



# CROATIA

## COUNTRY SCENARIO

### 1. Main definitions and concepts used

#### **Social economy, social enterprise, third sector, etc.**

The civil society in Croatia has had a long and dynamic development path. It started developing in 18th century, through the strengthening of the activities of associations. The beginnings of today's civil society can be seen in various forms of social organizations established after the Second World War. The dynamic development of civil society started with establishment of the independent Republic of Croatia in 1991, when the legislative framework changed.

The start of pre-accession negotiations between the Republic of Croatia and the European Union and the acquisition of the status of a full member of the EU in 2013 has posed new challenges in front of civil society in Croatia, as organizational and operational barriers, but also opened up numerous opportunities for improvement of existing forms of actions and expansion of the area of activity, developing new activities and forms of networking, both with national and international organizations.

The social economy, which in Croatia includes CSOs, social enterprises and cooperatives is seen as a potential model to solve many social and economic problems and needs in the country.

Today, there are no legal or generally used definitions of third sector and social economy.

However, *Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period from 2015 to 2020*, adopted in 2015 by the Croatian government for the first time brought the definition of a social enterprise: "Social enterprise is a business based on the principles of social, environmental and economic sustainability, in which profit generated is entirely or largely reinvested for the benefit of the community".

The definition contains 9 criteria that all must be met for an organisation to be considered a social enterprise:

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.

Since the 2010, small number of various private organisations developed and provide the support to the social enterprises – the most important ones include CEDRA HR, ACT Group, Impact Hub Zagreb and Cooperative for ethical financing. All organisations provide the free-of-charge services to social enterprises – the funding is secured either from EU/government sources or from the income earned on the market. Services include information, education, incubation & acceleration programs, basic finance programs (seed, grants, micro-loans...), promotion and advocacy activities.

As mentioned previously, on April 30 2015, the *Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period from 2015 to 2020* was adopted by the Croatian government. The strategy sets four objectives:

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

Each of the objectives is followed by a set of specific action items with clearly defined stakeholders, deadlines, indicators of success and financial implications. The measures and activities of the strategy are included in the Operational Programme for Effective Human Potential 2014 - 2020 of the European Social Fund (ESF). The amount of money available for the implementation of the strategy is about EUR 37.6 million including ESF money and government co-financing. Unfortunately, till today, none of the activities started nor any is implemented.

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.

Just recently, in April 2018, a first non-formal Croatian Social Enterprise Network was established.

## 2. Short history of the sector and its developments

Historically, due to insufficient funding, CSOs started to look for alternative ways of financing and discovered self-financing and entrepreneurial activities as a way to become more sustainable, but also to address systemic poverty and unemployment in the country. First documented activities of this kind date to the beginning of the 1990s.

The first support program for development of social entrepreneurship in Croatia was provided by a donor organisation - Academy for educational development (AED) in 2006. In 2007 NESsT (an international organization that works to develop sustainable social enterprises across the world) opened the first call for funding start-ups/social businesses. Unfortunately, neither AED nor NESsT no longer provide support to the development of social entrepreneurship in Croatia.



### 3. Data and figures

According to the official records and registry data on social economy, at the end of 2016 52,231 associations, 232 foundations, 11 foundations, over 500 trade unions and employers' associations, 52 religious communities, 2,050 legal entities of the Catholic Church, 430 organizational forms of the Orthodox Church, and more than 600 private institutions operated in Croatia.

Civil society organizations sector is continuously growing:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of associations	36.737	39.662	42.514	45.252	47.997	50.822	52.450	52.010	52.231	N/A
Number of employees	N/A	N/A	8.281	9.323	9.757	10.808	10.981	N/A	N/A	N/A
Annual incomes (mil.EUR)	646,2	568,9	569,8	582,0	598,3	611,6	661,8	N/A	N/A	N/A
Annual incomes (%GDP)	1,36%	1,27%	1,28%	1,31%	1,36%	1,41%	1,54%	N/A	N/A	N/A

There are 1.200+ cooperatives operating in Croatia at this moment. The most common are cooperatives in agricultural sector (40%), which is understandable because of the Croatian tradition and production, but also similar to other European countries. However, in the area of organization of industrial and service sector, housing and financial sector on the principles of cooperatives, Croatia significantly lags behind European trends and practices.

Due to systematic government disregard, the number of cooperatives, cooperative members and employees of cooperatives continued to fall last few years:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of cooperatives	1,015	1,235	1,428	1,699	2,060	1,069	1,255	1,302	1,218	N/A
Number of employees	3,452	3,728	3,855	4,329	4,246	2,680	2,716	2,744	2,595	N/A
Number of members	18,670	21,081	23,051	25,587	28,866	18,767	20,192	21,462	20,483	N/A
Annual incomes (mil.EUR)	N/A	339.0	317.7	295.4	288.7	251.2	209.9	212.6	218,4	N/A
Annual incomes (%GDP)	N/A	0.71%	0.71%	0.66%	0.65%	0.57%	0.49%	0.48%	0,50%	N/A

One of the first mapping exercises of social enterprises in Croatia was carried out by Association Slap and its partner organization Cluster for Eco-Social Innovation and Development CEDRA HR. Their research in 2012 mapped 147 social entrepreneurs. A broader research repeated in 2014 did not confirm the existence of all 147 entities as social enterprises, as only 56 of them responded to the survey. Data collected by the Institute of Social Sciences Ivo Pilar shows yet another picture: 95 social entrepreneurs in 2013 and 90 in the year 2014. In 2017 ACT Group implemented a mapping exercise according to the SE criteria defined in the Strategy – 105 social entrepreneurs were mapped as active.

