

## Chapter 4

# The National Strategy for the Development of Social Entrepreneurship, Croatia

*The National Strategy for the Development of Social Entrepreneurship aims to establish an enabling and coherent policy framework for social-enterprise development in Croatia. This chapter describes the Strategy's objectives, rationale and activities. It presents the challenges faced in its implementation and the impact achieved so far. It concludes with the lessons learnt and the conditions for transferring this practice to another context.*

### Summary

Adopted in 2015, the “Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period 2015-2020” represents a seminal document for the creation of a policy framework for social enterprises.<sup>1</sup> The Strategy’s main objective is to boost social enterprise creation and growth in Croatia by establishing a more supportive institutional and financial environment.

The Strategy was initiated through a “bottom-up” approach by a network of civil society organisations (CSOs) and social enterprises, in partnership with the government. It is largely aligned with European Union (EU) policies – particularly the Social Business Initiative (SBI). It identifies social enterprises based on nine criteria, and determines the key areas and activities for improving the institutional environment. Its main measures aim to: 1) develop and improve the legislative and institutional frameworks; 2) establish an adequate and supportive financial framework; 3) promote social entrepreneurship through education; and 4) increase social enterprises’ visibility.

The Strategy’s overall implementation relies on a horizontal and vertical approach bringing together multiple stakeholders: other relevant ministries and national government

institutions, as Strategy co-owners; local authorities; local and regional development agencies; CSOs; social enterprises; financial institutions; and academia. The first operational step was the establishment of the government unit in charge of implementing the Strategy and co-ordinating activities among its co-owners.

Several key factors could enhance the transferability of this initiative to other contexts: adopting a bottom-up approach, by developing a network or umbrella organisation representing social enterprises' interests and needs; creating a partnership with the government (as a process owner); creating a transparent and participative model of preparation and implementation, including multi-sector stakeholders and public consultation; and relying on EU strategic documents and policies, thereby ensuring coherence with EU strategic priorities and enhancing access to EU financial resources.

### Key facts

The Strategy was drafted by the Ministry of Labour and Pension System (MLPS) and adopted by the Croatian Government on April 2015. The MLPS – which was also the managing authority for the European Social Fund (ESF) in 2007-13 and 2014-20 – established the Department for Preparation and Implementation of the Projects from the Field of Social Entrepreneurship to co-ordinate the Strategy's implementation. The Ministry of Social Policy and Youth, the Ministry of Entrepreneurship and Crafts, the Government Office for Cooperation with NGOs and the National Foundation for Civil Society Development are among the Strategy's most important partners and co-owners. Other co-owners within government include the Croatian Employment Service, the Ministry of Veterans' Affairs and the Ministry of Science, Education and Sport. Partners from other sectors – including research institutes, educational institutions, vocational institutions, regional development agencies, financial institutions, local and regional authorities, CSOs, social enterprises, media and social partners – will also help implement the Strategy.

The Strategy prescribes the establishment of the Council for Social Entrepreneurship Development, an advisory body in charge of monitoring implementation. Council members will be appointed by the government and will include representatives from government institutions, CSOs, social enterprises, financial institutions and academia, who will meet regularly to discuss issues facing social enterprises and offer strategic recommendations for further development.

The measures and activities advocated by the Strategy (e.g. increasing the number and sustainability of social enterprises and their employees) are included in the ESF Operational Programme Efficient Human Resources 2014-2020 and linked to Specific Objective 9.v., "Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment".<sup>2</sup> A total around EUR 37 million (euros) – EUR 32 million from the ESF and the remainder from the public budget – have been allocated to implementing the Strategy. About 60% of this amount aims to improve financial instruments for social enterprises, and will be provided through non-refundable grant schemes. The remainder (40%) will be allocated through non-refundable grant schemes to three other priority areas: educational activities (27.7%), improving legal and institutional frameworks (6.6%), and increasing the sector's public visibility (6%) (Government of the Republic of Croatia, 2015a).

## Objectives

The Strategy's main objective is to create a supportive environment for social enterprises in Croatia, thereby decreasing regional disparities, increasing employment and ensuring fairer distribution of social wealth. Fostering social entrepreneurship may also help accomplish other national strategic goals, such as achieving social cohesion, combating poverty, increasing employment, creating new products and services, increasing competitiveness and protecting the environment (Government of the Republic of Croatia, 2015a).

The Strategy is largely founded on EU documents and policies, especially the SBI (European Commission, 2011), whose concept of social enterprises informed the Strategy's understanding and approach.

