2 Social Enterprise in Croatia

Charting New Territories

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Introduction

Social enterprises emerged in Croatia in the mid-2000s, but practices closely related to social entrepreneurship have existed in the country for a long time, although under other names—fully or partly correlated with the activities of civil initiatives, voluntary organisations, cooperatives or the social economy at large. The new terms “social entrepreneurship” and “social enterprise” brought hybridity in the field and marked a new conceptual era, but despite this recent advance, conceptual clarity and a broadly accepted understanding of the concept of social enterprise (SE) are still seriously lacking. This observation shaped the overall purpose of this chapter, namely to “chart new territories” by analysing the context of SE development in Croatia and by proposing a working typology of social enterprise.

The first part of the chapter¹ deals with various notions and historical, contextual and conceptual issues that may contribute to the overall understanding of the SE field in Croatia. In the second part, we propose a typology of social enterprise in Croatia that is based on the EMES approach. In the final part of the chapter, we try to map and describe the major institutional developments that have been observed in the SE field. We also provide an insight into how the existing institutional environment relates to the different SE models. The main goal is to apprehend the extent to which existing institutional frameworks relate to and interplay with identified types of social enterprise.

1. Understanding Concepts and Context

The terms “social entrepreneurship” and “social enterprise” emerged rather late in the Croatian discourse—around 2005. They are still not broadly recognised or accepted, but a slight increase in public interest in these concepts could be observed after the Croatian accession to the European Union, in 2013, when several EU funding schemes became available for Croatian social entrepreneurs. However, several other related

terms and concepts—namely those of civil society, associations and cooperatives—are much more deeply rooted in Croatian discourse. The development of social enterprise in Croatia rests on different traditions and practices that go back a long way, as well as on different influences and conceptual approaches that have emerged recently.

The origins of civil initiatives in Croatia can be traced back to the late 19th and early 20th centuries. Examples include brotherhoods and other mutualist organisations, often related to the activities of the Catholic Church, as well as foundations established by noble families or church communities with cultural, educational and social goals (Bežovan and Zrinščak 2007). In the period after World War II, the political framework was associated with the one-party system, which dominated for half a century. The socialist regime was characterised by the repression of many freedoms. Similarly, to what happened in other transition countries, during the socialist period, civil society in Croatia was marginalised by the paternalistic approach of the state (Bežovan and Zrinščak 2007).

The concepts of civil society, non-profit sector or third sector emerged in Croatia with the broad political, social and economic transition in the early 1990s (Bežovan and Zrinščak 2007). However, during the 1990s, the political and socio-cultural environment remained quite unfavourable to civil-society development (Deacon *et al.* 1994). First, the beginning of the decade was marked by the war, so civil-society organisations' engagement originally focused on humanitarian assistance to displaced persons and response to the refugee crisis. Secondly, another important reason for the slow development of the civil-society sector was the low level of social capital in the country (Štulhofer 1998). Finally, the authoritarian political regime acted repressively towards civil society. Various restrictions were imposed on civil-society organisations, such as barriers when registering, and they were controlled by the state in many ways. Non-profit organisations, especially those that operated in the field of human rights, democratisation and development of civil society, came under special scrutiny, as they were foreign-funded organisations and, therefore, under suspicion of being likely to act against the state (Bežovan and Zrinščak 2007).

In Croatia, terms such as “civil-society organisation”, “non-governmental organisation” (NGO) or “non-profit organisation” (NPO) are more common than “social entrepreneurship” or “social enterprise”; they also have a longer tradition in the country. The term “non-governmental organisation” was dominant during the 1990s; after 2000, it was gradually replaced by the terms “civil society”, “civil-society organisation” and “association”. After 2000, when institutional and legal frameworks became more favourable, the concepts of “civil society” and “non-profit organisation” became widely used, in particular, in governmental and public administration discourse. These concepts include several legal forms: associations, foundations and (social-welfare) institutions. As for

the concept of “third sector”, it is virtually unknown in Croatia not only among the public but also among academics and professionals. The concept of “social economy” was rarely used until recently, and so far, the term has not become really “embedded” in the Croatian context, despite its long historical usage and role in continental European tradition.

