



# **A map of social enterprises and their eco-systems in Europe**

## **Country Report: Croatia**

**European Commission**

*This report provides a non-exhaustive overview of the social enterprise landscape in Croatia based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.*

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A report submitted by ICF Consulting Services



Date: 31 October 2014

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## Document Control

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<b>Document Title</b>	A map of social enterprises and their eco-systems in Europe, Country Report: Croatia
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## Headline Summary

Despite a tradition of cooperatives and other forms of socially oriented businesses from 19<sup>th</sup> century and early 20<sup>th</sup> century (i.e. companies for the disabled during the Yugoslav period) the first ‘social enterprises’ in Croatia started in 2008 when an EU-funded programme was launched. Since then, civil society initiatives are the driving force behind the development of the sector.

### Definition(s) and concepts

In the framework of drafting the *Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020*<sup>1</sup>, the following definition of a social enterprise is currently proposed:

*“Social enterprise is a business based on the principles of social, environmental and economic sustainability, in which generated profit is entirely or largely reinvested for the benefit of the community.”*

The above (draft) Strategy also lays out a set of criteria that organisations must comply with in order to be registered (and thus officially recognised) as social enterprises. These criteria are largely in line with the definition of social enterprise set out in the European Commission’s 2011 communication on Social Business Initiative.

### Policy and legal framework

At the time of writing this Report, the *Draft Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020* was undergoing final public consultations before its official adoption. The overall objectives of the (draft) Strategy are:

- To establish and improve the legislative and institutional framework for the development of social entrepreneurship;
- To establish a financial framework for social entrepreneurship;
- To promote the importance of and the role of social entrepreneurship through formal and informal forms of education;
- To ensure the visibility of the role and possibilities of social entrepreneurship in Croatia and provide information to the general public.

There is currently no specific law defining or regulating social enterprise in Croatia. Social enterprises can be established using a variety of legal forms, including the newly created social cooperative form. (in March 2011, a new Act on Cooperatives was passed. Article 66 of the Act provides for the legal form of a social cooperative).

### Public support and initiatives

Although governmental bodies such as the Ministry of Labour and Pension System, the Ministry of Entrepreneurship and Crafts, Ministry of Social Policy and Youth, the Government Office for Cooperation with NGOs and the National Foundation For Civil Society Development are involved in the development of a number of policies which include measures to encourage social enterprise, there is currently very little publicly funded (specialist) support available for start-up or established social enterprises.

### Networks and mutual support mechanisms

Social Entrepreneurship Forum (SEFOR) and the Cluster for eco-social innovation and development (CEDRA) are the main networks in the sector.

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<sup>1</sup> The text of the draft Strategy can be Accessed at the following link (in Croatian)  
<http://rasprava.mrms.hr/bill/prijedlog-strategije-razvoja-socijalnogdrustvenog/>

## Marks, labels and certification systems

There are no marks, labels or certification systems.

## Social investment markets

The social investment market is in its infancy. Croatia is currently awaiting the launch of its first Ethical Bank. The proposed Strategy for the Development of Social Entrepreneurship in Republic of Croatia for the period of 2014-2020 envisages the establishment of a guarantee fund for social entrepreneurs.

There is a shortage of funds and resources available for social enterprises, especially for start-ups and investment projects. Since financial institutions do not distinguish social enterprises from traditional businesses, there are no specially designed financial products and services for social enterprises. As such, social enterprises very often depend on grants from government sources or EU programmes.

Further, since most social enterprises come from the traditional non-profit sector (mainly Associations), there is a perceived lack of entrepreneurial capacity, technical and practical skills and market experience which can inhibit social enterprises from attracting investors.

## Spectrum of social enterprise

Social cooperatives under Cooperatives Act (OG 34/11, 125/13) are regarded as the institutional form of social enterprise in Croatia. In addition, there are other entities that broadly fulfil the EU operational criteria. These are most typically hybrid organisations (non-profit organisations with trading arms), associations and foundations with trading activities and some private institutions.

## Scale and characteristics

There are no official estimates of the number of social enterprises. As of 2013, there were 40 self-identified social enterprises in Croatia registered on the SLAP (Association for Creative Development) database. Interviews with Croatian stakeholders undertaken as part of this assignment suggest that the number of social enterprises is likely to be between 40 and 150. Author's own estimates based on proportion of cooperatives, associations, foundations and private institutions likely to meet EU operational definition suggest the range to be between 100 and 200.

## Factors constraining the start-up and development of social enterprise

The main factors constraining the development of social enterprise in Croatia are: (i) the lack of an enabling policy and legislative framework; (ii) lack of visibility and understanding of the concept of social enterprise beyond the stakeholders directly involved in the 'movement'; (iii) and low access to financing. The main internal barriers to growth are: low levels of managerial and business skills among social enterprises including a lack of knowledge to develop sustainable/ scalable business models.

The expected adoption of the Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2014 – 2020 and consequent legal and tax regime developments as well as the rise in public support funded from the EU structural funds are promising developments for the social enterprise 'sector'.

## 1 Definitions and concepts of social enterprise in Croatia

There is currently no formal or official definition of social enterprise in Croatia. Consulted stakeholders noted that there are two different terms used to describe social enterprise in Croatia and not everyone agrees on which of the two terms are better suited for the purpose. One group of stakeholders advocates the adoption of the term “social enterprise” (*socijalno poduzetništvo*); while another group of stakeholders advocates the adoption of the term “societal enterprises” (*društveno poduzetništvo*). Even in the current draft **Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2014 -2020** the terms are used interchangeably (*socijalno/društveno*).

In the framework of drafting the Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020<sup>2</sup>, the following definition of a social enterprise is currently proposed:

*“Social enterprise is a business based on the principles of social, environmental and economic sustainability, in which generated profit is entirely or largely reinvested for the benefit of the community.”<sup>3</sup>*

The above (draft) Strategy also lays out a set of criteria that organisations must comply with in order to be registered (and thus officially recognised ) as social enterprises (see box below). The registration will be renewed every three years<sup>4</sup>.

### Proposed criteria for defining social enterprises in Croatia in the Draft Strategy (2014 – 2020)

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

When asked about the three dimensions normally ascribed to social enterprises (entrepreneurial dimension, social dimension and governance dimension) the stakeholders were united in their views regarding what constitutes the social and entrepreneurial

<sup>2</sup> The text of the draft Strategy can be Accessed at the following link (in Croatian) <http://rasprava.mrms.hr/bill/prijedlog-strategije-razvoja-socijalnogdruštenog/>

<sup>3</sup> Draft Strategy, 2014

<sup>4</sup> Draft Strategy, 2014

dimension of social enterprises. The National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012 - 2016) notes that the predominant understanding of social enterprise in Croatia is that it solves social problems by applying entrepreneurial methods, takes into account sustainable development and uses democratic system of decision making (with solidarity and mutual assistance).

Stakeholders' views however, differed regarding the governance dimension. Some stakeholders advocated a more flexible understanding of the governance dimension (i.e. governance systems based on principles of transparency and accountability). In their opinion a stricter definition would exclude many potential enterprises which successfully tackle societal problems, but do not necessary involve stakeholders in their decision making process.

However, other stakeholders believed the governance principle should be "strictly imposed" (i.e. democratic decision making process). They believe it is necessary to make the governance dimension as "precise and strict as possible" to avoid the potential for fraud especially for the economies in transition.

## 2 The ecosystem for social enterprise in Croatia

### 2.1 The policy and legal framework for social enterprise

#### Policy framework for social enterprise

The Government Office for Cooperation with NGOs and the National Foundation for Civil Society Development are bodies which recognised the potential of and development possibilities for social entrepreneurship/ social enterprise in their strategic documents and programmes of cooperation with civil society organisations back in 2009<sup>5</sup>.

For instance, in the National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012 – 2016), social innovation by developing social entrepreneurship/ social enterprise was indicated as one of the ways in which civil society organisations (CSOs) can contribute to social and economic development.

A working group for development of the Strategy for Social Entrepreneurship Development 2014 – 2020 was established by the Government of Croatia on 25 April 2013. The working group consists of 42 members including ministries, government agencies and stakeholders from non-government sector. The primary goal of the Working Group is to create a strategic document; to develop an action plan for the implementation of the Strategy; and to monitor the implementation and revise the Strategy after 2020. At the time of writing this Report, the *Draft Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020*<sup>6</sup> was undergoing final public consultations before its official adoption. The responsible ministry for the Strategy is the Ministry of Labor and Pension System.

The draft Strategy sets out four specific objectives:

- To establish and improve the legislative and institutional framework for the development of social entrepreneurship;
- To establish a financial framework for social entrepreneurship;
- To promote the importance of and the role of social entrepreneurship through formal and informal forms of education;
- To ensure the visibility of the role and possibilities of social entrepreneurship in Croatia and provide information to the general public.