The Strategy defines social enterprises as “businesses based on the principles of social, environmental and economic sustainability, where profit/surplus is, wholly or in great part, reinvested for community benefit” (Government of the Republic of Croatia, 2015a). Measures to create a more enabling environment focus on four priority areas: 1) developing and improving the legislative and institutional frameworks for social enterprises; 2) establishing an adequate and supportive financial framework for social enterprises; 3) promoting the importance and role of social entrepreneurship through formal and informal education; and 4) increasing the visibility of social enterprises in Croatia. Activities in each area are managed by delegated co-owners or partners and feature defined indicators for measuring implementation, as well as specific time frames and dedicated financial resources.

The Strategy covers several policy areas: 1) **access to finance**, through grant schemes (linked to EU and public funds) to stimulate employment of vulnerable groups, as well as innovative social services and products, a guarantee mechanism/fund to facilitate access to finance, innovative instruments tailored to social enterprises, and other financial incentives; 2) **educational activities**, through both formal and informal educational programmes at different levels of education, as well as trainings, knowledge and skill transfer, and research activities; and 3) **access to the market**, through specific labels and product declarations, such as the EU Ecolabel and the EU Eco-Management and Audit Scheme (EMAS).<sup>3</sup> The Strategy additionally fosters a supportive framework for public-private partnerships, and promotes the use of abandoned public assets and buildings by social enterprises. Its policy approach focuses on the provision of funding, educational programmes and capacities, and research. Additionally, it advocates creating databases, statistical reports, and good practice examples and other knowledge products related to social enterprises in Croatia.

## Rationale

The Strategy was developed to acknowledge the unique specificities and needs of the emerging social enterprise sector, and provide incentives and benefits tailored to these. Prior to the Strategy, the policy discourse recognised social entrepreneurship only as a component of civil society, and social enterprises struggled to adjust to unsuitable and sometimes contradictory regulations.

The initiative to develop a national strategic document stemmed from a “bottom-up” approach in 2011. Several pioneering CSOs initially grouped together in 2009 in the Social Entrepreneurship Forum, and later in the Cluster for Eco-Social Innovation and Development,<sup>4</sup> but were hindered by the overall lack of institutional and financial mechanisms to stimulate growth. They saw the strategic document as a crucial step in creating supportive institutions

and enabling access to financial sources. Partnering with a committed government partner – the MLPS<sup>5</sup> – made the initiative more explicit and official. Strong co-operation among actors from both the non-profit and public sectors ensured greater commitment to this goal, despite barriers – such as lack of high-level political recognition – that slowed down the of adoption of the document.

The government gave its green light in 2013, and an official working group comprising 44 members from different sectors (government authorities, CSOs, social partners, vocational organisations, development agencies and educational institutions) was established to draft the Strategy. The working group met seven times over 2013-14, drafting suggestions and offering comments until the final version was consolidated. The document was also made available online, so that all interested citizens could add their comments and remarks.<sup>6</sup> In 2014, the draft Strategy became available for public discussion at events organised around the country. This approach contributed to the process's transparency and inclusiveness, and ensured that the final document accurately reflected social entrepreneurs' needs.

## Activities

One of the first steps in implementing the Strategy will be to create the official Register of Social Enterprises, managed by the MLPS. Apart from resolving conflicting accounts on the number of social enterprises in Croatia (estimated at between 40 and 150), the Register will provide social entrepreneurs with an official status as a “social enterprise” – a term still used arbitrarily by the actors. Thus, regardless of their legal form, organisations and/or individuals wishing to be considered as social enterprises/entrepreneurs need to fulfil nine cumulative criteria. They should:

1. set balanced social, environmental and economic goals
2. produce goods and/or deliver services, or generate revenues on the market, with a favourable impact on the environment and society
3. generate at least 25% of their annual income from their entrepreneurial activities, based on a three-year operating or planning period
4. invest at least 75% of their profit/surplus in their activities and/or objectives
5. offer voluntary and open membership, and business autonomy
6. not be founded solely by the Republic of Croatia, a local/regional self-government, or a public authority
7. apply rules of democratic governance, where decision-making includes relevant stakeholders in addition to share owners or members
8. monitor and evaluate their social, economic and environmental impact
9. transfer assets to another social enterprise, or a local and regional authority, in case of termination (asset lock).

The “social enterprise” status is valid for three years, during which time the enterprise must submit annual activity and social-impact reports. It must renew its status at the end of the period; failure to do so will result in its removal from the Register. The Register will serve to determine eligibility to apply to calls for tender targeting social enterprises.

The Strategy defines four main measures, each comprising several activities.