In the research “Mapping New Horizons – report on the state of social entrepreneurship in Croatia 2015” the Institute of Social Sciences Ivo Pilar mapped that in 2013 social enterprises employed 784 people, while in 2014 the number increased to 795 employed in 90 entities. Among these, one fifth of the enterprises had ten or more employees, which places them into the category of “small enterprise.” The annual income of social enterprises amounted to EUR 24,853,200, while in 2014 the amount reached EUR 23,583,000). This data should be considered as indicative, not exhaustive, as there is no comprehensive dataset that would show all the social enterprises.



## 4. Legal framework and legal forms of social enterprises

In Croatia, there is currently no specific law defining or regulating social enterprise. However, we distinguish a number of legal forms of organization in the sector of social economy: cooperatives, associations and foundations, social enterprises (registered as companies) and private social welfare institutions (the Croatian legal system allows the development of social entrepreneurship through various legal forms, which are easy to register).

Once a business is launched using these forms, there are no benefits that would differentiate traditional entrepreneurs from social entrepreneurs, nor is there a mechanism for social entrepreneurs to benefit from tax exemptions or reduced rates of VAT and income tax, as is the practice in many other EU countries.

**Social cooperatives** are the most frequent legal forms of social enterprise as they may carry out activities to meet the needs of their members without the intention of making a profit. Other forms of cooperatives may gain profit but must meet specific requirements regarding the sharing of profit among members. The work and values of social cooperatives are in line with the Croatian strategic definition of social enterprise, which makes them the most popular legal form.

**Associations** are the second most frequent form for social enterprises, however they must face a number of different requirements, given the variety of applicable laws. Thus, many NGOs prefer to set up a traditional limited liability company (d.o.o.) as a trading arm.

**Social enterprises** are directly or indirectly referenced in many legal acts. For instance, acts covering social enterprise are: Constitution of the Republic of Croatia (OG 85/2010), Law on Institutions (OG 76/93, 29/97, 47/99, 35/08), Act on Cooperatives (OG 36/95, 67/01, 12/02, 34/11, 125/13, 76/14), Act on Associations (OG 70/97, 106/97, 88/01, 11/02, 74/14, 70/17), Act on Foundations (OG 36/95, 64/01), Company Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12,

68/13, 110/15) Act on Vocational Rehabilitation and Employment of Disabled Persons (OG 143/02, 33/05, 157/13, 152/14, 39/18), Act on Public Procurement (OG 90/11, 83/13, 143/13, 120/16), Act on the Promotion of Small Business Development (OG 29/02, 63/07, 53/12, 56/13).



## 5. Participative and/or democratic governance

Comparative overview of legal forms most commonly used by social enterprises on issue of participative and/or democratic governance:

Legal form	Private Limited Company / Limited Liability Company	Co-Operative	Association
<b>Management and corporate governance</b>	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.	The mandatory governing bodies of a co-operative are Assembly (Shareholders meeting), Supervisory Board and Co-op manager. In co-operatives, which has less than 20 members, the Supervisory Board activities/affairs may be conducted by co-operative 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.
	Management board members are appointed by the shareholders' meeting, unless the Articles of Association provide otherwise.	Management and affairs of the co-operative can be monitored by Assembly or Supervisory board.	
	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 Ltd. Is a public institution (not common in SE practice), workers needs to be included in Supervisory Board.	Although it is not prescribed by Law and common practice, some bigger co-operatives often establish Board of directors. The Board of directors provides commercial leadership for the co-operative.	
	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.	The directors are members of the co-operative and are elected at the annual general meeting.  Directors are often focused on long term development and on policy issues, leaving day-to-day issues in the hands of the appointed/ elected Co-operative manager.	



	<p>The legal form has members (shareholders).</p>	<p>The legal form has members.</p>	<p>The legal form has members.</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>It is the members who are the focus of the co-operative. Some of them are elected to the Board of directors which constitutes the policy setting body of the co-operative. The day-to-day operations are generally handled by a hired management structure.</p>	
<p><b>Rights of members</b></p>	<p>The ultimate control of the company rests with the 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 co-operative 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 co-operative.</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 activities, the dissolution and distribution of the remaining assets, and makes a decision on status changes.</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>Members are represented through attendance at the shareholders meetings.</p>	<p>Members are represented through their participation in the Assembly.</p>
<p><b>Voting and representation of members in general meetings</b></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>By participating in the management of the co-operative, the co-operative 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 co-operative, its regulations and how it functions.</p>	



**Employee involvement systems**

Private limited company can involve staff in the decision-making procedures either directly (as shareholders) or through representatives in consultative or advisory boards.

A worker co-operative is a cooperative self-managed by its workers (Co-operative Act prescribes at least 66% of workers must be a members).

There is no legal requirement to involve staff in the decision-making process.

Employees who are shareholders can receive a proportion of the legal form's profits.

Other co-operatives 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.

Employees can share in the cooperative's profit if they are also co-operative members or if it is provided for in the Co-operative Rules.

Croatian social enterprises do not follow a standard methodology to monitor social impact.

Together with the National Foundation for Civil Society Development, ACT Group is developing a system and methodology for social impact measurement. ACT Group is an important advocate of the idea that organisations should create a kind of "social balance sheet" that reflects their business and mission activities, and thus demonstrate whether the organization actually does what it says it wants to do; as well or to produce an impact report to demonstrate systematic changes social enterprise is producing.

The Ministry of Labour and Pension System is planning to introduce a social impact measurement methodology directly linked to the development of the social enterprise registry (If this will ever happen).



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