#### Legal framework

In Croatia, there is currently no specific law defining or regulating social enterprise. However, in March 2011, a new Act on Cooperatives was passed. Article 66 of the Act provides for the legal form of a social cooperative. According to the Act:

*“A Social cooperative is a cooperative established with the purposes of providing:*

- *assistance in meeting basic needs of the socially disadvantaged, disabled and other natural persons which they cannot otherwise meet on their own or with an assistance of other family members due to adverse personal, economic, social circumstances;*
- *work and economic integration for persons with reduced work capacity and other natural persons who lack resources for meeting basic needs, and are therefore unable to meet those needs by themselves, their work, non-labour income or any other sources.*

*Members of a social cooperative may be users or providers of services or workers of the cooperative.”*

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<sup>5</sup> National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012 – 2016)

<sup>6</sup> The text of the draft strategy can be Accessed at the following link (in Croatian)  
<http://rasprava.mrms.hr/bill/prijedlog-strategije-razvoja-socijalnogdrustvenog/>

Social enterprises are directly or indirectly referenced in many acts. For instance, acts covering social enterprise are: Law on Institutions<sup>7</sup>, Act on Cooperatives<sup>8</sup>, Act on Associations<sup>9</sup>, Act on Foundations<sup>10</sup>, Company Act<sup>11</sup>, Act on Vocational Rehabilitation and Employment of Disabled Persons<sup>12</sup>, Act on Public Procurement<sup>13</sup> and the Act on the Promotion of Small Business Development<sup>14</sup>.

## 2.2 Public support schemes targeting social enterprises

The current absence of public support schemes targeting social enterprises in Croatia is partly a reflection of the lack of a policy and legal framework for social enterprise. However, several activities linked to social enterprise have been financed or supported by the Government through partnerships with CSOs, EU programmes or other national support schemes for entrepreneurship and cooperatives.

The following main schemes have been identified through desk research and stakeholder interviews (this should be seen as a non-exhaustive list):

- IPA funding (Instrument for Pre-Accession Assistance) – available to Croatia since 2008-provided start-up capital for some of the well-known social enterprises initiated by CSOs. The programme funded projects on topics such as “innovative social service delivery”, “sustainable growth” and “minority integration”<sup>15</sup>. The Government Office for Cooperation with NGOs acted as Project Implementation Unit (PIU) within the framework of pre-accession assistance of the EU to the civil society sector.
- In recent years, many conferences, round tables and panel discussions have been organised on the topics of social enterprise and social entrepreneurship. Several studies and books have also been published, and information tools created (e.g. [www.pomakonline.com](http://www.pomakonline.com)). Many of these dissemination activities have been organised with the financial support of IPA.
- The Ministry of Economy, Labour and Entrepreneurship<sup>16</sup> distributed around 330,000 EUR to associations providing services for initial investments, business support services and consulting in 2010. Associations developing into social enterprises received around 130,000 EUR.
- The “Promemorija” programme was also designed by the Ministry of Economy, Labour and Entrepreneurship to support the development of social enterprise. Around 200,000 EUR were invested in the programme to train people starting out as entrepreneurs and to promote entrepreneurship among vulnerable groups.
- Activities financed through programmes of the Ministry of Entrepreneurship and Crafts:
  - In 2012, one call for proposal was issued to support the development of cooperatives in the framework of ‘Business Pulse’ – an action plan to support entrepreneurship in Croatia (2012-2014);
  - In 2014, a subsequent call for proposal was launched to support the development of cooperatives in Croatia. Between 2,600 EUR and 26,000 EUR per cooperative have been made available (in total 330,000 EUR). Implementation is being undertaken by HAMAG invest.

<sup>7</sup> Institutions are defined as non-profit and are allowed to perform economic activities. Official Gazette, 76/93, 29/97, 47/99, 35/08

<sup>8</sup> Official Gazette 36/95, OG 67/01 and 12/02, NN 34/11, 125/13

<sup>9</sup> Official Gazette 70/97, 106/97, OG 88/01, 11/02

<sup>10</sup> Official Gazette 36/95, OG 64/01

<sup>11</sup> Official Gazette 152/11, No. 111/12

<sup>12</sup> Official Gazette 143/02, OG 33/05, NN 157/13

<sup>13</sup> Official Gazette 90/11, OG 83/13, Official Gazette 143/13

<sup>14</sup> Official Gazette 29/02, 63/07, OG 53/12, NN 56/13

<sup>15</sup> Web site of the Office for Cooperation with the NGOs accessed at <http://www.uzuvrh.hr/page.aspx?pageID=71>

<sup>16</sup> “It is high time for a development strategy for social entrepreneurship” 2011 <http://www.pomakonline.com/content/view/737/125/>

- Annual assignment of Awards for Social Entrepreneurship jointly organised by the Association for Creative Development SLAP (Waterfall), the Ministry of Labour and Pension System and SEFOR<sup>17</sup>;

Three categories of awards are given: the award for best socio-entrepreneurial venture, best social entrepreneurial idea and the award for promoting social entrepreneurship. The awards were previously assigned in 2011 and 2012<sup>18</sup>;

- Activities in 2011 for CSOs on the topic of entrepreneurship activities for associations and social enterprises, jointly organised by the National Foundation, the British Council office in Croatia, Government Office for Cooperation with NGOs and the Ministry of Economy, Labour and Entrepreneurship<sup>19</sup>;
- Social entrepreneurship is the subject of lectures at the faculty of Economics in Zagreb and Osijek<sup>20</sup>. Furthermore, school cooperatives (učeničke zadruge) are specifically mentioned to serve as a »boost to social entrepreneurship development« in Croatian strategic documents (draft Strategy on Social entrepreneurship and National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012 – 2016)). Those cooperatives exist in primary and secondary schools and in child and youth care institutions. There are currently more than 300 school cooperatives in Croatia.
- Small grants are sometimes available from local governments. For instance, one interviewee noted that the city of Osijek offered grants between 2,000 to 3,000 EUR for social enterprises. Other local governments fund social enterprises indirectly through funding of projects tackling social causes and helping disadvantaged groups.

Aside from above, 350 million EUR is expected to be available through the ESF operational programme (2014-2020) for social enterprises through 20 grant schemes managed by the Ministry of Labour and Pension Fund as the main intermediary body<sup>21</sup>.

Table 2.1 provides an overview of the typology of publicly funded support currently available to social enterprises.

**Table 2.1 Overview of publicly funded schemes specifically designed for or targeting social enterprises**

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Awareness raising (e.g. award schemes, communication, advocacy )	✓	✓
Social entrepreneurship education (e.g. academic courses)	✓	X
Pre-start / start-up support e.g. <ul style="list-style-type: none"> <li>▪ Business support e.g. mentoring, consultancy, coaching etc.</li> <li>▪ Grants</li> <li>▪ Infrastructure e.g. incubators</li> </ul>	✓	X
Grants and business support for established enterprises (e.g. business planning, management skills, marketing, training and coaching etc.)	✓	X
Investment readiness support	X	X

<sup>17</sup> Peer Review on social entrepreneurship, Croatia (2013)

<sup>18</sup> Ibidem

<sup>19</sup> Zbornik tekstova o društvenom poduzetništvu, Zagreb (2012)

<sup>20</sup> Ibidem

<sup>21</sup> Ibidem

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Dedicated financial instruments (e.g. loans, guarantee schemes, social impact bonds etc.)	X	X
Physical infrastructure (e.g. shared working space)	X	X
Collaborations and access to markets	X	X
Networking, knowledge sharing and mutual learning initiatives	✓ (SEFOR, CEDRA)	✓ (IPA)

### 2.3 Other specialist support and infrastructure available to social enterprises

Despite a tradition of cooperatives and other forms of socially oriented businesses from 19<sup>th</sup> century and early 20<sup>th</sup> century (i.e. companies for the disabled during the Yugoslav period) the first ‘social enterprises’ in Croatia started in 2008 when an EU-funded programme was launched. Since then, civil society initiatives are the driving force behind the development of the sector and as such currently offer the bulk of support to social enterprises.

The Forum of Social Entrepreneurs (SEFOR) has played an important role in initiating and supporting the Draft Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020 and in developing current supporting environment for social enterprise.

Together with partner organisations, SEFOR was initiated by the Association for Creative Development SLAP (Waterfall), one of the pioneers in the field of social enterprise in Croatia<sup>22</sup>. SEFOR was launched in 2011 and was funded by the IPA Component IV– Human Capacity Development<sup>23</sup>.

SEFOR established a national network of support centres for social development and social enterprise called CEDRA (Centre for Eco-social Development). CEDRA’s national office is based in Zagreb and it has five regional support centres (located in the cities of Osijek, Split, Rijeka, Čakovec and Dubrovnik). The centres provide systematic support through education, counselling and informing social enterprises in all aspects of their business<sup>24</sup>.

Given the insufficient level of development of knowledge and skills in the areas of management, financing and promoting socio-entrepreneurial activities of CSOs, CEDRA centres play a significant role in the development of social enterprise in Croatia.

CEDRA centres have 40 or so consultants (including law, finance and marketing consultants) to provide information and advice to social enterprises. Most often the consultancy services are offered free of charge to social enterprises.

The CEDRA cluster also offers workshops and trainings. The topics include: introduction to social entrepreneurship, business models, cooperatives, legal frameworks, policy development and campaigns. During the last two years, 20 different workshops and trainings with more than 500 participant organisations have been organised.

CEDRA is currently partly financed through grants available from the Ministry of Entrepreneurship and Crafts and the city of Split. However, the initiative was born from the private money and loans. At this moment, the cluster has limited resources, and operates on 30 pro-bono consultants across Croatia. In the future, CEDRA hopes that ESF funds will enable them to widen their network across Croatia<sup>25</sup>.

In addition, a major contribution to the understanding of “social entrepreneurship” in Croatia came from the British Council through the training programmes for social entrepreneurs titled

<sup>22</sup> Peer Review on social entrepreneurship, Croatia (2013)

<sup>23</sup> NESst. “An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012)

<sup>24</sup> Draft Strategy (2014)

<sup>25</sup> Interviewees with CEDRA and SLAP representatives.

