projects and initiatives are scarce, largely because most initiatives have been financed through project-based funding by donor agencies. A recent survey on venture philanthropy spending in Croatia in 2011 indicated a total investment of less than EUR 50 000 (Buckland, Hehenberger and Hay, 2013), although the impact investment market has expanded since the survey.

Box 3.18. SI² Fund, Belgium

The SI² Fund is an impact investment fund with the mission of generating high social impact and a fair financial return by making sustainable investments in social enterprises.

Initiated by OKSIGEN Lab, the SI² Fund managed to raise EUR 16 million from individuals in Belgium over two investment rounds in 2012-13. The investors were promised a fair financial return, ranging between 2% and 6%. The Fund is managed by a professional team and has developed a particular methodology to measure its investments' social impact.

The SI² Fund considers early (non-seed) and later-stage development ventures that primarily focus on creating significant societal change. Typical investments range from EUR 150 000 to EUR 500 000. As of March 2016, the SI² Fund had invested in four ventures: three in Belgium and one in the United Kingdom. The Fund first invested in an operator of health and fitness centers whose business supports its mission to involve its members in a healthy lifestyle; its second investment was in an organisation dedicated to increasing breastfeeding rates. In the United Kingdom, the Fund invested in a civic crowdfunding platform based in London.

The SI² Fund is an interesting example, because it is a grassroots initiative that has managed to collect money from private sources without involving banks, investment funds and government funds offering a fair financial return in exchange for high societal impact. With little support from the government, the Fund has managed to leverage private-sector involvement by developing a solid plan and business logic. It has generated high social impact only two years after its creation by fostering the growth of four viable and financially sustainable social innovations.

Source: Social Impact Fund (n.d.), <http://www.si2fund.com>.



Ethical banking

Ethical banking is a broad concept encompassing any banking system that embraces environmentally and socially conscious practices. While the banks still aim to earn profits, they try to do so in a way that is consistent with their ethical practices, i.e. fair treatment of workers or environmental practices. Ethical banks are widely popular, in part because they have (like Triodos Bank) weathered the financial crisis. A number of new ethical banks are currently being developed in Europe.

Although ethical banking incorporates the experiences of a long tradition of co-operatives and the social economy, it is a new phenomenon in Croatia and throughout South East Europe. The first ethical bank, Ebanka (Box 3.18), is currently in the process of setting up and licensing, and is expected to start operations in 2016 (Ebanka, n.d.). Its owners and founders – organised within the Co-operative for Ethical Finance (which will be the sole shareholder of the bank) – are enterprises, NGOs, local communities, development agencies and citizens, as well as the bank’s clients and associates. Ebanka’s aim is not only to provide finance, but also to create a dense stakeholder network and create business opportunities for them; it also intends to closely monitor and support each funded project and client. In 2014, Ebanka joined the European Federation of Ethical and Alternative Banks.

Ebanka participates in different EU projects that provide it not only with EU funds, but also with the knowledge and resources of similar institutions in other EU countries. Through one such EU project, Ebanka is creating the first structured financial instrument for social entrepreneurship in Croatia, which will take the form of a new investment fund under the European Social Entrepreneurship Fund label, with the capacity to invest up to EUR 150 000 per project. Ebanka is also exploring other opportunities related to grants and financial instruments.

Ethical banking entails evaluating each project’s social impact, adopting a more flexible approach towards collateral assets (including non-material assets such as expertise, customer loyalty, market positioning and the value chain) and supporting project implementation. The risk reduction achieved through this business model should promote lower interest rates and more support for innovative projects in general, and social innovation in particular. Although they are private institutions, successful ethical banks function as development banks, which not only provide financing, but also facilitate access to knowledge, and serve the needs of stakeholders and local communities.

Box 3.19. Ebanka, Croatia

Ebanka is designed to provide the best possible banking services to its clients, while actively promoting sustainable economic development for the communities in which it operates. Ebanka employs several innovative concepts to fulfil its mission. Its objective is to invest only in projects that contribute to the real economy and can serve as a powerhouse for sustainable economic growth, creating substantial positive social impacts for the community.



Ebanka has established partnerships with local government entities and development incubators across Croatia, and has collected an initial list of prospective development projects. So far, Ebanka has raised over EUR 8 million from over 200 different Croatian stakeholders to gather the required initial capital for establishing a bank in Croatia. The founders are mainly co-operatives, but also include local authorities, public service offices, individuals and SMEs. Ebanka is expected to be operational in 2016.

Ebanka is an innovative example that can have a positive impact on the scaling of social innovations in Croatia.

Source: Ebanka (n.d.), www.ebanka.eu (accessed 12 April 2016).

Loans and microcredit

Microcredit provides business loans to very small business owners. Many people cannot reach their full income potential, merely because they do not have access to credit; microcredit provides access to financial capital to people who would otherwise not have that opportunity.

Croatia has a well-functioning banking system. Although there is no shortage of banks, it is still difficult for enterprises – and especially start-ups – to obtain loans, particularly working-capital loans and other types of finance for business investment (World Bank, 2008). The situation is no different for social enterprises or socially impactful initiatives, given that financial institutions do not distinguish between social enterprises and traditional businesses, and do not offer specially designed products for social enterprises and projects.

A number of programmes in Croatia already focus on the lower-end loan market. This market could be greatly improved by coupling banking services with training and counselling, ensuring that borrowers obtain sufficient information on loan modalities. An additional benefit is that it might provide an opportunity for employment services and microfinance programmes to collaborate, especially when it comes to helping individuals and enterprises just starting their activity.

The providers of microcredit services in Croatia are mainly credit unions – which, in accordance with the Credit Unions Act, have replaced savings and loan co-operatives as a new organisational form. Some traditional banks have also been active in the lower-end market.

Policy recommendations for Croatia

Provide capacity building for financial institutions: target capacity building and awareness raising to encourage major financial institutions to develop and integrate social impact instruments in their portfolio, and adopt financially sustainable practices to fund social innovation.

Develop a legislative framework protecting private investors: the basic legislative framework should not act as a barrier to potential investors, but rather as an enabler. The following elements are crucial:

- ensure that the Croatian legal system protects minority shareholders
- ensure that investors do not perceive investment in the country as difficult and cumbersome
- develop a favourable environment to promote crowdfunding platforms and angel investments.

Create a matchmaking system: even when good initiatives exist, finding the right investors is not easy. Matchmaking events bringing together international and national investors would help achieve this. Another option might be to establish a dedicated institution or programme (similar to the Social Stock Exchange, detailed in Box 3.16) focusing on identifying investors on the one side, and investment-readiness programmes working with social innovators on the other.

Develop investment-readiness programmes: training modules should be developed to help project owners create financial plans, as well as to provide them with valuable advice on pitching their projects and support their competences in obtaining international funding. Such activity could attract long-term interest and investment on the part of diaspora representatives, as well as international investors in the long run.

