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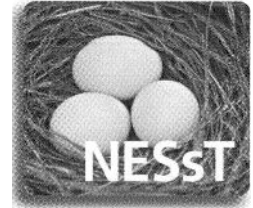
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Creating Economic and Social Benefits: The Emergence of a Social Enterprise Sector in Croatia¹

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Nonprofit, civil society organizations (CSOs) in Croatia represent the independent voice and interests of society and the environment, promote sustainable development, and help to overcome problems of poverty and social exclusion. Meanwhile, however, these important initiatives remain particularly vulnerable as financing from both local and international philanthropic sources, remain scarce. In their ongoing search to diversify their financing and secure a sustainable flow of resources, many Croatian CSOs are turning to alternative, entrepreneurial (i.e. "social enterprise"²) strategies to supplement grants from donors.

The social enterprise "hybrid" combines the best of non-profit mission/values with the best of for-profit entrepreneurship. The expansion and growth of social enterprises across Croatia represents an exciting opportunity to address the needs of particularly marginalized groups and communities in the country. When given the financial and business development support they need, social enterprises can help ensure the financial sustainability of local CSOs while also contributing to local economic development, providing employment/job training opportunities to marginalized individuals and communities.

INTRODUCTION

It is generally accepted that a vibrant civil society is a condition sine qua non of real democracy in any state. In the early years of the new Croatian state, CSOs struggled to be recognized by the government as respected social player and partners. And while antagonism and distrust have given way to greater cooperation and partnership between NGOs and the state, the civil sector is still viewed by suspicion by many government authorities both at the local and national level.

In Croatia there are approximately 30,000 CSOs registered, in accordance with the Law on Associations, the main piece of legislation regulating CSO activity in Croatia. Although accurate, this figure is also somewhat misleading, since it includes such entities as fishermen and sports associations, in addition to organizations operating for the public benefit. But only about one quarter of the 30,000 are believed to be active and many are forced to cease operations each year.³

- **Role of international funding:** During the 1990s there was a significant influx of international donors who provided large amounts of funding for international CSOs carrying out projects in Croatia. This proved to be a welcome boost at the time when the civil sector was faced with great hostility from the government and a collapsing economy. The international donor intervention provided the much needed funds and capacity building for local CSOs at the time. Currently, however, the majority of international donor organizations has ended their activities and exited Croatia (or in the process thereof).

- **Corporate giving:** Thus far, a handful of companies in Croatia have supported mostly humanitarian, environmental, and cultural efforts. The bulk of support is given out as sponsorship for sports teams. Croatian businesses have made recent progress in their support to CSOs, though structured corporate support for the civil sector remains low against increasing need.

- **CSO Capacity:** Since the system change in 1990, the civil sector in Croatia has come a long way in terms of its professional and expert capacity. Today, there are knowledgeable and experienced CSOs in any field of civil society: environmental, human rights, gender issues, youth work, disabilities, and civil society development, to name a few. These CSOs have the capacity to put forward their public benefit

agendas without the need to rely on international intervention. In terms of sustainability, however, they are faced with every day uncertainty of survival. Virtually none of them have their core funding secured which makes them rely exclusively on the unpredictable inflow of project funds. While foreign donors have largely withdrawn from Croatia, alternative sources of funding have not stepped in to fill the gap.

ENTREPRENEURIAL NONPROFITS

Perhaps out of necessity, a growing number of Croatian CSOs have turned to the marketplace in an effort to generate income to support their work through the sale of products or services. Some examples of entrepreneurial CSOs documented by NESsT in Croatia over the last year:

SLAP (Association for Creative Development) was founded in 2000 to provide support to civil society organizations, in particular in the east of the country, to help them achieve sustainability through cooperation with governmental and business sectors, and the development of social enterprise. Social Enterprise(s): Slap has been a social enterprising organization since starting its work. Its main self-financing activity consists of providing training and consultancy services to NGOs, local authorities and firms on the topics related to organizational development and non-profit entrepreneurship. The second activity, the marketing and sale of a knitwear line. The knitwear line has an employment generation goal with the intent to capitalize on the skills of women from the war-affected area to provide them with employment they would otherwise be unable to secure.

¹ This article is based on findings from a one-year research project undertaken by NESsT, including interviews of some 30 CSO representatives, legal experts and donor representatives in Croatia who have offered their expertise, views and comments. The purpose of the research was for NESsT to gain an insight into the Croatian civil society sector, in particular its practice and attitude toward social enterprise, so as to define a strategy for expanding the NESsT Venture Fund to support social enterprises in Croatia.

² NESsT uses the term "social enterprise" to refer to enterprises owned by or operated to benefit nonprofit, civil society organizations. These enterprises typically have a double-bottom-line aim: 1) social impact (e.g., creating employment/job training opportunities or other benefits for particularly marginalized groups or communities); and 2) financial impact (e.g., generating financial resources to support the social mission of the nonprofit parent organization to help complement donations from philanthropic donors).

UDRUGA SLIJEPIH (Association of the Blind) was established in 1955 to support education, employment and inclusion of the blind in the Sisak area of central Croatia.

Social Enterprise(s): In 2001, the association began cooperation with a small family business and started producing wooden toys and accessories that were marketed to the public. The enterprise provides jobs to otherwise unemployed blind people.