"Skills for Social Entrepreneurs". The programmes were funded under the Leonardo da Vinci programme. The Council also helped to form a pool of trainers that are now part of the Social Entrepreneurship Forum (SEFOR) network<sup>26</sup>.

Since 2005, NESsT<sup>27</sup> has been operating in Croatia. NESsT is an international non-profit organisation developing sustainable social enterprises that solve critical social problems in emerging market economies. NESsT was the first support organisation to start a comprehensive social enterprise support programme in Croatia.

Currently, NESsT provides start-up support for "social entrepreneurs" in three phases<sup>28</sup>:

- *Planning phase*: feasibility study and development/write up of a business plan. Since 2005, three social enterprise competitions were held in Croatia: 61 organisations applied, and 32 of these entered the planning portfolio;
- *Incubation phase*: five organisations were invited into the incubation portfolio. This phase includes tailored training, one to one consulting on marketing, sales, human resources and financial support. The incubation phase lasts several years and has yearly assessment of the business development<sup>29</sup>;
- *Scaling phase*: increasing the social impact of the enterprise.

The current programme in Croatia is run in cooperation with Zagrebačka Banka and UNICREDIT foundation. Around 750,000 EUR was available for incubation of five projects. NESsT currently incubates one social enterprise (Roda)<sup>30</sup>.



RODA – Roditelji u akciji (Parents in action) is a social enterprise incubated by NESsT since 2007.

RODA produces and sells eco-friendly and user-friendly cloth diapers and accessories, offering client's health, environmental, and social value as

part of a high quality childcare product. RODA's cloth diapers are sewn in workshops in the city of Varaždin which employs persons with disabilities.

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

Table 2.2 below provides a snapshot of the main actors providing support to social entrepreneurs/ social enterprises.

**Table 2.2 Main actors providing support to social enterprises and social entrepreneurs in Croatia**

Name of the organisation	Description
SLAP	<ul style="list-style-type: none"> <li>▪ Organization promoting social economy and social entrepreneurship. NGO, started first education activities on social entrepreneurship in 2001.</li> <li>▪ Technical assistance and mentoring to NGOs and cooperatives who are interested in transforming themselves into social enterprises. Helping with project proposals, securing funds and market access.</li> <li>▪ Owner of marketing agency and other social enterprises (organic producers and farmers, associations of crafts, network of resource centre to provide</li> </ul>

<sup>26</sup> NESst. "An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012)

<sup>27</sup> NESst is an international non-profit organisation that has been giving financial and skills development support to social enterprises in 10 countries in Central and Eastern Europe and Latin America for 15 years.

<sup>28</sup> NESst. "An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012)

<sup>29</sup> See the description of the projects on the NESsT web site <http://www.nesst.org/?portfolio=roda-roditelji-u-akciji>

<sup>30</sup> Interview with NESsT representative in Croatia.

Name of the organisation	Description
	<ul style="list-style-type: none"> <li>supporting structure for social enterprises ACT Čakovec, CEDRA)</li> <li>Pomakonline – online magazine for social development (<a href="http://www.pomakonline.com">www.pomakonline.com</a>)</li> <li>Is developing the first database of social enterprises in Croatia (currently 40 enterprises filled in the questionnaire and fulfilled the criteria)</li> <li>Pilot project in cooperation with UNICREDIT foundation: providing microcredit of up to 10,000 EUR to around 25 social enterprises with no need for collateral.</li> <li>Main partner of SEFOR.</li> </ul>
SEFOR	<ul style="list-style-type: none"> <li>Promotion of social entrepreneurship through networking, advocacy and capacity building.</li> <li>Informal network of around 30 organisation and individuals from private, public and non-profit sector established in 2009.</li> <li>Received first ever Croatian award for social entrepreneurship</li> </ul>
CEDRA	<ul style="list-style-type: none"> <li>Consulting, education activities, networking</li> <li>Pilot microfinance projects in cooperation with UNICREDIT foundation.</li> <li>CEDRA Split – initiating an incubator for social entrepreneurs in the Summer 2014 (500 m office space for 10 – 15 social enterprises)</li> </ul>
ACT Čakovec	<ul style="list-style-type: none"> <li>Local association of social entrepreneurship actors.</li> <li>Organisation of conferences on social entrepreneurship, for instance “Where are We Today with Social Entrepreneurship?”</li> <li>Autonomous Center – Act: social entrepreneurship incubator (three projects implemented in 2013)</li> <li>Advocacy/public policy making</li> </ul>
HUB Zagreb	<ul style="list-style-type: none"> <li>Incubator for social entrepreneurs (started in April 2014)</li> <li>Investment Ready Programme (in organisation with Impact Hub Vienna)</li> <li>Coworking space</li> <li>Social Impact Award for student since 2014 <sup>31</sup></li> </ul>
NESsT	<ul style="list-style-type: none"> <li>Start-up support from planning, incubation to scaling-up phase</li> <li>Currently incubating one social enterprise in Croatia (Roda)</li> </ul>
The British Council	<ul style="list-style-type: none"> <li>“Skills for Social Entrepreneurs”, Leonardo da Vinci programmes</li> <li>Cooperation</li> <li>Capacity building of Croatian networks/support centres for social entrepreneurs</li> </ul>
Zagreb School of Economics and Management	<ul style="list-style-type: none"> <li>Offering social enterprise and social innovation courses;</li> <li>Start-up Weekend Zagreb 2012, the entrepreneurial ideas of CSOs won the first and second prize <sup>32</sup></li> </ul>
Faculty of Economics in Osijek	<ul style="list-style-type: none"> <li>Provides education on social entrepreneurship through courses <i>Entrepreneurship and Entrepreneurship in Non Profit Sector</i> as well as through <i>projects Contribution to Community</i> and a Voluntary Program.</li> </ul>
University of Applied Science Vern	<ul style="list-style-type: none"> <li>Offering social enterprise and social innovation courses (60 hours).</li> </ul>

## 2.4 Networks and mutual support mechanisms

As already noted in section 2.3 of this Report, the Social Entrepreneurship Forum (SEFOR) and CEDRA (Cluster for eco-social innovation and development) have played an important role in supporting the development of social enterprise in Croatia.

Apart from the activities already mentioned (trainings, networking, consulting), these two organisations also act as the main advocacy bodies for social enterprises and social entrepreneurs. SEFOR was involved in initiating and supporting the current draft Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014

<sup>31</sup> For more information see <http://hr.socialimpactaward.org/>

<sup>32</sup> National Foundation for Civil Society development. Annual Report 2012

– 2020. CEDRA’s regional centers work together with local governments to enable access and better cooperation for social enterprises and social entrepreneurs.

## 2.5 Marks, labels and certification systems

There are currently no marks, labels or certification systems identifying social enterprises in Croatia.

## 2.6 Social investment markets

The social investment market in Croatia is virtually non-existent, but slowly emerging. Traditionally, organisations have been mainly dependent on donor, EU and government funding for external finance. Financial products tailored for social enterprises are almost non-existent.

However, the first national Strategy for the Development of Social Entrepreneurship in the Republic of Croatia envisages the creation of a guarantee fund for social entrepreneurs to be managed by the Croatian Bank for Reconstruction and Development (HBOR).

In addition, Croatia is awaiting its first ethical bank to open in 2014.

Currently, there is a clear understanding among public and private stakeholders of the acute need for establishment of the appropriate financial mechanisms to support the development of social enterprise in Croatia.

### 2.6.1 The supply of finance

In the past, the financing of social enterprise activities within CSOs largely depended on donors. During the early 90s, the CSOs promoted the values of social enterprise - because of the war and high levels of unemployment, many people remained on the margins of society. Their activities were financed by international governmental assistance programmes like USAID, SIDA (Sweden), MANTRA (Netherlands) and various donor organisations such as the Open Society Institute (Soros Foundation)<sup>33</sup>.

Since 2007, Croatia was using IPA programme (Instrument for Pre-Accession Assistance) for financing projects relating to employment and social inclusion, implemented within the IV<sup>th</sup> IPA component – Human Resources Development<sup>34</sup>.

During this period, a number of grant beneficiaries used IPA funding to promote or start-up a social enterprise. One of the most important projects funded through IPA was SEFOR.

Table 2.3 Summarises the EU funding provided to Croatian Civil Society between 2003 to 2010.

**Table 2.3 EU Funding to Croatian Civil Society, 2003 - 2010**

EU Programme	Number of projects supported	EU contribution in EUR
CARDS (2003, 2004)	2	24,773
PHARE (2005, 2006)	37	2,971,134
EIDHR (2007, 2008, 2009)	29	2,9898,829
IPA (2008, 2010)	13	672,729
<b>TOTAL</b>		<b>6,658,464</b>

Source: NESst. “An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012), p.20

Some microloans with no guarantee were provided by SLAP in cooperation with UNICREDIT foundation. Up to 10,000 EUR was made available to 25 social enterprises.

<sup>33</sup> Draft Strategy (2014)

<sup>34</sup> Peer Review on social entrepreneurship, Croatia (2013)

UNICREDIT foundation and Zagrebačka Banka have also provided financial support through NESsT. Around 750,000 EUR was allocated for the incubation of five projects.

According to the National Strategy for the Development of Civil Society Organisations (2012-2016), the Government Office for Cooperation with NGOs together with the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Health and Social Welfare as well as few commercial banks, and the National Foundation for Civil Society Development launched an initiative in 2009 to establish a Social Entrepreneurship Development Fund. However, due to insufficient funds, the initiative was not rolled out.