Monitor the social investment market: regular (i.e. every two to three years) strategic documents should focus on analysing the current market for social investment in Croatia. These reports should indicate the government’s strategy to promote social investment, and monitor its effectiveness compared to the previous report.

Strengthen a co-ordinated approach to different sources of finance: based on the needs, the expected social impact and the risk/reward profiles of a particular project, a mix of financing sources should be made available to achieve synergies between business angel investments, social impact investing, crowdfunding, grants and loans. Policy instruments to that effect should be developed, and business-support institutions (i.e. incubators, entrepreneurial centres and STPs) should be well-informed and involved in implementing them.

Chapter 3 analysed the policy framework for social innovation based on four pillars: the “framework conditions” pillar builds a foundation for the three standalone pillars – human capital, infrastructure and financial instruments. The chapter provided a set of policy recommendations for each pillar. The first pillar, the framework conditions, covers the ground conditions for this framework – namely an enabling environment; strong demand; social innovation promotion; and a community for social innovation. In the human capital pillar, three areas are explored: education for social change; diaspora involvement; and peer-to-peer learning and mentorship. In the infrastructure pillar, three areas are profiled: incubators and accelerators; collaboration spaces; and STPs. In the financial instruments pillar, various specific financing tools are analysed in public and non-public support areas. The recommendations from across the four pillars address developing an ecosystem to foster strong, financially sustainable and inclusive social innovations in Croatia.

Chapter 4 proposes greater detail on implementing the recommendations described in Chapter 3, taking into account the budgets and leadership potential of the relevant institution. Individual stakeholder meetings greatly informed the content of this chapter.

4. A WAY FORWARD WITH IMPLEMENTATION

This chapter suggests ways to implement some of the recommendations highlighted in Chapter 3. The actions involve various actors in Croatia, and are presented based on their complexity and need for finance. For example, some suggested actions, such as the quick wins, can be implemented in an initial stage, while more complex reforms can take place at a later stage. This chapter proposes the vision and operational structure of the Social Innovation Factory (SIF), whose future establishment represents a cornerstone for social innovation in Croatia.

4.1. Local ownership and approach

In the course of preparing the *Social Innovation Policy Framework*, dedicated missions in November 2015 and March 2016 were undertaken to meet with representatives from various ministries to define a roadmap for implementing the recommendations.

Social innovation in Croatia is multifaceted. Different ministries are responsible for different aspects of social innovation and should have the ability to promote social innovation in their specific field. For instance, the Ministry of Economy focuses on research and development (R&D) and should therefore be engaged in projects covering the R&D aspects of social innovation. Other ministries will be involved in other fields, such as education, social entrepreneurship and employment.

Approach

No dedicated policy or budget is made available for social innovation activities in Croatia. Hence, the suggested approach relies on ministries' practical and incremental involvement in social innovation, based on their existing budgets and capacities.

Such involvement should be structured in two phases – an initial phase and an upscaling phase.

The **initial phase** will likely start in 2016. It will cover activities that either do not require dedicated budgets or could find alternative sources of funding. It will focus on promoting and raising awareness of social innovation, as well as fostering better co-operation mechanisms between various social innovation actors. This phase will help policy makers understand the needs at the grassroots level and test new models that can support social innovation.

The **upscaling phase** will begin once a number of pre-conditions are achieved, including a clear governance model for social innovation, established through a co-ordination council; a dedicated budget for social innovation; and a mechanism to identify and scale up the most promising social innovations in Croatia.

4.2. Suggested actions for the initial phase

The relevant ministries and organisations identified the following actions as priorities for the initial phase; further actions might also take place.

4.2.1. Establish a “one-stop shop” for social innovation

As in the United States, where an Office of Social Innovation and Civic Participation was established at the White House to strengthen and support the social sector, the first step could consist in setting up a small unit dedicated to social innovation in Croatia. Placing such a unit within an existing structure, such

as the Centre for Industrial Development (CIRAZ – Centar za industrijski razvoj), could also be beneficial. Created in 2015 by the Ministry of Economy, together with the Croatian Chamber of Commerce and the Croatian Academy of Sciences and Arts, the Centre promotes the development of a number of industries in Croatia, with a specific focus on innovation; it will in time also house an Innovation Factory, which will select and guide enterprises, and help them develop and scale their innovative ideas. The Innovation Factory could host a dedicated unit focusing on social innovation, with staff specifically working on social innovation issues. This unit will foster a better understanding of social innovation; it will register socially innovative ideas, help selected enterprises develop stronger partnerships, and provide coaching. It could also provide feedback to the Ministry of Economy on the needs of the various social innovation actors. This action is also linked with the *Framework's* recommendation to promote and provide information on social innovation through a variety of portals and dedicated events.

4.2.2. Create awareness on social innovation

Various ways exist to raise awareness about social innovation. One approach could be to establish regular calls or competitions for socially innovative ideas – similar to the Social Innovation Competition organised by the OECD in Croatia in 2015, creating public awareness in parallel with media – and especially social media campaigns. This activity could be implemented by the Ministry of Economy, in partnership with the Croatian Chamber of Commerce, since the Croatian Chamber of Commerce already implements a number of existing innovation activities in Croatia.

Issuing calls for ideas or competitions and organising large-scale events should be done on a regular basis, to incite different actors to meet and exchange ideas.

4.2.3. Include societal impact clauses in procurement or grant distribution

Building on the new Public Procurement Directive, a number of cities (e.g. Nantes in France) build social clauses into the requirements for grant distribution or include them in procurement clauses.

The Ministry of Entrepreneurship and Crafts is designing an innovation support scheme with a budget of EUR 80 million (euros), which should become operational in 2016. The scheme will help innovation-driven small and medium-sized enterprises (SMEs), including start-ups and spin-offs, commercialise their innovative products and services. A horizontal approach covering a variety of sectors, including social innovation, will be applied. Grant applications offering a societal impact will receive higher scores.

Other ministries and public services might consider providing additional points to such proposals – for example, granting extra points for greener options when procuring bus transport, favouring initiatives employing persons at risk of exclusion, or selecting only specialised non-profit institutions to provide certain social services. The Municipality of Barcelona adopted this approach when implementing the new European Directive on Public Procurement (see Box 3.4).

4.2.4. Provide training to civil servants on social innovation

City officials in Belgium, France and other EU Member States provide short-term training workshops to civil servants summarising the concept of social innovation and explaining how city authorities can benefit from it.

Various capacity-building mechanisms are available in Croatia. The Ministry of Regional Development and EU Funds manages a network of regional co-ordinators, who advise municipalities on making better use of structural funds.