As mentioned earlier, the discourse on social entrepreneurship and social enterprise emerged in Croatia around 2005; the concept was “imported” from abroad, introduced by international organisations and donors (Vidović 2012). These organisations (most of which were English-speaking actors) promoted the income-generating approach for non-profit organisations to achieve sustainability. The first social enterprises in Croatia emerged from such approach, and they were mainly organised as organisations embodying a “symbiosis” between non-profit organisations and the subsidiary companies they had established, mostly in the areas of the environment, child care, social services, education and research, non-profit accounting and community development.

With the further development of the sector, in particular with the intensification of the EU accession process, the understanding of social entrepreneurship in Croatia evolved and became closer to the EU approach. It became somewhat officially formalised in the national Strategy for Social Entrepreneurship Development (adopted in April 2015), which is largely consistent with the definition proposed by the European Commission in its “Social Business Initiative” (European Commission 2011). The Strategy defines social enterprise as a “business activity based on principles of social, environmental and economic sustainability where gained profit/surplus is entirely or partly reinvested for community well-being” (Government of the Republic of Croatia 2015).

The understanding of social entrepreneurship and social enterprise varies among stakeholders involved in the sector. As far as terminology is concerned, it was largely debated which of the two Croatian terms translating as “social” in English—namely “*socijalno*” or “*društveno*”—should be used. Some argued that the first term rather referred to activities related to “social assistance” or “welfare care” and was thus too restrictive, while others were reluctant to use the second term as it was usually linked to “collective organisations” introduced by the socialist regime. The first documents, strategies and research studies used the term “*socijalno*”, but many actors and activists in the SE sector lobbied for the term “*društveno*”. The latter was finally chosen in the Strategy for Social Entrepreneurship Development, thus becoming somehow the “official” term.

The terms “social entrepreneurship”, “social enterprise” and “social entrepreneur” are often used interchangeably; this is also the case in the Strategy. This is probably due to the fact that different traditions and influences—international donors, EU institutions, academic community—shaped these concepts and that there is still no clear understanding of

this area. For several years, there was no official definition or institutional recognition of social enterprises. This caused a lack of the overall recognition and visibility of these organisations. Moreover, this situation resulted in the coexistence of multiple approaches and understandings of social entrepreneurship and social enterprises, with definitions ranging from “self-financing activities of civil-society organisations” or “entrepreneurship for the poor” to “employment of disabled persons or other marginalised social groups” (Vidović 2012). Today, social entrepreneurship as a concept is becoming better recognised, not only among civil-society organisations and social entrepreneurs but also among public authorities and academic researchers.

In Croatia, there is no specific legal form for social enterprises. However, a number of legal forms may be used by social enterprises; these organisations most often register as cooperatives, associations or limited-liability companies (subsidiary companies of associations). Eligible forms also include foundations and private social-welfare institutions, but those are either rare (foundations and sheltered workshops) or not perceived as social enterprises (social-welfare institutions). Private social-welfare institutions are often important providers of social services (such as care for the elderly or child care) in local communities, but co-production practices (i.e. greater involvement of the service users or of their family members in service delivery) are often underdeveloped in these organisations (Matančević 2014), which also tend to have undemocratic forms of governance (Vidović 2012).

More than two years after the Ministry of Labour and Pension System had initiated its creation, the national Strategy for Social Entrepreneurship Development was finally adopted in April 2015. Not only did that Strategy provide an official definition of social enterprise, introducing nine criteria to be met by social enterprises, but it also planned to establish an institutional and financial framework for these initiatives. The plan was to set up some kind of list or register of social enterprises complying with the nine criteria; then, being listed in the register would have been a condition for social enterprises when applying for public support and grants. One of the criteria provided that at least 25% of the income had to be generated through economic activities, and that 75% of the profit or surplus had to be reinvested in the enterprise’s social purpose. In addition, criteria prescribed that social enterprises should “achieve balanced social, environmental and economic goals”, have a “favourable impact on the environment” and “contribute to the development of the local community and society at large”.

However, the implementation of the Strategy failed to a large extent: many of its activities or goals (including the creation of the list of social enterprises) were not achieved in its five years of existence. As a consequence hereof, no accurate official number of social enterprises in Croatia was available yet at the time of writing of this chapter.

2. Identification of SE Models

The overall lack of data determined our methodological approach. Our development of a typology of social enterprise follows the inductive qualitative approach; it takes into account many years of observations, participation, data collection and interviews carried out in the field by the two authors of the chapter. Social enterprise is the unit of analysis. Our main approach in identifying social enterprises was the EMES conceptualisation, which distinguishes three main dimensions in social enterprise: a social mission, the entrepreneurial nature of the activities and a participatory governance structure (Defourny and Nyssens 2012).