Stakeholders noted that there is a general misunderstanding of what social enterprises are, in the banking sector. It results in a very low approval rate for loans applied by CSOs which are the main drivers of new businesses based on social enterprise principles. Stakeholders reported that many banks do not even recognise CSOs as potential loan receivers.

A particular problem is caused by high requirements of guarantees and collaterals by banks. To remove this obstacle, the draft Strategy envisages the establishment of a guarantee fund to reduce the risk for investors and to enable social enterprises easier access to financial markets<sup>35</sup>.

Financial institutions involved in the working group for the development of the Strategy for Social Entrepreneurship Development (2014-2020) are reportedly also interested in the development of specialist financial instruments and a supporting environment for social enterprises notably the Croatian Banking Association, Association of Credit Unions and the Croatian Bank for Reconstruction and Development (HBOR)<sup>36</sup>

Croatia is currently awaiting the launch of its first Ethical Bank, which started as a private initiative – see box below.



Ebank is a democratically run social enterprise designed to provide the best possible banking services to its clients, while actively promoting sustainable economic development for the communities in which it is operating.

It is a bank which will be serving social enterprises and other unserved individuals in Croatia.

Current timeline for the establishment of the EBank: on 22<sup>nd</sup> of April 2014, the cooperative funding the eBank was established. In May 2014, the cooperative joined the European Federation of Ethical and Alternative Banks (FEBEA). The bank is expected to start its operations in the first quadrimester of 2015, after obtaining a banking license.

8 million EUR raised from more than 200 different Croatian stakeholders form the required initial capital for establishment of the bank. The founders are mainly share cooperatives, but also local authorities (municipalities), public service offices (i.e. waste management), individuals and small companies and individual farmers. To achieve its goals, the bank will seek additional 25 million EUR of initial capital and 20 million EUR of start-up investment capital.

Planned financial products that will eventually be offered to the members of Ebank:

- Financial instruments for social enterprises: bridge loans, microcredit for social innovation start-up businesses, credit);
- Financial instruments for individuals: on a longer run bank card support and credit compatible with e-banking (will not offer un-purposed consumer credit).

By 2020, Ebank is aiming for 400,000 Croatian customers, managing a portfolio of 1 billion EUR with at least 8 bank partners in other countries.

Initiatives of corporate social responsibility are also present. For instance, the establishment of the Adris Corporate Foundation to promote and encourage innovation and quality in

<sup>35</sup> Draft Strategy (2014)

<sup>36</sup> Peer Review on social entrepreneurship, Croatia (2013)

scientific and artistic work through support to gifted students and young scientists<sup>37</sup>. However, as argued by NESsT<sup>38</sup>, despite the fact that the number of companies establishing their own corporate foundations is growing, they tend to fund short term crisis response rather than long term strategic impact initiatives.

### 2.6.2 The demand for finance

Existing social enterprises were mainly started by CSOs. As a result, many stakeholders noted that these enterprises lack business knowledge and skills. They often fail to present themselves as attractive loan candidates.

In addition, stakeholders indicated that many of the current social enterprises have not proven their business model, are struggling with sales and have not yet reached break-even point. Stakeholders also noted that currently there are not many investment ready social enterprises in Croatia.

Therefore, the demand for finance very often consists of traditional CSO ways of financing through government or EU project funding<sup>39</sup>.

### 2.6.3 Market gaps/ deficiencies

According to various stakeholders interviewed, CSOs (seen as the main potential future 'source' of social enterprises) have grown accustomed to project based financing and do not always know how to transform their 'business models' to more entrepreneurial and sustainable modes of operation.

At the same time, traditional donors (government, EU and private donors – companies) are currently not offering long term strategic financing.

The development of new social enterprise friendly financial products will need to be coupled with capacity building for the financial institutions as well as social enterprises.

## 2.7 Overview of the key actors in the social enterprise ecosystem

The table below provides a snapshot of the main actors involved in the social enterprise ecosystem. This should, however, not be seen as an exhaustive list.

**Table 2.4 Key actors in the social enterprise ecosystem in Croatia**

**Policy makers** - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures - **Working group for development of the Strategy for Social Entrepreneurship Development**

- Ministry of Labor and Pension System
- Ministry of Entrepreneurship and Crafts
- Ministry of Social Policy and Youth
- Office for Cooperation with NGO
- National Foundation for Civil Society Development

**Customers – authorities contracting social enterprises**

No information available

**Organisations promoting, certifying and awarding social enterprises labels**

- These do not exist

**Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models**

- SEFOR – Social Entrepreneurship Forum;
- SLAP – Association for Creative Development;

<sup>37</sup> NESst. "An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012)

<sup>38</sup> Ibidem

<sup>39</sup> Peer Review on social entrepreneurship, Croatia (2013)

- CEDRA – Cluster for eco-social innovation and development;

#### Organisations that have the capacity to act as an observatory and to monitor the development and the assess needs and opportunities of social entrepreneurs/social enterprises

- NESsT
- CEDRA – Cluster for eco-social innovation and development and regional centres;
- SLAP – Association for Creative Development;

#### Providers of social enterprise start up and development support services and facilities (such as incubators)

- NESsT
- CEDRA Split (in summer 2014);
- HUB Zagreb (in April 2014)

#### Business support providers

- NESsT
- CEDRA – Cluster for eco-social innovation and development and regional centres;
- SLAP – Association for Creative Development;
- ACT Čakovec;

#### Facilitators of learning and exchange platforms for social enterprises

- SEFOR – Social Entrepreneurship Forum;
- HUB Zagreb;
- CEDRA – Cluster for eco-social innovation and development and regional centres;

#### Social enterprise (support) networks, associations

- SEFOR – Social Entrepreneurship Forum;
- CEDRA – Cluster for eco-social innovation and development;
- Croatian Association of Cooperatives;

#### Key providers of finance

- UNICREDIT foundation;
- Zagrebačka banka (through cooperation with NESsT)
- Expected providers of financing within the Draft Strategy: Croatian Bank for Reconstruction and Development (HBOR) and HAMAG Invest
- Expected provider of financing in the future eBank
- NOA, credit union

#### Research institutions

- Faculty of Economics Osijek;
  - University of Applied Science Vrn;
  - Zagreb School of Economics and Management.
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## 3 Mapping of social enterprise in Croatia

### 3.1 The spectrum of social enterprises in Croatia

Task 1 of the present assignment produced an EU operational definition of social enterprise, comprising a number of 'core' and 'mapping' criteria. Taking into account the common understandings and stakeholder positions outlined in section 1, the following section seeks to apply the operational definition to move to an understanding of the spectrum of organisations and enterprises within Croatia that might be classified as 'social enterprises' as per the EU-SBI definition.

Drawing on EU operational definition, current spectrum of social enterprises in Croatia is rather limited and includes:

- CSOs undertaking entrepreneurial activities;
- Companies and cooperatives founded by CSOs; and
- Cooperatives.

The first 'wave' of social enterprises in Croatia were established by CSOs. In some cases, CSOs established a separate legal entity, a cooperative or a company, which returns its profit to the founding CSO. However, some CSOs organised social enterprise initiatives within the organisation's own work<sup>40</sup>.

In addition, Croatia has a rich tradition of cooperatives. Many of which are farmers cooperatives operating in the agricultural sector (around 41 per cent of them)<sup>41</sup>, which according to the consulted stakeholders do not fit within the operational definition as they serve the interest of their members.

### 3.2 Application of operational definition: determining the boundaries

The application of the operational definition to the identified spectrum of social enterprises is summarised in Table 3.1.

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<sup>40</sup> National Strategy for the Creation of an Enabling Environment for Civil Society Development (2012 – 2016), p.51

<sup>41</sup> <http://www.zadruga.hr/images/stories/ZadugarstvoSocEkonom.pdf>

**Table 3.1 Application of operational definition to the identified spectrum of social enterprises in Croatia**

Dimension	Criterion	CSOs (Associations; foundations; institutions) <sup>42</sup>	Companies founded by CSOs <sup>43</sup>	Cooperatives <sup>44</sup>
Entrepreneurial	Engagement in economic activity, i.e. must generate income from market sources	<p>Some fulfil the criteria</p> <p>An association may engage in revenue generating activity in accordance with the law and with the aim of obtaining financial resources for the achievement of sustainability<sup>45</sup>. Foundations and institutions are also allowed to perform economic activities.</p> <p>National Foundation for Civil Society Development assessed that 34.8 percent of CSOs generated some level of income from self-financing activities in 2010. 21.9 per cent of NGOs said that self-financing is their main source of funding.<sup>46</sup></p>	Companies founded by CSOs fulfil this criterion	Cooperatives may engage in any permitted business activity. The business activity of the co-operative is specified in the Cooperative Rules
Social	An explicit and primary social aim	<p>Some fulfil this criterion</p> <p>An association is a voluntarily established organisation formed and operated to advance purposes stated in its founding charter (also called a constitution or statute) without the intention of gaining</p>	Companies founded by CSOs fulfil this criterion. These organisations include sheltered workshops and work centres <sup>47</sup> , i.e. institutions or companies that have at least 51 per cent of the employees who are persons with disabilities.	<p>Some fulfil this criterion</p> <p>Specially defined social cooperatives<sup>48</sup> - established to provide assistance and work integration to satisfy basic needs of socially disadvantaged, disabled and other vulnerable groups.</p> <p>However, 41 per cent of the cooperatives</p>

<sup>42</sup> Act on Associations (Official Gazette 70/97, OG 106/97, 88/01, 11/02)

<sup>43</sup> Sheltered workshop and work centers based on Law on Vocational Rehabilitation and Employment of Disabled Persons (Official Gazette 143/02 and 33/05)