Initially, workshops could be developed and delivered to the staff of the bodies responsible for management and control systems, particularly project preparation and implementation. Further on, this training could be provided to the regional co-ordinators acting as intermediaries in implementing the structural fund initiatives.

The training required for public officials dealing with social innovation differs from hand-on training for social innovators and involves a general introduction to the very concept of social innovation. These training workshops should be linked with the recommended “crash courses” on social innovation for civil servants (see Chapter 3).

4.2.5. Develop a research observatory on social innovation

France’s INSEAD business school hosts the Social Innovation Centre, a centre of excellence where national experts engage in cross-disciplinary research, education and projects in the area of business in society (INSEAD, n.d.). Croatia may find it useful to follow suit by creating a working group of academic experts on social innovation, who could further explore the issues of social innovation measurement and evaluation, as well as societal impact creation. Established institutions, such as the Croatian Science Foundation (HRZZ – Hrvatska zaklada za znanost), could provide a good platform for building a social innovation observatory bringing together experts from the social sciences and humanities. These experts could also address the issues analysed in Section 3.2 on “Human capital supporting social innovation”.

This working group could help implement two of this report’s recommendations, as follows: i) develop an academic course on social innovation, ii) support Croatia’s participation in EU research programmes on social innovation.

4.3. Suggested actions for the upscaling phase

In the upscaling phase, the government should take a co-ordinated approach to social innovation, defining its boundaries and framing it within a broader policy framework.

Croatia would benefit from including its social innovation intentions in the Croatian Smart Specialisation Strategy (S3) 2014-2020, framing it within the Strategy’s five key targets: health and quality of life; energy and sustainable environment; transport and mobility; security; food and bio-economy. Thus, all relevant ministries in the Croatian government should be involved in implementing socially innovative projects within the context of their specific fields of interest.

In the future, when a better understanding of social innovation, along with a substantial flow of innovative ideas and concepts, have taken root in Croatia, it is strongly suggested to develop a dedicated structure acting as a single entry point for social innovations. This structure should be responsible for the following tasks: i) support selected ideas and link social innovators, ii) provide feedback to the government, iii) implement the necessary actions (such as issuing calls for proposals), iv) provide direct capacity-building support to social innovators.

4.3.1. Develop a co-ordinated approach to social innovation

Still in the initial phase, social innovation policies could be co-ordinated by the National Committee for S3. Among the tasks outlined in the 2014-2020 Strategy, the Committee could:

- outline and identify the needed allocation of resources to execute the Strategy’s vision and targets
- co-ordinate implementation of the S3 action plan by identifying and setting indicators for S3 delivery instruments, and add supplemental measures and programmes

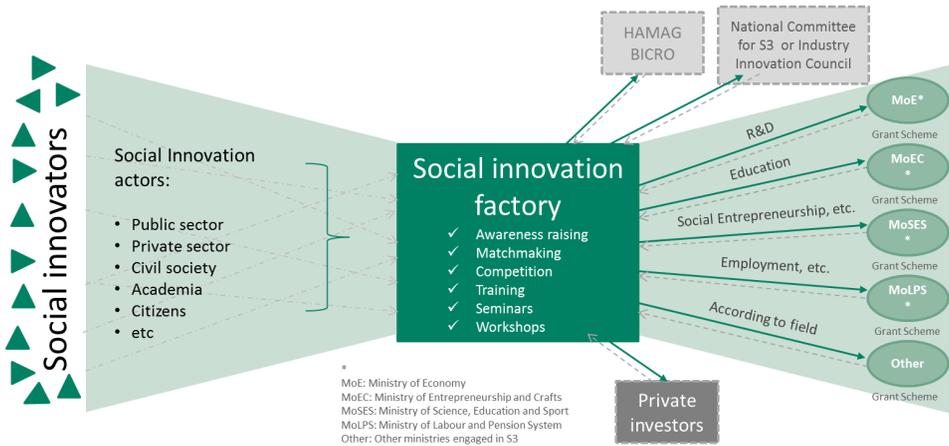
- bring quick and corrective decisions for the stakeholders enforcing S3 measures and programmes
- approve an annual implementation report and evaluation plan
- examine monitoring and evaluation results, as well as peer reports prepared by the technical secretariat
- respond to observed changes and trends in the development and implementation phases through policy changes and corrective actions, possibly revising the S3 based on the results of an interim evaluation.

Including social innovation as one of the areas covered by the National Committee for S3 would make it much easier for various governmental institutions to agree on their roles and responsibilities, as well as arbitrage where necessary. The Technical Secretariat of the National Committee for S3 could prepare dedicated reports on social innovation, thereby fulfilling the policy recommendation on creating an efficient governance system for social innovation.

4.3.2. Establish a Social Innovation Factory

The “one-stop shop” for social innovation (see Section 4.2) could be replaced with a structure similar to Belgium’s Social Innovation Factory (SocialInnovatieFabriek, described in Box 3.13). This structure could support and help implement comprehensive, socially impactful and effective socially innovative projects. Figure 4.1 schematically presents the structure and its main activities.

Figure 4.1. Potential structure and co-ordination mechanism for social innovation in Croatia



The proposed Social Innovation Factory is a light structure, which would act as a hub. On the one side, it would link a variety of public institutions supporting social innovation; on the other side, it would guide and interact directly with the community of social innovators, capitalising on its knowledge about existing innovations in Croatia. The Factory would help social innovators streamline and strengthen their project ideas, as well as submit single projects through the consolidated network to those line ministries

that can offer grants for upscaling. Along the lines of SIF in Belgium, it would not support companies through its internal budget, but rather by addressing them to the most probable funders.

The Social Innovation Factory should have a solid technical base to provide initial capacity-building activities. It should also understand social innovators' needs so as to address them to the relevant institutions. It could offer short-term training seminars on such topics as developing socially innovative ideas, measuring societal impact, constructing an optimal business model, creating partnerships, and using the best financial management and accounting techniques to achieve financial sustainability.

The Factory could develop toolkits on peer-to-peer support and mentoring – for example, help social innovators use tools such as the Business Model Canvas (Stanford Entrepreneurship Corner, 2012) or Development Impact and You (DIY) toolkit (DIY, n.d.), adjusting them to the Croatian context. Many such tools already exist internationally, and could be translated and put online. Importantly, these tools should be accompanied by capacity-building programmes specifically providing advice on their execution.

Finally, the Factory should also promote non-governmental support. In recent years, a number of new approaches (e.g. crowdfunding, business angel networks, the diaspora, ethical banking, and impact and venture philanthropy investment) have been used to finance socially innovative initiatives. These instruments need to be part of a sustainable innovation ecosystem. The Factory can explore their potential role and link socially innovative ideas to private actors (both institutions and individuals) providing finance and investment.