The SE sector in Croatia is marked by significant fluctuation, caused by many factors, but mostly by an unsupportive institutional and financial environment. Many social enterprises are short-lived because they do not succeed in achieving financial sustainability. At the core of the SE sector, though, some social enterprises persist and grow, despite this unfavourable surrounding.

The typology offered here is the first attempt to identify and classify existing SE models in Croatia. The intention was to recognise how various models are shaped not only by internal factors—such as the social mission, the field of activity or the type of governance—but also by external driving forces—such as public policies, socio-cultural factors and the dynamics of the sector. Based on an inductive approach and interpretivism, categories were identified according to observed similarities or patterns. The motivation or the reason behind the decision to establish and run a social enterprise was identified as a key dimension in distinguishing models of social enterprise. In other words, it appeared that social enterprises were largely shaped by what their founders perceived as important to achieve.

Our tentative typology proposes to distinguish three SE models, namely: social enterprises driven by employment purposes (or “people-driven” social enterprises); social enterprises driven by financial-sustainability goals (or “income-driven” social enterprises); and social enterprises driven by the search for innovative solutions (or “innovation-driven” social enterprises).

This typology should be understood as a preliminary mapping and classification. In practice, the boundaries of the various models are fluid and flexible, and social enterprises often demonstrate features of various models; indeed, social enterprises tend to have a hybrid organisational nature and to try to address and achieve different goals (social, economic and environmental goals).

2.1. *Social Enterprises Driven by Employment Purposes* (“People-Driven” Social Enterprises)

The main driving force behind the first type of social enterprise that we identified is the intention to create jobs and to ensure employment for

vulnerable people who have only limited access to the labour market. Those include *inter alia* persons with disabilities, (older) women, ethnic minority groups, long-term unemployed persons and young and under-experienced workers. The economic activity, that is, the production of goods or delivery of services, is organised around this goal. In other words, the economic activity is often chosen to suit the human and technical capacities of the vulnerable group(s).

Very often, the employment-related aspect of the project is accompanied by important social and/or environmental aspects. However, this is not an absolute rule. This “people-driven” type overlaps with what is known as work-integration social enterprises (Borzaga *et al.* 2008), to the extent that the main objective of these social enterprises is the work integration of people experiencing serious difficulties in the labour market or people who are at risk of being excluded from the labour market and from society. The intention is also to integrate and re-socialise those persons by giving them a work experience or by encouraging them to create permanent self-financed jobs. The most important social impact of this SE type is thus related to job creation, employment and social inclusion.

In Croatia, this type of social enterprise usually operates under the cooperative legal form, usually as social cooperatives or worker cooperatives, as the Act on Cooperatives allows (OG 34/11). Some social enterprises of this type are also legally registered under other legal forms, such as limited-liability companies.

Several examples of this type may be identified in the landscape of Croatian social enterprises. The social cooperative Humana Nova Čakovec was established in 2011 by the non-profit organisation ACT (now ACT Group) as a social enterprise that primarily employs people with disabilities and other socially excluded people. Humana Nova Čakovec produces and sells textile products, made of reused and/or organic textile, for the domestic and overseas markets. In 2018, the cooperative employed 23 persons, among whom 15 were persons with disabilities. The women cooperative Lika, in Gospić, had been established as part of the follow-up of the project titled “Together towards employment and social inclusion”, launched by a Split-based non-profit association, Cen-zura. The cooperative was engaged in the production and sale of original and traditional souvenirs from the area of Lika. Members of the cooperative were women in rural and war-affected areas of Lika; the cooperative aimed at their personal, social and economic empowerment through their engagement in the production and sale of their handicrafts. The social cooperative Ruke, in Bilje, was established by the non-profit association Baranja within the aim of preventing violence towards women. The economic activities, such as growing seasonal vegetables and providing care for the elderly in the local community, are organised for women victims of domestic violence and hard-to-employ women from Baranja. Hedona

Ltd, in Križevci, was founded in 2013 by the non-profit Association of Disabled Persons Križevci. It was first established as a cooperative but then changed its legal form to that of a limited-liability company. Its core business is the production of chocolate and chocolate pralines. Most of the employees are persons with disabilities.