<sup>44</sup> Act on Cooperatives (Official Gazette 36/95, OG 67/01 and 12/02, NN 34/11, 125/13)

<sup>45</sup> Zbornik tekstova o društvenom poduzetništvu, Zagreb (2012)

<sup>46</sup> Assessment of the State of Civil Society Organizations' Development in the Republic of Croatia in 2011. Research Report, National Foundation for Civil Society Development, March 2012, Accessed at [http://zaklada.civilnodrustvo.hr/upload/File/hr/izdavastvo/digitalna\\_zbirka/procjena\\_stanja\\_2011.pdf](http://zaklada.civilnodrustvo.hr/upload/File/hr/izdavastvo/digitalna_zbirka/procjena_stanja_2011.pdf)

<sup>47</sup> Law on Vocational Rehabilitation and Employment of Disabled Persons (Official Gazette 143/02 and 33/05)

<sup>48</sup> Article 66, Act on Cooperatives

Dimension	Criterion	CSOs (Associations; foundations; institutions) <sup>42</sup>	Companies founded by CSOs <sup>43</sup>	Cooperatives <sup>44</sup>
		profit. An association, unlike a foundation or a fund, is not restricted to generally beneficial or charitable purposes.		are operating in agricultural sector. Those cannot be regarded as pursuing a social aim
Governance	Limits on distribution of profits and/ or assets	Associations, foundations and institutions fulfil this criterion  Non for profit organizations.	Companies founded by CSOs fulfil this criterion  Reinvestment into new projects which can provide sustainability of the CSOs.	Not all cooperatives fulfill this criterion  Cooperative businesses may retain their earnings, or distribute part or all of them as dividends to their members. Usually, co-operatives distribute their dividends in proportion to their members' activity, instead of the value of members' shareholding. Consumers' cooperatives allocate dividends according to their members' trade with the co-op.  The new Co-operative Act suggests that such distribution should depend on the economic contribution of each of its members in the creation of the total profit.
	Independence – organisational autonomy	The ultimate control of the Association rests with its members. as such, associations are autonomous entities. Institutions may be private or publicly-owned. The bodies and members of foundations are assigned by the Ministry of Public Administration.	The responsibility for the administration and management of the company is delegated to the directors by the shareholders.	Independence - Cooperatives are voluntary, open, independent organizations.
	Inclusive governance - participatory and/ or democratic decision making	Association must be based on the principles of democratic representation <sup>49</sup> . However, based on the conducted interviewees not all organizations work on	May not meet the eligibility criteria  Fully owned subsidiaries of CSOs	Participatory governance – cooperatives are characterized by democratic decision making. However, most often do not

<sup>49</sup> Article 6, paragraph 3, Act on Associations

Dimension	Criterion	CSOs (Associations; foundations; institutions) <sup>42</sup>	Companies founded by CSOs <sup>43</sup>	Cooperatives <sup>44</sup>
		the principle of participatory governance (including members of the community, employers and other stakeholders in the decision-making process). For institutions, the principle of inclusive governance is not prescribed by law. Direct users of the foundation's resources are excluded from the governance of the foundation <sup>50</sup> .	Participatory governance is encouraged but in practice rare.	include other stakeholders.

<sup>50</sup> Vidović, D., 2013. Social entrepreneurship in Croatia: a framework for development, [http://www.euricse.eu/sites/euricse.eu/files/db\\_uploads/documents/1387198307\\_n2451.pdf](http://www.euricse.eu/sites/euricse.eu/files/db_uploads/documents/1387198307_n2451.pdf)

### 3.3 Measurement of social enterprises

Since the institutional recognition of social enterprises is not sufficiently elaborated in Croatia, it is in practice, almost impossible to measure the number of such entities<sup>51</sup>.

However, consulted stakeholders were asked to provide estimates on the number of currently existing enterprises falling within the spectrum (section 4.2).

Most of the stakeholders estimate there are currently around 100 social enterprises in Croatia. Around 40 social enterprises are recorded in the recent database initiated by SLAP. The highest stakeholder estimate was 150 social enterprises.

As already noted, most of the current social enterprises operate within CSOs (the most common legal form of CSOs is association) or as cooperatives.

Table 3.2 provides indicative estimates of the potential size of the social enterprise sector in Croatia as determined by the application of the EU operational definition. In view of substantial uncertainty on data and assumptions these should be treated as range estimates and interpreted cautiously.

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<sup>51</sup> Draft Strategy (2014)

**Table 3.2** Number of registered associations and cooperatives in Croatia and estimated number of social enterprises

Type	Total number (registered)	% estimated to meet EU operational definition - lower bound	Number of SEs - upper bound estimate	% estimated to meet EU operational definition - upper bound	Number of SEs - upper bound estimate	Key notes and assumptions
Associations (2012) <sup>52,53</sup>	<b>&gt; 46,000</b>					34% generate some form of self-financing but this does not necessarily mean they are entrepreneurial. 5 to 10% may potentially be entrepreneurial. 1,800 associations are oriented towards social purposes; 1,500 operate in the health field and 900 active in humanitarian field. Total = 4,200
of which active in social, health, humanitarian field	<b>4,200</b>	<b>1.0%</b>	42	2.0%	84	
Private institutions (2013)	<b>600</b>	<b>5.0%</b>	30	10.0%	60	
Foundations (2014)	<b>193</b>	<b>5.0%</b>	10	10.0%	19	
Trading arms of non-profits	<b>n/a</b>		10		20	Expert opinion
Cooperatives (2013) <sup>54</sup>	<b>1,331</b>	<b>1.0%</b>	13	2.0%	27	58% do not have a single employee 40% are agricultural
<b>Total:</b>	<b>&gt;48,000</b>		<b>105</b>		<b>210</b>	

*Note: the data should be treated as indicative range estimates only. They are based on indicative (and often subjective) assessment of the share of social enterprises among particular groups of entities and other assumptions. The reference periods for which data are available differ and are not available on a regular basis as time series.*

<sup>52</sup> Law on Associations (Official Gazette 70/97, OG 106/97, 88/01, 11/02)

<sup>53</sup> Number based on 2012, Government Office for Cooperation with NGOs reported in Draft Strategy (2014)

<sup>54</sup> New Act on Cooperatives (Official Gazette 36/11), data from Draft Strategy (2014)

## 3.4 Characteristics of social enterprises

### 3.4.1 Legal forms

Based on the EU operational definition, social enterprises in Croatia can have several different legal forms: associations, institutions, foundations, cooperatives, and companies established by cooperatives<sup>55</sup>. More details on the characteristics of these legal forms can be found in Annex 1.

### 3.4.2 Business models

#### *Sources of income*

According to NESsT<sup>56</sup>, the most common self-financing models of CSOs are: fee for service, product sales, renting of premises and equipment, and membership fees. The share of revenue gathered from market activities ranges from 1-2 per cent to in some cases 30 or 40 per cent. Based on the National Foundation for Civil Society Development research (2010), 34.8 per cent of CSOs generated some level of income from self-financing activities and 21.9 per cent of NGOs said that self-financing is their main source of funding<sup>57</sup>.

However, a big share of their income still comes from government grants and project funds.

#### *Social impact*

The main channel of delivering social impact is the employment of groups at risk of social exclusion. However, social impact is also delivered through the provision of services to vulnerable groups, conservation of natural resources, promoting regional development, community development and reviving resources of the community in which organisations work<sup>58</sup>.

### 3.4.3 Fields of activity

Social enterprises in Croatia currently work in different sectors including: work integration, provision of social services, agriculture (organic food production), tourism, culture, environment and waste treatment, nature conservation and protection of the environment<sup>59</sup>.

### 3.4.4 Target groups

Current social enterprises mainly target marginal groups (young unemployed, people with disabilities, older people and women). In addition, communities and the general public are targeted by some social enterprises such as ecological tourism and nature protection.

## 3.5 Summary of the mapping results

There are some organisations that comply with most of the EU operational criteria and most certainly the de minimis criteria (economic activity and social aim). Stakeholders estimate there are currently around 100 social enterprises in Croatia;

The majority of social enterprises were initiated by CSOs and have the legal form of an association or a cooperative;

The main way of delivering social impact is by employing vulnerable groups (young unemployed, people with disabilities, older people, women etc.);

Social enterprises operate in different sectors such as agriculture, environment and waste treatment, culture and tourism.