The measure concerning **the legislative and institutional framework** involves setting up the institutional unit and official register of social enterprises; conducting an in-depth analysis of the needs of existing social enterprises and the current legal framework, to

harmonise legislation and introduce benefits and incentives for social enterprises; providing unused public spaces and buildings for use by social enterprises; developing partnerships between public bodies to support social entrepreneurship; and developing support for qualitative and quantitative research, and social-impact measurement methodology. This measure tends to produce evidence-based findings on the overall impact of social enterprises.

The measure concerning the **financial framework** entails developing a unique guarantee mechanism/fund, providing systematic financial support (grant schemes) linked to EU funds and national budget co-financing; providing loans and other incentives for social enterprises; and developing innovative financial instruments and grant schemes to foster the employment of vulnerable groups, as well as social innovation, community social services and solidarity exchange.<sup>7</sup>

The measure pertaining to **education** focuses on promoting social entrepreneurship at all levels of education, by supporting (both financially and non-financially) educational programmes and lifelong learning projects, and producing informational publications promoting social entrepreneurship; replicating innovative educational programmes; and encouraging further education in social entrepreneurship for teachers, adults, public servants and social entrepreneurs.

Finally, the measure relating to **increasing visibility and information channels** aims to raise the visibility of social enterprises, by informing the media and public of their importance; producing promotional materials and highlighting examples of good practice; fostering joint promotion of social enterprises and their products in the market; and developing social-enterprise market labels.

The document briefly defines a fifth area, **monitoring and evaluation**, which foresees annual Council monitoring meetings and a mid-term evaluation leading to a possible revision of the Strategy.

## Impact and challenges encountered

### Impact

Since no real implementation has taken place so far, no data are available on the activities' impact, efficiency or cost-effectiveness. Table 4.1. presents the Strategy's strengths, weaknesses, opportunities and threats (SWOT).

### Challenges

Several challenges have hampered the Strategy's implementation. The first is the lack of overall commitment on the part of political actors. Social entrepreneurship is still at the margins of the political agenda, as reflected in very slow movement with regard to implementing the strategic measures. While the institutional unit has been established, other activities have not yet begun. In July 2016, the MLPS finally launched the first tender linked to the Strategy, which will allocate the first grants to social enterprises.

The overall process for developing the Strategy lasted longer than expected, mainly owing to the lack of institutional recognition and political will – particularly at the higher levels – and the need to reconcile opposing approaches to social enterprise. A long debate arose around whether to use the terms *socijalno* or *društveno* – both meaning “social”, but with different connotations. Even though most actors used *socijalno* before, the Strategy only referred to *društveno* (both terms are still used colloquially). These semantic discussions have not resulted in greater terminological clarity and consistency.

Table 4.1. **SWOT analysis of the National Strategy for the Development of Social Entrepreneurship in the Republic of Croatia**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Defines the criteria for social enterprise; fosters recognition, raises awareness and helps clarify the sector</li> <li>• Institutionalises the social enterprise status, reducing arbitrary use or misuse of the term</li> <li>• Has gained legitimacy from the approval and acceptance (“ownership”) of the social enterprise sector</li> <li>• Creates instruments for drawing financial resources from EU funds and the national budget</li> <li>• Opens space for changes and improvements in the legislative and fiscal framework</li> <li>• Introduces a single government unit as a tool for more effective co-ordination over the sector</li> <li>• Harmonisation with EU priorities enhances support from EU institutions and funds</li> </ul>	<ul style="list-style-type: none"> <li>• Overall lack of public recognition of social enterprises</li> <li>• Marginalised, low-priority position of social enterprises in the political agenda</li> <li>• Small size of existing social enterprise sector</li> <li>• Limited capacity of social enterprises to apply and use financial resources</li> <li>• Lack of human capacities in public bodies in charge of implementing the Strategy</li> <li>• Over-bureaucratized procedures for gaining social-enterprise status and providing evidence of meeting requirements</li> <li>• Lack of commitment of other government co-owners/partners</li> <li>• Non-specified procedures for co-ordinating and monitoring implementation</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• The Register will provide insights on the sector’s size and structure</li> <li>• Accountable and eligible financial resources from the ESF</li> <li>• Availability of financial resources for social enterprises may increase interest in social entrepreneurship</li> <li>• Through the Council, the social-enterprise sector will have an opportunity to affect the Strategy’s implementation</li> <li>• Supportive EU policies, thanks to increased popularity of social economy issues in the EU context</li> <li>• Harmonisation of Strategy’s objectives with other national strategic areas</li> </ul>	<ul style="list-style-type: none"> <li>• Majority of existing social enterprises may struggle to meet the nine criteria</li> <li>• Insufficient human capacities in the sector</li> <li>• Frequent and unpredictable legislative changes, combined with constant production of strategies, cause insecurity and unwillingness to take business risks</li> <li>• Political instability, which may slow down the public administration and implementation of the Strategy and related policies</li> <li>• Potential of attracting opportunistic social enterprises</li> </ul>