ECO CENTER CAPUT INSULAE BELI (ECCIB) was established in 1993 to protect the endangered species of the Eurasian Griffon and the natural and historic heritage of Island of Cres.

Social Enterprise(s): In 1995, ECCIB began offering accommodations for volunteers and for groups of schoolchildren visiting the Center. The enterprise has now evolved into an eco-tourism enterprise offering guided tours for tourists, schoolchildren, as well as selling admission to the Centre's exhibitions and selling souvenirs.

ZELENA AKCIJA (Green Action) was founded in 1990 to promote the preservation of the environment and sustainable development.

Social Enterprise(s): Zelena Akcija has always sold merchandise with its logo. More recently, the organization secured a long-term lease on a building formerly used as military barracks on the resort island of Šolta. Zelena Akcija completed renovation of the space in order to rent to others for conferences, meetings, etc.

Currently, most social enterprises operated by CSOs across Croatia are managed in ad hoc and inefficient ways, with little or no planning or preparation, and little access to the financial capital and support needed to expand and thrive.⁴ There are a variety of reasons for this, one key reason being the lack of capacity, human resources and expertise needed to undertake social enterprise (many CSO leaders are highly-skilled in their area of expertise - the environment, disabilities, social welfare - but don't have practical business training).

Virtually all social enterprises in Croatia are started by the CSO itself with little outside support. They chose the activity which best matched their organizational resources, both in terms of the available expertise and minimal financial start-up requirements. Where start-up

funds are needed, the boost oftentimes comes from donor agents, typically in the form of donations for the acquisition of real estate, long-term property leases and volunteer work. Overall, start-up funds are generally secured from ongoing projects, rarely (if ever) from loans from banks (who, however inaccurately, tend to see social enterprises as inherently risky)⁵.

Despite these obstacles, CSOs in Croatia maintain a very positive view of the opportunities of social enterprise. CSOs are generally aware that international donors are withdrawing from Croatia and that they cannot afford becoming complacent as this would jeopardize their sustainability. Most also see social enterprise as a way of directly fulfilling the mission of their organization (beyond simply generating financial resources to support it). Nearly all social enterprises, like those highlighted above, are "mission-related" - that is, the enterprise itself contributes to the "social bottom line" of providing employment to marginalized people, to preserving the environment, or whatever the CSO mission may be. The majority consists of sale of products, often times CSO memorabilia, and fees for services, usually expert consultancies and training, etc. Nevertheless, a number of them have adopted innovative approaches with a mass public appeal, or selling services to state institutions and local authorities, or to other businesses.

CSOs generally agree that social enterprise has a positive impact on their reputation and helped them achieved their mission more efficiently. CSOs indicate that as a result of engaging in social enterprise they have acquired a better reputation among their beneficiaries, the public and other stakeholders. In some cases, NGOs have indicated that self-financing has made it easier for them to secure funds from government sources, foundations or corporations. Moreover, their organizational capacity has increased, which has enabled them to improve the quality of services they provide.

CROATIAN LEGAL FRAMEWORK FOR SOCIAL ENTERPRISE

Virtually all social enterprises in Croatia are conducted within the legal structure of the CSO, while a few of them have begun contemplating establishing a separate for-profit entity to facilitate the business operations they are undertak-

ing. CSOs in Croatia are explicitly permitted to engage in commercial activities, in line with the "non-distribution constraint" (i.e., any surplus or profit must be reinvested into the social purpose of the CSO, rather than to enrich shareholders). CSOs are allowed to engage in both mission and non-mission related activities, with the obligation of allocating all of the earned income for organizational purposes. In terms of the tax treatment, CSOs are exempt from corporate taxes on income generated from their economic activities. If, however, under procedures which are not entirely clear, the competent tax authority establishes that a CSO has gained an "unjustified privilege on the market," the CSO's income will be taxed at the regular corporate income tax rate. In this respect, CSOs would be taxed for income from their economic activities as any "for-profit" business.

Although CSOs by law are allowed to engage in commercial activities, their scope and volume have not been defined. In practice, therefore, CSOs may be denied registration if their statutes include references to commercial activities. Moreover, excessive bureaucracy of the state administration poses additional burdens on CSOs planning to or engaging in commercial activities. This implies that in effect, the legal and administrative frameworks are not truly conducive to the engagement of CSOs in commercial activity, which is vital for the sector's sustainability in Croatia.

CONCLUSION

When used effectively, social enterprises can serve a dual purpose:

- providing a flexible, sustainable financing source for CSOs and building a stronger, more sustainable civil society promoting social and economic development and environmental protection; and
- developing a vibrant, environmentally- and socially-responsible, free and open local marketplace more responsive to the needs of local communities and the environment.

Social enterprises combine the best of non-profit mission/values with the best of for-profit entrepreneurship. At a time when unemployment and social exclusion remain critical issues in Croatia, social enterprises can provide employment and job training opportunities to marginalized individuals and communities.

www.nesst.org

³ 2004 NGO Sustainability Index for Central & Eastern Europe and Eurasia (USAID).

⁴ See NESsT's full case studies on these four Croatian social enterprises (and others in Central & Eastern Europe and Latin America) on the "NESsT Publications" link of the NESsT website:

⁵ It was never the case that an NGO was given a bank loan. In one case, the NGO manager had taken a personal loan to secure the funds necessary for the purchase of a vehicle used for the self-financing activity.