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<sup>55</sup> Draft Strategy (2014)

<sup>56</sup> NESst. "An Assessment of Self-Financing and Social Enterprise Among Civil Society Organizations in Croatia – Developments Since 2006 (2012)

<sup>57</sup> Assessment of the State of Civil Society Organizations' Development in the Republic of Croatia in 2011. Research Report, National Foundation for Civil Society Development, (2012)

<sup>58</sup> Draft Strategy (2014)

<sup>59</sup> Draft Strategy (2014)

**Table 3.3 Mapping the universe of social enterprises in Croatia**

		Civil Society Organisations (CSOs)	Companies owned by CSOs	Cooperatives
Entrepreneurial dimension	Engagement in economic activity	Some do	Yes, by definition	Yes
Social dimension	Social aim (public benefit)	Yes	Yes	Some do – a social dimension characterises cooperatives established as social cooperatives
Independence and governance	Distribution of profits and/or assets according to defined rules and procedures	Yes – profit can be used ONLY for reinvesting into activities which are performed in the line with the mission of the TSO	Yes – re-investment into new projects which can provide sustainability of the TSO (taken from the by-laws of several such TSOs)	Yes – a part of the profit is used for building capital strengths of the cooperative, and another part can be distributed to the members of the cooperative, Law on cooperatives, Article 2
	Profit cap - existence of profit cap/ limited profit distribution	Not-for-profit by nature	Yes – defined in by-laws	Level defined in co-operative agreement
	Asset lock - existence of asset lock	Not defined	Not defined	Not defined
	Autonomy - organisational autonomy	Autonomous	Fully-owned subsidiary	Autonomous
	Inclusive governance	Democratic decision making; stakeholder participation encouraged, but not a requirement	stakeholder participation encouraged, but not a requirement	Democratic decision making
<b>Estimated number (2009 unless stated otherwise)</b>		<b>49,004<sup>60</sup></b>	<b>n/a</b>	<b>1,033</b>
<b>Estimated % meeting eligibility criteria (appx)</b>		<b>n/a</b>	<b>100%</b>	<b>1 to 2%</b>
<b>Estimated number meeting eligibility criteria</b>		<b>80 to 160 (see Table 3.2)</b>	<b>10 to 20</b>	<b>13 to 27</b>
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	about 50% generate some income from market sources	100%	Information not available

<sup>60</sup> Number of registered association in 2012, Government Office for Cooperation with NGOs reported in Draft Strategy (2014)

		Civil Society Organisations (CSOs)	Companies owned by CSOs	Cooperatives
	The use of paid workers	Information not available	Yes	Information not available
Social dimension	Fields of activity	social services of general interest	social services of general interest	employment opportunities for members; cooperatives established as social cooperatives provide social services, economic and work integration
	Target groups (customers/ users of goods and services provided)	Information not available	Employment for vulnerable groups	Farmers, war veterans; cooperatives established as social cooperatives target disadvantaged and disabled individuals
Independence and governance	Transparency - a system for measuring and reporting impact	Information not available	Information not available	Information not available
	Legal forms	Associations, foundations, institutions	Limited companies	Cooperatives

### 3.6 Opportunities and barriers

A major issue in developing social enterprise in Croatia is related to the absence of an integrated strategic approach to policy (the strategic document has been in progress for more than two years) and the lack of an appropriate regulatory framework.

Currently, the only strategic framework for social enterprises can be found in the National strategy for establishing a supportive environment for the development of civil society 2006-2011.

Social enterprises are directly or indirectly referenced in many laws (like, Law on associations, Law on cooperatives, Law on foundations, Law on enterprises, Law on credit unions), which produce many ambiguities in interpreting the role and scope of social enterprises in Croatia.

CSOs - the main founders of social enterprises - often lack of managerial skills and financial and legal knowledge.

An additional challenge is the current lack of understanding among government bodies and local (regional) governments of the (growing) entrepreneurial dimension of CSOs and specifically, their role in initiating social enterprise activities.<sup>61</sup>

The table below provides an overview of the main barriers inhibiting the development of social enterprise in Croatia as noted by the interviewed stakeholders and as stated in the Draft Strategy (2014).

**Table 3.4 Barriers for start-up and development of social enterprises in Croatia**

<b>Access to finance</b>
<i>External factors</i>
<ul style="list-style-type: none"> <li>Supply of finance: lack of financial instruments available for potential social entrepreneurs (grants, loans, guarantee funds, foundations etc.)</li> </ul>
<i>Internal factors</i>
<ul style="list-style-type: none"> <li>Low desirability of social enterprises to seek for alternative ways of financing (other than project based financing) due to low business financing skills and lack of collateral.</li> </ul>
<b>Lack of internal skills</b>
<ul style="list-style-type: none"> <li>Lack of professional management structure within social enterprises;</li> <li>Lack of business skills among existing and potential social enterprises;</li> <li>Low involvement in international business and collaborative networks of social enterprises (clusters, knowledge sharing);</li> </ul>
<b>Government policy</b>
<ul style="list-style-type: none"> <li>Lack of strategy for developing social enterprise;</li> </ul>
<b>Legal and tax regime</b>
<ul style="list-style-type: none"> <li>Lack of legal framework and tax incentives;</li> <li>Lack of public procurement system based on social clauses (taking into account positive social, environmental and economic effects);</li> </ul>
<b>Lack of external business support</b>
<ul style="list-style-type: none"> <li>Inadequate network of regional and local centres of support for social entrepreneurs;</li> </ul>
<b>Public awareness on social enterprises</b>
<ul style="list-style-type: none"> <li>Unclear and not united understanding of social enterprise among various stakeholders (i.e.</li> </ul>

<sup>61</sup> Draft Strategy (2014)

<ul style="list-style-type: none"> <li>■ government officials, the public);</li> <li>■ Negative connotation of social enterprise linked to organisational structures under the socialist system of Yugoslavia;</li> <li>■ Lack of visibility of socially and environmentally responsible products and service on the market</li> </ul>
<b>Other</b>
<ul style="list-style-type: none"> <li>■ Lack of resources for start-up of social enterprises (i.e. business premises, land for agricultural products)</li> <li>■ Lack of analysis on potential benefits of social enterprise for sustainable development;</li> <li>■ Lack of linkages between civil society and the business sector;</li> <li>■ Small body of knowledge and educational programs on social enterprise;</li> <li>■ Absence of mechanism for measuring the social impact;</li> <li>■ Weak capacity of stakeholders for including social/environmental criteria in the management process;</li> <li>■ Poorly developed concept of social enterprise in the context of the employment of disadvantaged and marginalised groups (WISE).</li> <li>■</li> </ul>

Strategic positioning of social entrepreneurship at the European level will probably generate growth of the sector in Croatia in the future. Despite multiple barriers a small number of initial enabling factors can be outlined (see Table 3.5 below).

**Table 3.5 Enabling factors for the future growth of social enterprises in Croatia**

<b>Access to finance</b>
<ul style="list-style-type: none"> <li>■ Current Ebank initiative</li> <li>■ Proposed establishment of guarantee fund in the framework of the Draft Strategy</li> </ul>
<b>Internal skills</b>
<ul style="list-style-type: none"> <li>■ Development of civil society sector to provide social services in the communities</li> </ul>
<b>Government policy</b>
<ul style="list-style-type: none"> <li>■ Current Draft Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2014 – 2020 undergoing public consultations;</li> <li>■ Encouraging social-entrepreneurship initiatives by community service organisations (CSOs) through National strategy for establishing a supportive environment for development of civil society 2006-2011;</li> </ul>
<b>Legal and tax regime</b>
<ul style="list-style-type: none"> <li>■ There are measures/incentives in place to support employment of target groups of disabled and others vulnerable groups;</li> </ul>
<b>External business support</b>
<ul style="list-style-type: none"> <li>■ The existing support of civil society initiatives (CEDRA and SEFOR) for development of social enterprise sector;</li> </ul>
<b>Public awareness</b>
<ul style="list-style-type: none"> <li>■ The existence of interest for the development of social responsible business and investment in community and social Entrepreneurship in the part of the business sector, with established cooperative mechanisms and programs (Network for CSR, Community CSR, Croatian Business Council for Sustainable Development (HRPSOR)).</li> </ul>
<b>Other</b>
<ul style="list-style-type: none"> <li>■ Existence of numerous initiatives in local communities;</li> <li>■ Long tradition of cooperatives in Croatia;</li> <li>■ The existence of organisations that are able to encourage and promote social entrepreneurship (regional development agencies, foundations, regional support centres, etc.);</li> <li>■</li> </ul>

### **3.7 Concluding remarks**

There are no commonly agreed estimates regarding the number of social enterprises in Croatia. Available information suggests that the number of social enterprises is likely to be in the range of 40 to 150, with most stakeholder interviewed estimating the number to be in the order of one hundred.

Social enterprises mainly deliver their impact by employing groups at risk of social exclusion. However, there are also some enterprises delivering impact by conservation of natural resources, waste treatment and promoting regional and community development.

Overall, social enterprise activity is still in its infancy in Croatia, however looking ahead, this 'movement' has tremendous potential and is expected to develop rapidly in future. Largely as a consequence of EU integration, Croatia is currently draft a government policy that seeks to create an enabling environment for social enterprise. These developments are recent and ongoing; they are inspired by and closely follow the European Commission's 2011 Social Business Initiative.