The lack of understanding of social entrepreneurship means that changing the legislative and fiscal systems to provide support and incentives for social enterprises will certainly face stronger resistance from less knowledgeable sections of government institutions. The small number of officials employed at the new MLPS department charged with co-ordinating inter-ministerial collaboration is not encouraging. Most government institutions involved in the Strategy will probably struggle to ensure the adequate human capacities to implement it.

Finally, the social enterprise sector is still small, with limited capacities. Many social enterprises may struggle to meet the requirements (particularly the obligation to derive at least 25% of their income from economic activities, which is still rarely achieved in the sector) for obtaining the official status and hence, access to finance. On the other hand, the significant amount of resources available to social enterprises may attract more opportunistic individuals and organisations, potentially boosting the number of social enterprises over a short period – without, however, contributing to the sector’s long-term development.

## Lessons learnt and conditions for potential replicability

### Conditions for potential replicability

Several factors may influence the transferability of the initiative to other national contexts, primarily in countries with similar cultural, socio-economic and political backgrounds.

**Implement a bottom-up approach:** social enterprises should form a network to clearly articulate their needs and interests, as well as identify the types of institutional support, financial mechanisms or legislation they need. By proposing and organising a policy framework, social enterprises would have more influence when advocating institutional changes.

**Create a partnership between the social enterprise sector and the government:** by adopting this approach, sector actors will ensure that policy tools have an institutional owner or managerial body, and that the sector's needs are accurately reflected.

**Establish a highly participatory procedure** in the process of developing and implementing the Strategy: the working group – and later the advisory council – should include multi-sector stakeholders; they should also conduct public and online consultation to ensure the final document's legitimacy. Multi-stakeholder co-operation may ensure transparency, inclusiveness and a long-term commitment, based on a sense of “ownership”.

**Closely connect the strategy with EU documents and policies:** such an approach will ensure coherence with broader national strategic priorities, as well as within the European Union; it may also open doors to EU structural funds and facilitate access to financial resources, possibly boosting the sector's size and capacities.

### **Possible challenges to replication**

The lack of overall understanding of social enterprise, and the resulting unwillingness to push it higher up the national policy agenda, may hinder implementing a related strategy. The institutional commitment provided during the strategy's preparation may not be put into action. In addition, the lack of human capacities in the implementing bodies may slow down the process. The activities featured in the strategy should therefore be realistic and proportionate to the available capacities.

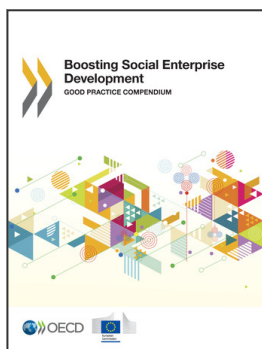
Finally, potential changes in the political climate and executive government are unpredictable but important factors influencing the implementation process. Depending on changing political priorities, issues related to social entrepreneurship may rise or fall in the policy agenda. Hence, advocacy efforts should focus on creating the conditions wherein the development of social enterprise will be seen as one of priorities of socio-economic development.

### **Notes**

1. Terminological inconsistencies still exist in the Croatian discourse, where the terms social entrepreneurship, social enterprise and social entrepreneur are often used interchangeably.
2. For more information on of the ESF Operational Programme Efficient Human Resources 2014-2020, see here: <http://www.esf.hr/wordpress/wp-content/uploads/2015/02/FINAL-OP-EHR.pdf>.
3. EU Ecolabel and EMAS are voluntary labels or initiatives designating and promoting environmentally friendly products, services and companies.
4. The Social Entrepreneurship Forum is an informal network of social enterprises in Croatia initiated in 2009 to provide support for social enterprises and help develop a more supportive environment. The Cluster for eco-social innovation and development stemming from this initiative in 2012 is an official organisation and its operational body.
5. At that time the Ministry of Economy, Labour and Entrepreneurship.
6. Pursuant to the Amendments to the Law on the Right of Access to Information (Government of the Republic of Croatia, 2015b), e-counselling is a part of the process of the transparent and open government. State bodies are obligated to consult with the public, usually for a period of 30 days.
7. Solidarity exchange refers to direct, non-mediated connectedness between citizens and local producers, based on trust and solidarity, which stimulates, protects and supports local sustainable production and small producers.

## References

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