4.3.3. Financial instruments to support social innovation

Financial support to social innovation could be provided through direct financial instruments, as well as through linkages with potential investors. This support could be provided either by the implementation agency (such as HAMAG-BICRO) or directly by the Social Innovation Factory.

As described in Chapter 3, direct financial support should include a broad set of financial instruments, designed to help: i) expand the socially innovative idea and initiate co-operation, ii) develop business skills for social innovators, iii) initiate and grow a particular social innovation in partnership with other organisations. The example provided below by the City of Ontario illustrates one mechanism that could be implemented in Croatia (Box 4.1).

Box. 4.1. Ontario Social Impact Voucher

The City of Ontario (Canada) recently initiated the Ontario Social Impact Voucher programme to support capacity building and the development of social enterprises across the province by providing access to relevant training programmes. The application process for the vouchers was open from 27 July 2015 to 11 September 2015.



The pilot programme deployed up to 125 Ontario Social Impact Vouchers; each eligible social entrepreneur or enterprise could redeem a voucher valued at up to USD 3 000 (dollars). To be eligible for the voucher, social entrepreneurs and enterprises had to fulfil a number of requirements, including:

- aptitude for entrepreneurship and a demonstrated need for social entrepreneurship training
- a scalable business model with a prepared business plan, including the anticipated economic and social impacts
- an endorsement by one of the following: Regional Innovation Centre, Campus-Linked Accelerator, On-Campus Entrepreneurship Activities institution or On-campus entrepreneurship Business Development Manager
- An Ontario-based registration
- A USD 50 application fee, refunded in the event the voucher application is unsuccessful.

Organisations benefiting from the Ontario Social Impact Vouchers were able to cash in the training voucher with their social enterprise training organisations, including the MaRS Centre for Impact Investing, HUB Ottawa, Co-iLab, the Centre for Social Innovation and Social Asset Measurements Inc. Available trainings covered a broad set of topics, from business planning to fundraising and marketing.

Source: Ontario Centre of Excellence (n.d.), <http://www.oce-ontario.org/programs/entrepreneurship-programs/osiv-pilot-program/how-it-works>.

4.3.4. Monitoring implementation

Policy learning is particularly important in areas that are underdeveloped in Croatia. A number of strategies for social innovation (e.g. the Demand-side Action Plan, S3 and the Strategy for the Development of Social Entrepreneurship) have recently been adopted. Their implementation should be adequately monitored and analysed, and existing and future policy actions and public initiatives should be adjusted if necessary.

Chapter 4 presented a number of short and medium-term actions. It specifically highlighted the importance of various organisations – including ministries – co-ordinating their approaches and activities related to social innovation. The chapter showed how a good-practice example from Belgium could apply to Croatia by establishing a light structure that is supported by government, but open to collaboration with a variety of non-governmental actors.

5. CONCLUSIONS

Croatia has undergone an economic recession for the past several years, which has placed growing pressure on its welfare system. Hampered by budgetary constraints and limited fiscal space, the government cannot meet these pressures alone. Social innovation could help Croatia co-operate with other actors to develop fresh, cost-effective solutions to societal challenges.

Croatia has a good opportunity to engage in social innovation, but it needs to develop an efficient, single-entry governance system. Social innovation policies in Europe are still embryonic. A well thought-out social innovation strategy in Croatia could also set good-practice standards for other countries or regions. To engage in social innovation and develop a functioning social innovation ecosystem, Croatia needs to develop a high-level co-ordinating mechanism and secretariat supporting implementation.

A comparison with the three identified social innovation systems show that Croatia belongs to the “Eastern European” system: informal networks still play an important role, societal impact is mainly achieved through non-profit institutions, and organisations tend to work individually. The need still exists for advocacy actions to promote public understanding of concepts such as social innovation and social entrepreneurship.

Nevertheless, the government’s willingness to engage in social innovation, combined with its access to EU structural funds, is moving Croatia towards the “Continental” model. This transition is positive in that it would institutionalise social innovation, but it also contains some risks – for example, over-dependence on public (both national and European) funding. The current policy framework contains some recommendations on integrating elements of the “Anglo-Saxon” social innovation model to foster financial sustainability and collaboration with the private sector in Croatia, as well as provide additional support for developing socially innovative ideas at the grassroots level.

Based on an analysis of relevant systems within OECD countries, the policy recommendations below relate to the emerging needs and impact potential for social innovation in Croatia.

In the *short run*, the government should work on creating an awareness of social innovation. This involves creating a knowledgeable community that can collaborate and share insights through a dedicated portal, as well as developing short training sessions available to a wide range of actors.

In the *medium run*, the government should develop mechanisms – e.g. a structure similar to the Social Innovation Factory – to build capacity and raise awareness about various social innovation opportunities. Dedicated financial instruments (e.g. impact vouchers and grants), as well as a co-ordination structure aligning various ministries, are needed to ensure a consistently co-ordinated effort.

In the *long run*, the government should focus on developing a strong ecosystem of interlinked actors, which would foster the creation, development and international scaling of social innovations. A number of new incentives should be used to involve the private sector and academia in this process. A strong ecosystem would enable social innovations to be competitive not only in Croatia, but internationally.

ANNEX I: GLOSSARY

Table A.1. Social innovation

OECD LEED Forum on Social Innovations	2000	<p>Social innovation seeks new answers to social problems by identifying and delivering new services that improve the quality of life of individuals and communities, and identifying and implementing new labour-market integration processes, competencies, jobs and forms of participation as diverse elements that contribute to improving the position of individuals in the workforce.</p> <p>Social innovations can therefore be seen as dealing with the welfare of individuals and communities, both as consumers and producers. The elements of this welfare are linked with their quality of life and activity. Wherever social innovations appear, they always bring about new references or processes.</p> <p>Social innovation is distinct from economic innovation because it is not about introducing new types of production or exploiting new markets in themselves, but is about satisfying new needs not provided for by the market (even if markets intervene later) or creating new, more satisfactory ways of insertion in terms of giving people a place and a role in production.</p>
<i>Stanford Social Innovation Review</i>	2008	<p>Any novel and useful solution to a social need or problem that is better than existing approaches (i.e. more effective, efficient, sustainable or just) and for which the value created (benefits) accrues primarily to society as a whole rather than private individuals.</p>
Nesta	2009	<p>Social innovation is innovation that is explicitly for the social and public good. It is innovation inspired by the desire to meet social needs which can be neglected by traditional forms of private market provision and which have often been poorly served or unresolved by services organised by the state. Social innovation can take place inside or outside of public services. It can be developed by the public, private or third sectors, or users and communities – but equally, some innovation developed by these sectors does not qualify as social innovation because it does not directly address major social challenges.</p>
Murray, Caulier-Grice and Mulgan	2010	<p>Social innovations are new ideas (products, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations.</p>
OECD Directorate for Science, Technology and Industry	2011	<p>Social innovation refers to a group of strategies, concepts, ideas and organisational patterns with a view to expand and strengthen the role of civil society in response to diverse social needs (education, culture, health). The term covers, among others: new products and services, new organisational patterns (e.g. management methods, work organisation), new institutional forms (e.g. mechanisms of power distribution by assignment, positive discrimination quotas), new roles and new functions, or new co-ordinating and governance mechanisms.</p>
The Young Foundation	2012	<p>Social innovations are new solutions (products, services, models, markets, processes, etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships, and better use of assets and resources. In other words, social innovations are both good for society and enhance society's capacity to act.</p>