## Annex 1 Annex: Comparative overview of legal forms most commonly used by social enterprises

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
Definition	<p>Private limited companies are the most frequent type of company in Croatia.</p> <p>A private limited company is commonly used by for-profit organisations and is typically established with commercial aims to distribute profits to its shareholders. The shareholders are the owners of the company.</p> <p>Company assets are strictly separated from the property of owners. The company is liable for its debts with all its assets. Owners are not liable for company debts.</p> <p>Private limited companies are flexible legal form of doing business, and therefore suitable for social enterprises. The majority of Croatian social enterprises that operates like private limited companies are trading arms of associations (initiated and established by associations). In that context, Articles of Association are drafted in the manner that social purposes and principles and other features of social enterprise are included.</p>	<p>A cooperative is an organisation that is owned and controlled by the people who work in it, trade through it, or use its products, supplies or services.</p> <p>Cooperatives vary in type and size, but all are formed to meet the needs of its members.</p> <p>Cooperatives are very useful in creating meaningful and secure jobs, promoting balanced local and regional development, contributing to the reduction of poverty, minimising inequality and promoting local democracy.</p> <p>One of the most used types of cooperative for social enterprise is the social cooperative.</p>	<p>An association is a voluntarily established organisation formed and operated to advance purposes stated in its founding charter (also called a constitution or statute) without the intention of gaining profit.</p> <p>An association is governed by its members, either directly or through elected representatives. It can seek “to protect and promote issues of public or mutual interest, environmental, economic, humanitarian, informative, cultural, ethnic and national, educational, social, professional, sports, technical, health care, scientific and other interests and goals,” but not unlawful purposes.</p> <p>An association, unlike a foundation or a fund, is not restricted to generally beneficial or charitable purposes.</p>
Key national legislation governing legal form	Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13)	Constitution of the Republic of Croatia (OG 85/2010) Cooperatives Act (OG 34/11, 125/13)	Constitution of the Republic of Croatia (OG 85/2010) Associations Act (OG 88/01, 11/02)

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
		<p>Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13)</p>	<p>Regulation on accounting of non-profit organisations (OG 10/08, 7/09)</p> <p>A new Association Act is expected to be adopted in October 2014. Key changes include: differentiation of associations with respect to the area of operation, the separation of sports associations in the special law, tightening the conditions for the establishment of the association, introduction of the institution of the liquidator and minor changes in definition of economic activities of the association.</p> <p>Also, existing Regulation on accounting of non-profit organisations will be replaced with Law on financial operations and accounting of non-profit organisations in 2014.</p>
<p>Whether the legal form is used exclusively or not exclusively for social enterprise</p>	<p>Not exclusively for social enterprise.</p> <p>Private limited companies may engage in any permitted business activity.</p> <p>The business activity of the company (company's object) is specified in the articles of association.</p> <p>Where an activity requires consent, a permit or other document issued by a governmental authority or an institution, entry into the court register can only be made</p>	<p>Not exclusively for social enterprise.</p> <p>Cooperatives may engage in any permitted business activity. The business activity of the cooperative is specified in the Cooperative Rules.</p> <p>Where an activity requires consent, a permit or other document issued by a governmental authority or an institution, entry into the court register can only be made after obtaining such consent or permit from the relevant body or institution.</p>	<p>Not exclusively for social enterprise.</p> <p>An association is generally permitted to conduct those activities that advance the purposes set forth in its charter.</p> <p>An association is not restricted to generally beneficial or charitable purposes but needs to operate through public benefit activities.</p> <p>It must be formed without the intention of making a</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
	<p>after obtaining such consent or permit from the relevant body or institution.</p>	<p>To be registered as a social cooperative, the cooperative must provide:</p> <ul style="list-style-type: none"> <li>- assistance in meeting basic needs of the socially disadvantaged, disabled and other natural persons which they cannot otherwise meet on their own or with an assistance of other family members due to adverse personal, economic, social circumstances;</li> <li>- work and economic integration for persons with reduced work capacity and other natural persons who lack resources for meeting basic needs, and are therefore unable to meet those needs by themselves, their work, non-labour income or any other sources.</li> </ul> <p>Members of a social cooperative may be users or providers of services or workers of the cooperative.</p>	<p>profit, but it can engage in for-profit activities so long as the profits are devoted exclusively to advancing purposes set forth in its charter. It can attempt to influence legislation, but must not participate in a political campaign for public office.</p>
<p>Methods of creation</p>	<p>A private limited company is established on by either notarised Articles of Association or if only one shareholder on the basis of a notarised Deed of Incorporation.</p> <p>The company is incorporated by registration in the court register upon application to the competent local court.</p> <p>Prior to registration, each founder must pay in (i) 100%</p>	<p>A cooperative may be established by a minimum of seven (individuals or legal entities) founder members, where each founder pays entry share (membership fee) that cannot be less than KN 1.000.</p> <p>Procedure of establishment a cooperative is as follows:</p> <p>1. Constituent Assembly of the cooperative</p>	<p>To establish an association, the associations statutes are required to be drafted, a Constituent Assembly held and the founding documents for registration are submitted to Register of Associations by Ministry of Public Administration (within three months from the date of the decision to initiate the procedure for the registration of an association - on Constituent Assembly).</p> <p>If the administration office does not respond within</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
	<p>of its contribution in kind; and/or (ii) at least 25% of his/her cash contribution, provided that the total amount of all cash contributions paid in before registration is no less than HRK 10,000.</p> <p>There is a possibility of establishing a “simple limited liability company” with a minimum share capital of HRK 10.</p>	<ol style="list-style-type: none"> <li>2. Adoption of the founding act - Cooperative Rules</li> <li>3. Verification of documents by a notary public</li> <li>4. Payment of entry shares</li> <li>5. Enrolment in Register of the Commercial Court</li> <li>6. Production of seals</li> <li>7. Enrolment in Register of Business Entities of the Central Bureau of Statistics</li> <li>8. Enrolment in Register of Co-operatives of the Croatian Co-operatives Association</li> <li>9. Opening a business account of the co-operative</li> </ol> <p>If the co-operative is to work as a non-profit organisation, it is obligated to register in the Register of Non-profit organisations run by the Ministry of Finance.</p>	<p>30 days, the association is deemed to be registered. The association must be registered to be incorporated.</p> <p>The association also has the obligation to register in the Register of Non-profit organisations run by the Ministry of Finance.</p>
Required capital or assets	The minimum share capital of a private limited company is HRK 20,000. The minimum share capital of a “simple limited liability company” is HRK 10.	The minimum capital is dependent on the number of founder members. Each founder must pay an entry share (membership fee) that cannot be less than HRK 1,000.	The association is not required to deposit an amount of money or any other property.
Management and corporate governance	<p>The company is required to have at least one director, and there is no limit on the number of directors or number of board members.</p> <p>Management board members are appointed by the</p>	The mandatory governing bodies of a co-operative are Assembly (Shareholders meeting), the Supervisory Board and the Cooperative Manager. In cooperatives, which has less than 20 members, the Supervisory Board activities/affairs may be conducted by cooperative Assembly.	The Assembly is the highest governing body of the association. The articles of association, in addition to the Assembly, may establish also other bodies of the association such as boards, committees or councils. The Assembly oversees the management and affairs of association.

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
	<p>shareholders' meeting, unless the Articles of Association provide otherwise.</p> <p>The Articles of Association can also include a requirement to have a Supervisory board. This requirement is mandatory in a private limited company that meets certain circumstances. If the founder of limited company is a public institution, workers needs to be included in Supervisory Board.</p> <p>The Management board represents the company, organises and manages the work process, manage operations, take care for the timely preparation of financial statements, adopts internal acts, is responsible for the legality of the company, propose distribution of profits, and perform all other duties in accordance with the law and the acts of the company.</p>	<p>Management and affairs of the cooperative can be monitored by Assembly or Supervisory board.</p> <p>Although it is not prescribed by Law and common practice, some bigger cooperatives often establish a board of directors. The board of directors provides commercial leadership for the cooperative.</p> <p>The directors are members of the cooperative and are elected at the annual general meeting.</p> <p>Directors are often focused on long term development and on policy issues, leaving day-to-day issues in the hands of the appointed/elected Cooperative manager.</p>	<p>Duties of other association bodies and body members are prescribed in the articles of association or in specific internal regulations.</p> <p>Law doesn't define minimum or maximum number of board members or other bodies of association (this requirement is usually defined in association founding charter).</p> <p>Assembly, by definition, shall consist of all association members or their representatives.</p>
Rights of members	<p>The legal form has members (shareholders).</p> <p>The responsibility for the administration and management of the company is delegated to the directors by the shareholders gathered in the shareholders meeting.</p> <p>The ultimate control of the company rests with the</p>	<p>The legal form has members.</p> <p>It is the members who are the focus of the cooperative. Some of them are elected to the Board of directors which constitutes the policy setting body of the cooperative. The day-to-day operations are generally handled by a hired management structure.</p>	<p>The legal form has members.</p> <p>The ultimate control of the association rests with the members because of their right to attend, speak and vote at the Assembly which: adopts the statute of association and its amendments, adopts annual operational and financial plans, adopts annual financial reports, decides whether to change the objectives and activities, economic</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
	<p>members because of their right to attend, speak and vote at meetings. They have right to receive all accounts, reports and other relevant documents needed for decision making process, in particular on: the ratification of the acts of the management board and supervisory board, if such exist; any measures to check and supervise business affairs; and make amendments to the Articles of Association.</p>	<p>The membership is unique to the cooperative organisation. A member is also the owner and the patron.</p> <p>The individual members should be encouraged to express their needs and motives in a common objective, which is the foundation of the cooperative.</p>	<p>activities, the dissolution and distribution of the remaining assets, and makes a decision on status changes.</p>
<p>Voting and representation of members in general meetings</p>	<p>Members are represented through shareholders' meetings held at least once a year, to determine the annual financial statements and consolidated financial statements when they are required, and accept the annual report.</p> <p>Shareholders adopt resolutions at the shareholders' meeting. This is unless all shareholders agree to vote in writing or resolve in writing on a resolution.</p>	<p>Members are represented through attendance at the shareholders meetings.</p> <p>By participating in the management of the cooperative, the cooperative maintains one of its central features - that of being a democratically controlled organisation. However, it also means that the members need to understand the nature of their cooperative, its regulations and how it functions.</p>	<p>Members are represented through their participation in the Assembly.</p>
<p>Types of shares, if any</p>	<p>The legal form has shares.</p> <p>The shares carry the voting rights although it is possible to define it otherwise in the Articles of Association, under condition that each member has at least one vote.</p>	<p>The legal form has shares. The members are the shareholders. In cooperative, 'membership fee' is the term used more than 'share'.</p> <p>The shares do not carry votes, the principle of "one person – one vote" constitutes the basis for the cooperatives' democratic organisation and its decision-making process.</p>	<p>Not applicable to this legal form.</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
Distribution of dividends on share capital	<p>Dividends are distributed on paid-up share capital.</p> <p>Law prescribes limitations to the distribution of dividends which are consequences of the principle of maintaining the capital of the company to create its financial stability.</p> <p>These constraints are expressed by regulating the reserves regime and ways of determining the sequence of profit distribution.</p> <p>It is possible that the Articles of Association of a social enterprise could include restriction or prohibition on paying dividends.</p> <p>Social enterprises in Croatia usually reinvest 100% of their profit to founder organisation (association) for their programs/projects or in company programs/projects which aim to achieve social purpose of the company.</p>	<p>Cooperative businesses may retain their earnings, or distribute part or all of them as dividends to their members. Usually, cooperatives distribute their dividends in proportion to their members' activity, instead of the value of members' shareholding. Consumers' cooperatives allocate dividends according to their members' trade with the cooperative.</p> <p>The new Cooperative Act suggests that such distribution should depend on the economic contribution of each of its members in the creation of the total profit.</p>	Not applicable to this legal form.
Distribution of reserves	<p>Only the Simple private limited company has restrictions on how reserves are used. Here, the legal reserve may only be used to increase the share capital or to cover losses (liquid or transferred). Simple companies need to increase the share capital through the legal reserves up to a minimum of HRK 20.000. At this point it is no longer required to add to the legal reserve, although it now has</p>	<p>Cooperatives are required to hold a "Reserve fund" as a security fund to cover any capital reduction of the cooperative on the departure of some of membership.</p>	Not applicable to this legal form.