2.2. *Social Enterprises Driven by Financial-Sustainability Goals (“Income-Driven” Social Enterprises)*

This type of social enterprise is driven by the need to establish an economic activity in order to generate income. However, the search for income is not motivated here by the “lust for profit” but by the desire to ensure the sustainability of the existing social mission of the (parent) non-profit organisation. Therefore, social enterprises of this type usually emerge in (often “old” and well-established) civil-society or non-profit organisations having lost the majority of their (donor-based) financial sources. In order to keep pursuing their social objectives, associations of this type decide to develop economic activities. The products and services they produce and/or deliver are usually very closely related to their social mission, which remains the main focus of the organisation. This type is partly related to the so-called “earned-income” school of thought (Defourny and Nyssens 2012), which claims that social entrepreneurship emerges as a strategy implemented by non-profit organisations (NPOs) to generate revenue to pursue their social objectives. The economic activities of this type of social enterprise are not just marginal activities; on the contrary, they are often highly integrated in the organisation’s activities. Apart from ensuring sustainability, the most important impact of this form of social enterprise is the increased visibility of social entrepreneurship not only among non-profit organisations but also among the broader public.

Because of the specific limitations that non-profits face in performing economic activities (see Vidović 2012, 2013), the most common legal and organisational form for this type of social enterprise is a somewhat hybrid form, combining a non-profit association and its subsidiary company (trading arm), which in most of the cases takes the form of a limited-liability company (Ltd). Social enterprises of this type do not generate much employment—or at least, they have not done so until now.

Several examples of this type may be identified in the Croatian SE sector today. ACT Conto Ltd and ACT Printlab Ltd, in Čakovec, were established by the non-profit organisation ACT (today ACT Group). The ACT Printlab is a graphic and web-design studio, specialised in providing services to the non-profit sector. ACT Konto provides tax consulting, bookkeeping and accounting services for non-profit organisations. Both subsidiary companies reinvest their surplus into the activities of their parent organisation or provide grants for other local non-profits. Alfa

Albona is a youth NPO in Labin. Besides its regular youth-oriented programmes, the organisation's main social-entrepreneurial project was to convert a former dormitory building into a youth hostel and a centre for social-entrepreneurship promotion. The non-profit organisation Roda, in Zagreb, started their social enterprise in the sector of production, sale and promotion of cloth diapers. After they had operated as an association for several years, they founded "Rodin let" as a separate (trading-arm) company with an intention to separate economic activities. Although the company closed down in 2017, Roda is still broadly recognised as one of the pioneering social enterprises in Croatia.

2.3. Social Enterprises Driven by the Search for Innovative Solutions ("Innovation-Driven" Social Enterprises)

Social entrepreneurship may be seen as a form of innovation *per se*. However, here we focus on a specific type of social enterprise that is primarily driven by the idea to offer a new solution to a recognised social or environmental problem. The motivation lies specifically in implementing an innovative response to a need that is not met by the social system. Very often, individual experts or educated persons with adequate know-how initiate a very innovative project, which then grows up into a social enterprise. The innovation can take many different forms, from providing an innovative community service to developing high-tech facilities for vulnerable or deprived social groups.

This type of social enterprise tends to be highly innovative in the development of new products, services or models, with a good potential to scale up, or even to transfer their know-how regionally or worldwide. However, as recent studies have shown (Brandsen 2014; Bežovan *et al.* 2013), this potential often remains untapped;² according to findings, most of the social innovations remain local. They usually do not last long and are only rarely transferred on a broader scale.

The most common legal and organisational form for this type of social enterprise is the company (in most cases, the limited-liability company), but hybrid models, combining an association and its trading-arm company, are also encountered. These initiatives often tend to be initiated or driven by individuals. Therefore, to some extent, they might follow less democratic models of governance than the two previous types.

Only few examples of this type can easily be identified in Croatia. E-glas, in Rijeka, is a spin-off company established by the University Centre of the Faculty of Engineering at the University of Rijeka. E-glas produces advanced hi-tech systems for voice-operated home devices, intended primarily for people with severe physical disabilities. The non-profit association UZOR, in Križevci, developed a free-of-charge system of waste paper collection in the local community. UZOR used cargo bicycles (thus reducing greenhouse gas emissions) to collect paper waste

from households. The enterprise employed long-term unemployed male workers. Over the course of several years, the business model became well rooted in the local community and sustainable in the long run, so in 2018, UZOR decided to transfer the business to local authorities, which continue running its activities. OmoLab is a small company from Split that develops communication tools for persons with dyslexia or other visual disabilities. The social enterprise was founded by a designer who created a special font and tools for reading in order to help dyslexic members of his family. The company provides free tools for users and generates income from selling designed merchandise they produce.