Table A.2. Social economy

OECD Centre for Entrepreneurship, SMEs and Local Development	2010	The ensemble of entities that explicitly have both an economic and a social mission. These can include associations, co-operatives, mutual organisations, foundations and more recently social enterprises. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism.
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Table A.3. Social enterprise

OECD Centre for Entrepreneurship, SMEs and Local Development	2010	Any private activity conducted in the public interest that is organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profits, but the attainment of certain economic and social goals. For example, a social enterprise can bring innovative solutions to problems such as social exclusion and unemployment through the production of goods and services. Social enterprises come in a variety of legal forms. They often provide personal and welfare services, and training and integration into employment of persons excluded from the labour market.
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Table A.4. Social entrepreneur

OECD Centre for Entrepreneurship, SMEs and Local Development	2010	A person who recognises a social problem and uses entrepreneurial principles to organise, create and manage a venture to make social changes. Social entrepreneurs are change-makers and move ideas.
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Table A.5. Social entrepreneurship

OECD Centre for Entrepreneurship, SMEs and Local Development	2010	A type of entrepreneurship that aims to provide innovative solutions to unsolved social problems and challenges. It often goes hand-in-hand with social innovation processes. Social entrepreneurs organise themselves across a wide spectrum of organisations that have an entrepreneurial approach, and whose primary mission is to tackle social problems and generate radical or more limited social changes. Social entrepreneurship is therefore about solving social problems, rather than exploiting market opportunities in order to maximise profits.
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ANNEX II: EXISTING EU FINANCIAL SUPPORT SCHEMES FOR SOCIAL INNOVATION

European institutions offer a number of financial support schemes for social innovation. The section below describes five of these schemes:

Horizon 2020

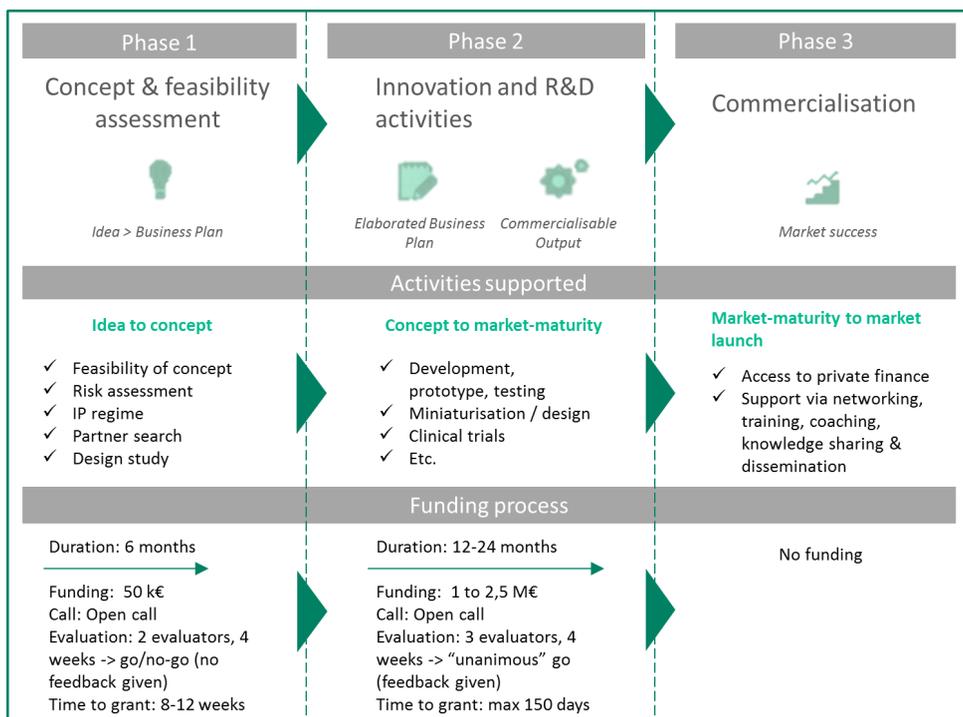
Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative spanning 2014-20 that aims to secure Europe's global competitiveness. Horizon 2020 takes a challenge-based approach, bringing together resources and knowledge from a variety of fields, technologies and disciplines, to cover innovation-related activities. Funding covers a number of societal challenges, including health; demographic change and well-being; food security; secure, clean and efficient energy; and smart, green and integrated transport.

Innovation proposals focused on societal challenges focus on large multinational projects covering one or several societal challenges. A variety of organisations (public, private and research organisations, small and medium-sized organisations [SMEs]) can develop project proposals based on the existing calls. Horizon 2020 pays special attention to SME co-participation and features dedicated calls focusing on social innovation.

Horizon 2020 also funds high-potential innovation through a dedicated **SME Instrument** offering the following benefits:

- business innovation grants for feasibility assessment purposes (EUR 50 000)
- business innovation grants for purposes of innovation development (EUR 500 000) and demonstration (EUR 2.5 million)
- free business coaching.

Figure 4.2. EU SME Instrument grant scheme



Source: European Commission (n.d.), "Improving the financing environment in Europe", European Commission Enterprise and Industry, <https://ec.europa.eu/programmes/horizon2020/en/area/smes>.

COSME

The 2014-20 programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) aims to facilitate SME access to loans and equity finance. Although the programme does not specifically focus on social innovation, it can be a useful tool for socially innovative enterprises to access finance. Within the scope of the COSME programme, the European Investment Fund (EIF) manages two facilities that aim to support EU enterprises' growth and research and innovation, as follows:

- **Loan Guarantee Facility (LGF)** offers guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies) to help them provide more loans and leases to SMEs.
- **Equity Facility for Growth (EFG)** invests in selected funds – acting as EIF financial intermediaries – that provide venture capital and mezzanine finance to expansion and growth-stage SMEs, in particular those operating across borders.

The financial instruments foreseen in COSME will complement the Horizon 2020 "InnovFin" instruments, described below.