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
	obligation to transform the company to an ordinary private limited company.		
Allocation of the surplus particularly to compulsory legal reserve funds	<p>There is no such requirement for legal reserves applicable to Private limited company.</p> <p>However, Simple private limited company must have a legal reserve. The law specifies that quarter of profit as reported in the financial statements must be paid in the legal reserve.</p>	<p>After losses are covered, cooperatives are required to distribute:</p> <ul style="list-style-type: none"> <li>- at least 30% of the surplus for the development of cooperative development fund; and</li> <li>- at least 5% to the reserve fund until the total reserve reaches the total membership fees.</li> </ul>	Not applicable to this legal form.
Distinction dividends/refunds and distribution of refunds	Not applicable for this legal form.	There is no legal distinction between refunds and dividends.	Not applicable to this legal form.
Restrictions on ability to trade	<p>Companies can undertake any economic activity.</p> <p>However, certain economic activities may be carried out in Croatia only with a special certificate of approval or consent, license or other document issued by the relevant governmental body or institution.</p>	<p>Cooperatives can undertake any economic activity.</p> <p>However, certain economic activities may be carried out in Croatia only with a special certificate of approval or consent, license or other document issued by the relevant governmental body or institution.</p>	<p>An association must adhere to the activities it prescribed in the Articles (statute) of Association and must also work according to the 5 principles described by Association Act: the principle of independence, transparency, democratic organisation, non-profit operation and free participation in public life.</p> <p>The law also expressly forbids an association from undertaking any activities, whether for-profit or not-for-profit in nature, for the purpose of providing profits to its members or third parties.</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
Internal financing (e.g. investment title, member investors, increase in members contributions)	Besides loans, company can allot or issue shares to its members to raise capital. Process and any restrictions are usually described in Articles of Association.	Besides loans, cooperative members can pay additional membership fee / share. Process and any restrictions are usually described in Articles of Association.	Membership fees, donations, loans. A member who wishes to support economic activities can only be a lender.
External financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non-member investors	<p>External investments can be made using various models: concessions, loans or other forms of debt, company also can allot or issue shares to investors to raise capital.</p> <p>An investor making an equity investment into Public limited company by purchasing shares will become a member of the company.</p>	<p>External investments can be made using various models: concessions, loans or other forms of debt, or direct investments in cash, equipment, etc.</p> <p>An investor would only become a member if they paid a membership fee.</p>	External investments can be made only by donations and loans. A third party who wishes to support economic activities can only be a lender.
Transparency and publicity requirements (and related auditing issues)	<p>Companies generally have to apply Croatian Financial Reporting Standards. Financial statements are kept in the publicly accessible Registry of Financial Statements.</p> <p>Consolidated financial reports and financial reports of companies with an annual revenue in previous year exceeding HRK 30 million (approximately EUR 4 million) are subject to mandatory yearly audit. Limited liability companies that do not meet HRK 30 million thresholds may in their internal documents opt for an obligation of audit.</p>	<p>Cooperatives, as well as Companies, generally have to apply Croatian Financial Reporting Standards. Financial statements are kept in the publicly accessible Registry of Financial Statements.</p> <p>Cooperatives were subject to short audit every three years. With adoption of the new Cooperatives Act (OG 34/11), this obligation is now terminated.</p>	<p>Financial statements need to be submitted to the Financial Agency and annually to the Ministry of finance, National Audit Office and Financial Agency. there is no obligation of external audit, except, according to PRAG, when association implements EU funded project where co-financing exceeds 100.000 EUR.</p> <p>Under new legislation associations will have the obligation to publish annual financial statements in the Register of Non-profit organisations run by the Ministry of Finance.</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
Employee involvement systems	<p>Private limited company can involve staff in the decision making procedures either directly (as shareholders) or through representatives in consultative or advisory boards.</p> <p>Employees who are shareholders can receive a proportion of the legal form's profits.</p>	<p>A worker cooperative is a cooperative self-managed by its workers (Cooperative Act prescribes at least 66% of workers must be a members).</p> <p>Other cooperatives can involve staff through membership. Once they are members, they fully control co-operative operations and development, 1 representative of the workers can be a member of a Supervisory board.</p> <p>Employees can share in the cooperative's profit if they are also cooperative members or if it is provided for in the Cooperative Rules.</p>	<p>There is no legal requirement to involve staff in the decision making process.</p>
Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)	<p>A company can be wound up either: by it coming to the end of its lifetime as specified in Articles of Association (if established on a temporary basis), by members decision, by final decision of the bankruptcy panel for opening and closing the bankruptcy proceedings, or by a final decision of the court registry on removal of the company from register, ex officio,</p> <p>In Croatia, financial restructuring measures include but are not limited to: postponement of payment dates, increase of share capital, instalment payments, interest decrease or write-off, loan rescheduling, providing additional security instruments, refinancing from strategic partners.</p>	<p>The Assembly decides on the termination of the co-operative with a two-thirds majority decision of all its members.</p> <p>Other reasons for a cooperative to be dissolved include a final court decision on termination of the cooperative or deletion from the register, ex officio, failure to submit annual financial reports to the competent authority in accordance with special regulations, operating continuously six months with the number of members below than it is prescribed by Cooperatives Act, and operating contrary to Cooperatives Act and other legislation and the cooperative principles and values,</p>	<p>The Association may wind up on:</p> <p>Assembly decision, on the occasion where an Assembly has not been held for two years in a row, and on final court decision to dissolve.</p> <p>Financial restructuring measures include but are not limited to: postponement of payment dates, increase of share capital, instalment payments, interest decrease or write-off, loan rescheduling, providing additional security instruments, refinancing from strategic partners.</p>

Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
		<p>The cooperative manager is usually responsible for the cooperative during its liquidation unless provided for otherwise in the rules.</p> <p>In Croatia, financial restructuring measures include but are not limited to: postponement of payment dates, increase of share capital, instalment payments, interest decrease or write-off, loan rescheduling, providing additional security instruments, refinancing from strategic partners.</p>	
<p>Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)</p>	<p>Any surplus assets and capital can be distributed between members, if not provided for differently in the Articles of Association.</p>	<p>The remaining assets are transferred to local governments on whose territory the cooperative operates.</p>	<p>Under Croatian law, the assets of a wound up association are generally distributed according to the associations founding document.</p> <p>However, assets received from state or local governmental authorities must be returned to the governmental entity.</p> <p>In practice, the assets are generally distributed to association members or passed on to another similar association. In practice, the assets are generally passed on to another similar association. (The new Law on Associations will prescribe an asset lock)</p>

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Legal form	Private Limited Company / Limited Liability Company	Cooperative	Association
Conversion to another form of company	A Private limited company can convert to Public limited company (Joint stock company), but also General partnership and Limited partnership (the regulations for conversion of Joint stock company to General partnership and Limited partnership are applied). The last two forms are not often used in practice.	It is not possible for a cooperative to convert into a different type of legal form.	The association cannot be converted into another type of legal entity.

## Annex 2 List of Information Sources

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Croatian Cooperatives Association (CCA): [www.zadruga.hr](http://www.zadruga.hr)

## A2.2 List of consultees

Name of the person interviewed	Organisation/ Role	Stakeholder category
Vesna Ledič Kasalo	Office for Cooperation with NGOs	Government body
Mirjana Kolaić	Ministry of Entrepreneurship and Crafts	Ministry
Maja Rajačić Pavlović	Croatian Bank for Reconstruction and Development (HBOR)	Organization providing financial or business development services to social enterprises
Teo Petričević	Act Group CEDRA SEFOR	Social entrepreneur Social partner organisation
Goran Jeras	EBank	Social investment finance intermediary
Sonja Vuković	SLAP SEFOR	Social enterprise Social partner organisation
Andreja Rosandić	NESsT	Organisation providing financial or business development services to social enterprises
Julia Perić	Faculty of Economics in Osijek	Academics and other experts