The three models of social enterprise identified in this classification should be understood only as ideal-types, created to provide researchers with a “compass” to navigate the complex hybrid sector of social enterprise in Croatia. In each of these three types, the social mission and the economic activity are equally important. The participatory nature is also one of the key aspects, although its forms and level of importance vary.

Interconnections between the different SE models may also be linked to and accounted for by the fact that social enterprises have a hybrid nature—a characteristic that is recognised as a specificity of these organisations. Social enterprises tend to combine different—almost contrary—types of organisation, governance mechanisms, sources of funding and forms of actions (Evers 2005). Hybridity is indeed a central characteristic of the operating principles of Croatian social enterprises, mostly due to the limitations of the institutional and financial framework.

3. Institutional Trajectories

This section gives a brief overview of the recent historical background that shaped the institutional framework for social enterprise in Croatia and provides some insights into interplays between institutional trajectories and the three models of social enterprise identified earlier.

3.1. Brief Historical Overview

The institutional framework for social enterprise in Croatia is still in its early stages of development. As underlined earlier, there is no specific law regulating social enterprise in the country. However, the Strategy for Social Entrepreneurship Development, adopted in 2015, offered a definition of social enterprise and identified nine criteria to be met by these organisations. It defined a social enterprise as a “business based on the principles of social, environmental and economic sustainability, in which generated profit or surplus is entirely or largely reinvested for the benefit of the community” (Government of the Republic of Croatia 2015). This definition is very much in line with the EU understanding of

social enterprise such as it is described in the “Social Business Initiative” (European Commission 2011).

Different legal entities—associations, cooperatives, companies, foundations and some private institutions³—may operate as social enterprises. It also often happens, as explained earlier, that social enterprises emerge from non-profit organisations that establish a company or a cooperative; social enterprises can thus also operate under a hybrid form, consisting of an NPO and its trading-arm company. Social enterprises are regulated through several acts, depending on the legal forms under which they operate. Current legislation that may be relevant for social enterprises include the Act on Associations, the Act on Cooperatives, the Company Act, the Act on Foundations and the Act on Institutions. Other legislation may also be relevant, such as the Act on the Vocational Rehabilitation and Employment of Disabled Persons and the Act on Public Procurement.⁴

We provide here a brief overview of the legal and institutional development for associations and cooperatives, as those are the most common and suitable legal forms for social enterprises (as just underlined, possibly in combination with each other or with another legal form), and we illustrate how the institutional, legal and fiscal frameworks have shaped the current state of the SE sector. This may help to understand the main institutional trajectories, and how they relate to the three main models we identified in Section 2.

The Act on Social Organisations and Civil Associations, adopted in the 1980s, during the socialist period, served as a regulatory frame for associations long after the democratic changes. A new Act on Associations was adopted in 1997, but it did not bring about the expected changes in opening more space for the development of civil society; on the contrary, this new Act was seriously criticised for being too restrictive and for not ensuring freedom of association. After the political shift, in 2000, yet another Act brought about favourable changes for a stronger development of associations, more in line with European standards. This shift also marked the end of donor-based funding and the emergence of a stronger orientation towards market-based resources. The Act on Associations and the Act on Financial Operations and Accounting of Non-Profit Organisations,⁵ adopted in 2014, introduced stricter regulation of the economic activities of non-profit organisations, primarily by compelling organisations gaining profit from their economic activities to pay taxes, and by making the accounting requirements more complex (which is seen as a burden, especially for smaller associations).

Similarly, to what is the case in other post-socialist countries, cooperatives in Croatia suffer from a negative perception among the general population and from institutional marginalisation. The Cooperative Act, which was adopted in 1995, did not particularly stimulate the development of the cooperative sector. Legislative changes introduced in 2011 and then in 2014 (such as a change in the required number of founders,

from three to seven) resulted in a decrease in the number of cooperatives. The latest Act on Cooperatives, adopted in 2011, enabled the creation of different types of cooperatives—*inter alia* social cooperatives, some of which were recognised as typical work-integration social enterprises (WISEs). However, in terms of regulation, not much distinguishes social cooperatives from other cooperative types.