InnovFin – EU Finance for Innovators

InnovFin is a joint initiative, launched by the European Investment Bank Group (European Investment Bank and EIF) in co-operation with the European Commission under [Horizon 2020](#). It comprises a number of financial instruments to facilitate innovative firms' access to finance. Loans and guarantees foreseen in the initiative can be tailored to innovators' needs. Financing is either provided directly or through a financial intermediary – usually a bank – and is deployed by eligible local banks, leasing companies or guarantee institutions. This allows the provision of more debt financing to innovative SMEs and small mid-caps (up to 499 employees).

EU Programme for Employment and Social Innovation (EaSI)

EaSI is a financing tool aiming to promote quality and sustainable employment, guarantee adequate and decent social protection, combat social exclusion and poverty, and improve working conditions. The EaSI programme is directly managed by the European Commission and focuses on three areas:

- modernising employment and social policies
- job mobility
- access to micro-finance for vulnerable groups (under EUR 25 000).

European Social Innovation Competition

The European Social Innovation Competition is organised by the European Commission with the support of a consortium comprising Nesta, Kennisland, Impact-Hub, Shipyard and Matter&Co. It is open to any legal entity established in EU Member States or Horizon 2020 Associated Countries. The Competition aims to stimulate social innovation's potential to provide solutions to societal challenges, as well as foster sustainable and inclusive growth in Europe. For innovative enterprises, the Competition represents an opportunity to obtain capacity-building support, as well as greater visibility. Every year, the Competition focuses on a different topic. The 2016 edition, entitled “Integrated Futures”, will support innovative entrepreneurial ideas that can turn the challenges arising from the refugee crisis and migrant integration into an opportunity for Europe. The three best projects will each be awarded a EUR 50 000 prize.

ANNEX III: EXAMPLES OF SOCIAL INNOVATION INITIATIVES IN CROATIA

This section outlines nine examples of social innovation initiatives in Croatia. Each example includes information from key stakeholders and publicly available sources. The examples are grouped in four categories, corresponding to different types of social innovation in Croatia. Namely, social innovation can occur as a project outcome; as a business response to a societal challenge; as a self-financing vehicle for NGOs; or as a platform gathering stakeholders within a particular field.

Social innovation as a project outcome

In several cases, EU projects have gathered multiple stakeholders in a structured initiative, enabling them to deepen their co-operation and resulting in social innovation. In these cases, a new institution was founded to carry on the project activities with initial funding from public (usually EU) sources. The new institutions have achieved sustainability and self-sufficiency by combining a variety of financial sources, including grants, service fees and product sales, as well as private investments from crowdfunding investors, business angels and venture capital funds. This section outlines nine examples of social innovation initiatives in Croatia, based on information collected from the key stakeholders involved and publicly available sources. The examples are grouped into the four categories of social innovations observed in Croatia.

Example 1. Humana Nova: Turning textile waste into products while employing vulnerable groups

Humana Nova is a social co-operative involved in collecting, recycling and upcycling textiles. It has a social impact on vulnerable groups, the environment and sustainable development.

The EU-financed project Education for Social Co-operatives (ESCO), implemented in 2011, aimed to increase employment opportunities for persons with disabilities in Medimurje County. The social co-operative Humana Nova was established within the scope of ESCO. Humana Nova encourages employment by integrating disabled and other socially excluded persons into the labour market to produce and sell high-quality, innovative textile and apparel products made from ecological and recycled fabrics.

Humana Nova collects used clothing in north-western Croatia, refines it where necessary and resells it. Some clothes are used to manufacture new products (such as patchwork blankets, purses, clothing and industrial napkins), whereas unusable textiles and waste are sent to recycling companies. Humana Nova co-operates with local waste management companies in the city of Čakovec; other social enterprises in the region; SMEs; NGOs; consultants; universities; and the Reuse – an international network that represents social enterprises active in reuse, repair and recycling. Its primary goal is to secure employment and facilitate local development in a sustainable way. The project is ready for the scaling-up phase and could be replicated elsewhere. However, it remains unclear whether such an expansion would be done under the umbrella of the current organisation. Providing support to sister organisations in other regions could also be considered.

The main obstacles experienced by Humana Nova include limited access to external finance, insufficient availability of qualified personnel and legislative barriers.

Humana Nova sees a lack of awareness of the benefits of social innovation, the limited importance given to social innovation as a national development priority, legislative barriers (primarily in public procurement), a lack of co-operation among relevant actors and limited funding as elements that restrain the potential of social innovation in Croatia.

The policy measures that would contribute most effectively to Humana Nova's future development include broadening its financial support, facilitating access to specific knowledge and developing incentives for training project personnel.

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The second subgroup of innovative projects with sustainable outcomes is based on technology transfer and/or science-industry co-operation. These projects can be facilitated through triple-helix partnerships. They tend to respond to broader societal challenges and/or specific problems; they create technological solutions that can be utilised and commercialised as social innovations. The most successful social innovations in this subgroup have a strong potential for scaling up and expansion. The examples given below are E-Glas and ICT-AAC.

Example 2. E-Glas: Helping the disabled to control home appliances

E-Glas is an information and communication technology (ICT) start-up that develops assistive technologies for disabled persons. It operates on different areas of social impact, including vulnerable groups, health, and demographic changes and aging society. The main product developed by E-Glas is Serwantess, a "personal electronic assistant", i.e. an electronic system operated by voice commands that enables users to control their home appliances, thereby making them more autonomous and independent. This product is already available in several languages.

Serwantess is based on the research undertaken by its founder, Miroslav Vrankić, an assistant professor at the University of Rijeka. The project was incubated by the science and technology park of the University of Rijeka (STeP Ri), and generated the interest and support of various stakeholders. Financial assistance came through a grant from the Ministry of Entrepreneurship and Crafts, crowdfunding (the project raised over USD 6 000 through the Indiegogo platform), a business angel investment (mezzanine financing, i.e. convertible debt) and venture capital funds. Technical assistance was provided through the EU-financed SMEPass project. A wide range of stakeholders – including users, NGOs, SMEs, universities, consultants, philanthropists, local administration in the cities of Rijeka and Opatija, and county administration – were involved. The project capitalised on the Investment Ready Programme at the Impact HUB Vienna and collaborated with Impact HUB Zagreb; it is now ready for the scaling-up phase.

The main barriers faced so far by E-Glas stem from its limited budget, uncertain demand for social innovative solutions, difficulties in identifying partners and challenges related to the legislative frameworks. E-Glas consider that challenges to social innovation in Croatia include the lack of adequate funding sources and of co-operation among relevant actors, as well as the limited ability of government institutions to implement socially innovative solutions.

The policy measures that would contribute most to future development of the project include financial and institutional support schemes, as well as shared or free services for social entrepreneurs.