The fiscal framework is not particularly stimulating for social enterprises, as they are not entitled to specific tax incentives or tax deductions. After 2000 and the change of regime, some tax benefits in favour of NPOs (in particular, tax deductions for donations to non-profits) were introduced. Since the adoption of the Act on Associations, in 2014, associations have been subject to profit tax when such profit is gained from economic activity. In addition, associations now have to pay the value-added tax if their annual income from economic activities reaches HRK300,000 (around €40,000).

The development of a supportive policy context for social enterprise has been long and slow. The *Joint Memorandum on Social Inclusion of the Republic of Croatia*, published in 2007, was one of the first documents that promoted the deinstitutionalisation of social services and the involvement of non-state actors in the provision of such services.⁶ This document established a framework for the use of resources from the Instrument for Pre-Accession Assistance (IPA), which constituted one of the financial sources for several social enterprises. The 2006–2011 National Strategy for the Creation of an Enabling Environment for Civil-Society Development and its 2012–2016 counterpart were the first documents that discussed social entrepreneurship. The adoption of the Strategy for Social Entrepreneurship Development for the period 2015–2020 marked a greater institutional focus on this area, which resulted in increased expectations placed on social enterprises. This Strategy proposed four main areas of action to support SE development, namely: developing a legislative and institutional framework; establishing financial mechanisms for the efficient operation of social enterprises; promoting social enterprises and their role through formal and informal education; and ensuring the visibility of the role and potential of social enterprises. The Strategy intended to channel the resources available from EU funds, mainly the European Social Fund (ESF), and planned to allocate around €37 million for the implementation of the goals and measures of the Strategy. However, the Strategy failed to implement its objectives and delivered only a small portion of the expected funds, that is, €1.4 million, which corresponds only to 3.8% of the total funding. The Ministry of Labour and Pension System was the managing body in charge of the implementation of the Strategy; within this Ministry, a particular office for social enterprises was formed,⁷ which was to operate as a central institutional unit for the SE sector.

Not only did the Strategy fail to channel the expected EU resources; in addition, the social-investment market is still in its infancy in Croatia. As a result, the country suffers from a shortage of funds and resources available to social enterprises, be they in their start-up stage or in a subsequent, scaling-up stage. Only rare traditional banks offer some financial instruments for social enterprises; an example hereof is provided by Erste Bank and its social banking programme, which granted tailored loans to five social enterprises in Croatia in 2017 and 2018. New ways of funding, such as crowdfunding, are also developing, with a few social enterprises already successfully using this model for some small-scale projects.

Apart from institutional actors, a few intermediary organisations and networks should be mentioned, as they played a major role in promoting and supporting social enterprise in Croatia, making up for the lack of institutional support. The Cluster for Eco-Social Innovation and Development (*Cluster za eko-društvene inovacije i razvoj*, or CEDRA) and the Social Entrepreneurship Forum (SEFOR) were the main intermediary actors for several years. SEFOR is not active any longer, but the majority of its members—be they individuals or organisations—have remained active through some CEDRA centres. The ACT Group, in Čakovec; SLAP, in Osijek; CEDRA, in Split; Impact HUB, in Zagreb; and the Cooperative for Ethical Financing are some of the committed intermediary players that offer non-financial support programmes and small-scale financial support particularly targeting social enterprises.

3.2. Interplay Between Institutional Trajectories and the Three Models of Social Enterprise

The shaping of the institutional and policy framework for social enterprise during the last decade interplayed with the development of each SE type identified in this study.

“People-driven” social enterprises may have benefited from several programmes and schemes supporting employment. Since 2008, the Instrument for Pre-Accession Assistance (IPA) – 4 Human Resources Development has provided funds to support the social inclusion and work integration of social groups with difficult access to the labour market. The employment and work integration of specific vulnerable groups were promoted in several strategies: the Strategy for Combating Poverty and Social Exclusion in Croatia 2014–2020; the Entrepreneurship Development Strategy 2013–2020; the Strategy for Women’s Entrepreneurship in Croatia 2014–2020; and the Strategy for Social Entrepreneurship Development. The Act on the Vocational Rehabilitation and Employment of People with Disabilities regulates specific forms of social enterprise, such as sheltered and integration workshops, specifically designed to employ people with disabilities.

One may also track the institutional trajectories that have supported the development of “*income-driven*” *social enterprises*. During the last decade, income generation was promoted as a legitimate strategy for non-profit organisations to become financially sustainable. Income generation through social entrepreneurship is the first SE model emphasised in the Strategy for the Creation of an Enabling Environment for Civil-Society Development. Gradually, income generation through economic activities has become a “regular” mode of operation for non-profit organisations, and this has resulted in legislation changes towards a more rigid regulation of economic activities that NPOs undertake.

The development of institutions and policies framing the activities of the third type of social enterprise identified earlier—namely “*innovation-driven*” *social enterprises*—is more recent. Indeed, although innovation has long been considered a substantial part of entrepreneurship and a generator of economic development and growth, it is only recently that social innovation, as a concept, has become more popular in the public discourse and has been integrated in various strategies. At the end of 2014, the Strategy for Innovation Encouragement in Croatia 2014–2020 (Government of the Republic of Croatia 2014) was adopted, with the purpose of increasing innovation and competitiveness in the country. Other strategies also target innovation through some measures; for example, the National Strategy for the Creation of an Enabling Environment for Civil-Society Development 2012–2016 (Government of the Republic of Croatia 2011) aimed to support social innovations in the civil-society sector. The Strategy for Social-Entrepreneurship Development prescribes measures to support both innovative financial instruments for social enterprises and, more generally, social innovations in the SE sector. Croatian organisations have also recently become eligible to apply to tenders of the EU programme on Employment and Social Innovation (EaSI), which mainly supports the development of social innovations.

Conclusion

The main intention of this chapter was to propose a preliminary typology of social enterprise in Croatia, based on the current state of the art and on empirical observations and analysis. The driving purpose or motivation behind the foundation and operation of a social enterprise was used as the main criterion to distinguish the various SE types. It also appeared that the purpose that drives social enterprises and their founders largely influenced their choice of legal and organisational form and business strategies and the availability of funding. The chapter also briefly outlined the institutional trajectories that have interplayed with the development of each SE type during the last decade.

Based on an inductive and interpretative approach, we identified three distinct types of social enterprise. For the first type, named

“people-driven” social enterprise, job creation (for vulnerable people) was the main purpose for establishing the enterprise. Social enterprises of this type are often founded as cooperatives. The second type, referred to as “income-driven” social enterprise, is commonly established by non-profit associations aiming to generate income for their social mission. Their products and services are usually closely related to their social mission, and they often operate as a trading-arm company. “Innovation-driven” social enterprise is the third type that was identified; it is usually based on an innovative way of addressing some social problem. The most common legal form for this type is the company—often a spin-off or trading-arm company.

This typology should be seen as a working tool that makes it easier to understand the variety of initiatives, entities and intentions appearing in the emerging—and yet complex—SE sector in Croatia. The three models we identified are to be considered as ideal-types; indeed, in reality, each social enterprise integrates all three aspects in different ways: all social enterprises are favourable to the employment of vulnerable people; they all tend to generate some income to address a social problem; and they are all usually innovative in some way, combining existing resources to produce new value for the common benefit.

Social enterprise in Croatia is facing many challenges, but the most important barrier to their development is without doubt the slow pace of progress in the creation of a supportive legal framework and institutional environment. This study may contribute to a better understanding not only of the complex universe of social enterprise but also of the different SE models’ needs and impacts, which may in turn lead to different institutional and policy approaches. Studies on social entrepreneurship and social enterprise in Croatia are still rare, so we hope this typology may stimulate other research attempts—both to identify other models of social enterprise and to gain more in-depth insights into many aspects of social enterprise that hitherto remain unknown.

Notes

1. For a longer version of this chapter, see Vidović and Baturina (2016).
2. For more details, see the WILCO Project’s website: www.wilcoproject.eu/ (accessed on June 16, 2015).
3. “Institution” (*ustanova*) is a legal form in Croatia; among institutions, the most important type in the SE field is that of “social-welfare institution”.
4. Act on Associations, OG 70/97, 106/97, 88/01, 11/02, 74/12; Act on Cooperatives, OG 36/95, 67/01, 12/02, 34/11, 76/14; Act on Foundations, OG 36/95, 64/01; Act on Institutions, OG 76/93, 29/97, 47/99, 35/08; Act on Companies, OG 152/11, 111/12; Act on the 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.
5. Act on Financial Operations and Accounting of Non-Profit Organisations, OG 121/2014.

6. It promotes the involvement of those non-state actors that are focused on addressing poverty and social exclusion.
7. The official name of this office is the “Department for the preparation and implementation of projects in the field of social entrepreneurship”.

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