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Example 3. ICT-AAC: Innovative services for people with complex communication needs

ICT-AAC is an EU-funded socially innovative project focusing on **transferring know-how on ICT-based alternative and augmentative communication (AAC)** to persons with complex communication needs, i.e. individuals who are unable to use speech as their primary method of communication. While reasons for complex communication needs differ widely and range from physical and/or intellectual impairment to Down Syndrome or Autistic Spectrum Disorder, AAC methods rely on the use of graphic and textual symbols (rather than written words alone) to represent certain objects, actions or concepts. This technique has proven to be highly beneficial for improving speech, literacy, learning, employment and quality of life for persons with complex communication needs.

The project consortium includes four faculties (departments) of the University of Zagreb, co-ordinated by the Faculty of Electrical Engineering and Computing. Project associates are SMEs from the ICT sector, NGOs and rehabilitation institutions. The main areas of social impact are vulnerable groups and health.

Ensuring a viable future for the project requires developing a business plan and implementing the proposed solutions. As with similar projects that were initially financed primarily by grants, reaching long-term viability is challenging: not only does it require financial resources, it also entails changing governance mechanisms, skills and relationships with different stakeholders.

The main barriers experienced so far by ICT-AAC include high costs and limited financial resources, partly because social innovation is not considered a national priority.

The policy measures that would contribute most to further developing the project involve broadening financial support; promoting the dissemination of knowledge and know-how from other institutions and/or companies; enhancing access to specific knowledge; developing incentives for project personnel training; and expanding institutional support.

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Social innovation as a business response to societal challenges

Social challenges can create an opportunity social enterprises to balance their social and profit goals, sometimes introducing novel solutions. Public resources are not a primary financial resource. However, as technology for these innovations becomes more complex, publicly funded R&D may play a greater role.

Example 4. Oradian: Software solutions for microfinance institutions

Oradian is a start-up offering software-as-a service solution to microfinance institutions in different countries, with a current focus on Nigeria. Its solutions combine key functionalities (administration, security, accounting, loan portfolio management and deposit tracking) in a user-friendly approach. Oradian assists clients in implementing their solutions and facilitates capacity building; it also aims to facilitate an ecosystem for microfinance. Oradian's technology can serve as a platform not only for customers, but also for third parties who develop solutions tailored to the needs of specific clients or client groups. Oradian has a social impact on vulnerable groups and sustainable development.

Only one member of Oradian's key team has Croatian origins (and actually comes from the diaspora). Oradian is a rare example of both a multinational team setting up a company in Zagreb and a Croatian social innovation-based start-up aiming to serve the global market. Team members leveraged their experience in microfinance, ICT and marketing to develop and market an innovative product. In the development process, they made the most of foreign R&D institutions, consultants and customer feedback. The project is now in the scaling-up stage.

The main barriers experienced so far by Oradian include the limited availability of qualified personnel, limited access to external financial resources, legislative barriers and incompetent decision makers.

Oradian's assessment of the social innovation environment in Croatia is rather critical – the identified obstacles include a lack of awareness of the importance and benefits of social innovation, poor political leadership and weak positioning of social innovation within national development priorities, the lack of adequate sources of funding and the limited ability to implement social innovation solutions in government institutions.

The policy measures that would facilitate Oradian's future development include introducing financial support schemes; broadening public understanding of social innovation; promoting the dissemination of knowledge and know-how from other institutions and/or companies; and expanding institutional support for social innovation.

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Example 5. CO2cut: Innovative market-based approaches to carbon reduction

CO2cut is a start-up involved in innovative projects relating to carbon reduction, including carbon certification, carbon dioxide (CO₂)-neutral shopping and travel, and renewable energy. The main areas in which it has a social impact are the environment and sustainable development.

CO2cut offers a novel cloud-based technology that connects various travel and shopping websites' application programming interfaces (known as APIs) with electronic platforms of carbon financial markets. CO2cut currently offers a simple "Fly.Stay.Buy" solution that can be embedded in event or company websites. It calculates and neutralises clients' emissions through carbon credit retirement on Markit and APX registries. CO2cut issues electronic "Carbon Neutrality Certificates", with live links to Markit/APX projects locations and documentation. CO2cut is currently building the "Green Travel Assistant", a door-to-door carbon-neutral service with 24-hour worldwide travel agent assistance (Skype, chat, email). Its intention is to have innovative carbon-neutral travel services with a travel search engine and 24-hour live-chat/Skype support.

CO2cut has developed a beta version of the service; it has set up a UK company and is moving towards implementing and scaling up the solution. Most of its funding is private, with only a modest grant secured from public sources. CO2cut has taken part in the Impact HUB Investment Ready Programme. The Oikon Institute for Applied Ecology serves as an R&D partner and provides assistance in service testing. CO2cut also co-operates with SMEs and larger companies. Co-operation with academic institutions in Croatia and abroad mostly revolves around consultancy services.

So far, the main barriers experienced by CO2cut include its limited budget and uncertain demand for socially innovative solutions. Social innovation is not considered a national priority, government institutions have limited ability to implement socially innovative solutions, and there is not a clear understanding on the impact it can provide.

The policy measures that would contribute most strongly to the future development of CO2cut include increasing financial and institutional support, and easing access to specific knowledge.

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Social innovation as a self-financing vehicle for NGOs

NGOs can set up social enterprises as vehicles for self-financing. These enterprises can foster social innovation. The main challenge for an NGO is to develop and market a product or service fulfilling two often contradictory conditions – being in line with the mission and capabilities of an NGO, and responding to market demand. At an initial stage, facing the marketplace can be challenging for many NGOs, as they often consider that their services should be free of charge and (co-)financed by public (national government or EU) institutions. At a later stage, business development and operational efficiency are key obstacles to success.

Example 6. Rodin let: From cloth diapers to social development

Rodin let (“Stork Flight”) is a social enterprise entirely owned by Roda, an NGO focusing on parenthood. It was set up to help Roda self-finance its activities and contribute to social development. Rodin let develops, designs and markets cloth diapers manufactured by people with disabilities. It has a social impact on different areas, including vulnerable groups, health, environment and sustainable development.

Roda launched a product (cloth diapers) that responded to market demand in a cost-effective manner. Setting up a social enterprise was a logical continuation of that effort. Since the product was convenient, cost-effective, socially appealing and environmentally friendly, it eventually became successful. Business development issues were tackled with technical assistance and grants provided by the Croatian branch of the international organisation NESsT. The social enterprise is currently in the scaling-up stage, which includes launching a web shop. The project was developed in partnership with a workshop at the Varaždin trade school (which employs workers with disabilities), the social co-operative Humana Nova, and Roda employees, members and beneficiaries.

So far, the main barriers Rodin let has encountered involve its limited budget and the high cost of innovation. Interestingly, demand was not an issue, since the existing insights into parents’ needs obtained through the work of the NGO were followed by market analysis and planning.

The key obstacles identified by Roda leadership in the Croatian social innovation environment include a lack of awareness on the importance of social innovation and the fact that social innovation is not considered a national priority.

The policy measures that would facilitate Rodin let's further development include broadening the financial and institutional support base, as well as implementing measures to disseminate knowledge and know-how from other institutions and/or companies.

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Social innovation as a platform

The creation of platforms can support multiple innovative actors in jointly achieving their objectives. These platforms are usually founded by individuals, associations, co-operatives or local administration units, and gather different stakeholders to innovate on specific fields. Initially, funding is mostly private. At a later stage, users are charged for the services provided, and platforms may also receive public support or resort to crowdfunding campaigns.

These platforms enable capacity building, knowledge sharing and co-operation, and improve the visibility of the field and actors involved. Several successful social innovations have taken the form of platforms.

Example 7. Ebanka: Bringing ethical finance to Croatia

Ebanka is a socially innovative project in the field of finance that aims to provide an alternative to the predominant banking practices by focusing on economic, social and environmental criteria. Ebanka is currently being set up and is expected to start operations in the first half of 2016. It has been developing new financing and business models, with a focus on organic agriculture, sustainable manufacturing, renewables, IT services, new technologies and innovations, environmental protection and social entrepreneurship. Consequently, the areas in which Ebanka can have a social impact are diverse, ranging from the environment and sustainable development to support for vulnerable groups.

Owners and founders of Ebanka are organised in the Co-operative for Ethical Finance, which will be the sole shareholder of the bank. The aim is to provide a dense stakeholder network to align different interests, create business opportunities, and enable close monitoring of and support to each project. Stakeholders include enterprises, NGOs, local communities, development agencies and private citizens. Ebanka already participates in different EU-funded projects facilitating co-operation and knowledge sharing across Europe. In addition to grants, membership contributions and revenues from services, it has also received support from the National Foundation for Civil Society Development.

Although the process has been complex, there have been relatively few barriers along the way, with legislation playing a somewhat more pronounced role. As with other social innovators in Croatia, the main obstacles faced by Ebanka include the low importance given to social innovation at the national level, legislative barriers and limited ability to implement social innovation solutions in government institutions.

The policy measures that would contribute most effectively to the future development of Ebanka include measures as broadening access to specific knowledge, fostering dissemination of knowledge and know-how from other institutions and/or companies, and introducing financial support schemes.

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Example 8. Green Energy Cooperative: Pooling knowledge to facilitate renewable energy projects

Green Energy Cooperative is involved in planning, developing and financing renewable energy projects, as well as supplying electricity. The co-operative has a social impact on sustainable development.

Green Energy Cooperative was established by a community of experts to provide consulting services and participate in projects on renewable energy, energy efficiency, sustainable waste management and sustainable transport, with a particular emphasis on projects in local communities. It is a pioneer in applying the co-operative business model based on local ownership to renewable energy projects in Croatia. Primary partners include local communities, local co-operatives, SMEs and Ebanka. Green Energy Cooperative is now implementing its solutions on several energy projects.

The main barriers faced by the co-operative include its limited budget, limited access to external finance, uncertain demand for social innovation solutions and legislative barriers.

The co-operative identified several factors restraining social innovation in Croatia, including a lack of awareness of the benefits of social innovation, the fact that social innovation is not a national priority, legislative barriers (primarily complex legislation) and lack of funding.

The policy measures that would contribute the most to the project's future development include the introduction of financial support schemes and incentives for project personnel training.

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Example 9. Zagreb Entrepreneurship Incubator (ZIP): Support for start-ups

ZIP is an NGO founded in 2012 to provide support to start-ups and help aspiring entrepreneurs from South East Europe build their own companies. In 2014, the NGO set up a wholly owned company to carry out incubator and accelerator services more effectively and transparently. This NGO has a considerable social impact on enterprise development.

ZIP is an incubator and accelerator that supports competitively selected innovative, high-tech start-ups and helps them grow more rapidly. The NGO provides start-ups with a mentor network (mostly from Croatia, but also from abroad), an educational programme, access to office/co-working space, computing equipment, and contacts with the media and potential investors. The support programme lasts three months. In addition to this programme, ZIP organises lectures and conferences to promote a start-up culture in Croatia and South East Europe. So far, the NGO has mostly financed its activities through

private sources, such as sponsorships; it has received some support from the Ministry of Entrepreneurship and Crafts; and it has undertaken an equity crowdfunding campaign, raising GBP 68 700 (pounds) through the Seedrs platform. The amount raised was used to set up a fund for investments into the accelerated start-ups. Other stakeholders that have co-operated with ZIP include SMEs, large companies, NGOs, universities and local government.

Not only has the ZIP approach to supporting innovative high-tech businesses contributed to the development of particular start-ups, it has also led to a wider acknowledgement of innovation and start-up issues by the media, as well as by stakeholders involved in enterprise and innovation policy. ZIP was also acknowledged as the best entrepreneurship support institution in Croatia in 2014 by the Ministry of Entrepreneurship and Crafts.

The main barriers faced by ZIP include its limited budget and access to external finance. The NGO also views similar barriers as the primary obstacles to social innovation at the national level.

The policy measures that would contribute most effectively to the future development of the project primarily involve financial and institutional support.

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¹ “Open innovation” is a paradigm that assumes that firms can and should use external ideas, and internal and external paths to market, as the firms look to advance their technology (Chesbrough, 2006).

² <http://evpa.eu.com>

³ www.benisi.eu.

⁴ <http://reg.minpo.hr/pi/public/#>.

⁵ www.croinvest.edu.



SOCIAL INNOVATION POLICY FRAMEWORK FOR CROATIA

With societies today facing a growing number of increasingly complex social and environmental challenges – unemployment, population ageing, rising care costs, migration, climate change, and growing inequality, among others – governments are seeking inclusive and financially sustainable ways to ensure the well-being of their citizens.

Social innovation seeks to find new solutions to these challenges by engaging all of society’s stakeholders – government, academia, industry, civil society and private citizens – to transform the way public services are delivered. The digital revolution has also enabled the emergence of numerous collaborative platforms, allowing these relationships to bloom.

What is social innovation? How can policies help create an effective ecosystem around social innovation at the national level? How have different countries successfully used social innovation and what lessons have been learned? What policy options should governments consider for the future? This Policy Handbook explores these issues and presents a number of policy recommendations to foster a social innovation framework specifically designed for Croatia.

This Policy Handbook is an outcome of work carried out within the framework of the Western Balkans Enterprise Development and Innovation Facility (EDIF), funded by the European Union. EDIF aims to improve access to small- and medium-sized enterprise (SME) finance in the Western Balkans, and supports governments in improving the business environment for innovative and high growth SMEs in particular.



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