

CURRENT CHALLENGES AND FUTURE POTENTIALS OF SOCIAL ECONOMY IN CROATIA

ZDENKO BABIĆ
DANIJEL BATURINA

The social economy sector in Croatia has been neglected for a long time and has not been recognized as a space for sustainable jobs and the development of a more inclusive and cohesive society, as is the case in many Eastern and Central European countries. On the other hand, social entrepreneurship is a relatively new phenomenon established in this century. The aim of this paper is to assess the trends and challenges of social economy development in Croatia as the newest, last EU member state. On the basis of a secondary data analysis, the paper scrutinizes trends in social economy development. Social entrepreneurship is analysed as a part of the social economy that is strengthening, as well as the economic activity of associations that tends to turn into a social economy or a solidarity economy. The paper will also give an overview of the instances of the institutional context of the development of cooperatives and social enterprises, such as the recent legislative and policy changes, as well as the institutional framework with some insights into recommendations how to promote the development of the social economy sector in Croatia.

Keywords: social economy; cooperative sector; social enterprises; Croatia.

INTRODUCTION

Over the past decades, surpassing its quantitative significance, the social economy has not only imposed its ability to significantly contribute to resolving new social problems, but has also strengthened its position as an institution necessary for stable and sustainable economic growth, harmonizing services with needs, increasing the value of economic activities that serve social needs, more equitable distribution of income and wealth, correcting imbalances in the labour market and, in short, deepening and empowering economic democracy (Monzon and Chaves, 2016).

Adresele de contact ale autorilor: Zdenko Babić, Danijel Baturina, Faculty of Law, Zagreb University, Nazorova 51, 10000 Zagreb, Croatia, e-mail: zbabic@pravo.hr.

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The aim of this paper is to assess the trends and challenges of the development of the social economy in Croatia as the newest, last EU member state.

The methodological approach used in the paper includes a desk analysis of a collection of secondary data based on available documents, reports, studies, strategies, and other documents relevant for social economy in Croatia and partly for the European context. Information on policies and their analysis, measures, financial instruments and information on the legal, institutional and financial framework will be used, as well as the data available from statistical databases and government institutions and offices.

After a short note on historical chronological analysis of the context of development of social economy in Croatia, this paper will analyse trends in social economy development in the last five years since Croatia became an EU member (2013–2018). Based on an analysis of key indicators of the co-operative sector in Croatia, we will provide an assessment of the current state of affairs in the cooperative sector of the Croatian economy. On the other hand, social entrepreneurship is analysed as a part of the social economy that is strengthening as well as the economic activity of the associations that tends to turn into a social economy or a solidarity economy. It should be noted here that currently the social economy sector in Croatia mainly encompasses cooperatives and social entrepreneurship¹ type of organizations. The analysis in this paper will be based on extensive desk research on current available data from the prior researches. In addition to some economic indicators, the paper will also give an overview of the instances of the institutional context of the development of cooperatives and social enterprises, such as the recent legislative and policy changes, as well as the institutional framework.

The final part of the paper will provide concluding observations on future trends in the development of the social economy in Croatia which we will compare them with the trends in EU countries, especially considering the report on the latest social economy developments in the European Union (Monzon and Chaves, 2016). The main obstacles for the development of the social economy sector will be identified, and key measures for policymakers how to tackle the aforementioned obstacles and measures to promote the development of the social economy sector will be proposed based on analyses of the best EU practice in the social economy.

¹ Which are not a special legal form in Croatia but could be different types of organizations that satisfied certain criteria that would be described in the paper.

HISTORICAL ASPECTS OF THE DEVELOPMENT OF SOCIAL ECONOMY AND SOCIAL ENTREPRENEURSHIP IN CROATIA

Social economy

Modern cooperatives in contemporary Croatia started to develop after the collapse of feudalism in the mid-19th century. Before that, a type of so-called familial cooperatives existed in Croatia (Pejnović, 2016), but cooperatives in contemporary meaning of that term, started in Croatia on the island of Korčula with a credit-saving cooperative named 'Blagajna uzajamne veresije'² which was established in 1864 with the aim to provide a better financial framework for the development of agricultural and craft sector (Mataga, 2005). Cooperative members respected cooperative values and invested agreed amounts of money in their cooperative, which were then used to finance projects of cooperative members mostly in agricultural (fisheries, vineyard and agriculture) and craft sector on the island of Korčula at that time.

In that period (mid-19th century), Croatia was a part of the Austro-Hungarian empire and under Austro-Hungarian administration. More precisely, Dalmatia and a part of Istria were under the Austrian administration in the Dual-Monarchy, but Slavonia and Croatia (eastern and central part of Croatia) were under the Hungarian administration with a significant autonomy, especially in the judiciary, administration, education and agriculture. The aforementioned division had implications on the development of cooperatives at that time in Croatia. Thus, in Dalmatia cooperatives developed faster under the Raiffeisen influence. In that period, the legal framework in Croatia for cooperatives was the Austrian Law on Cooperatives from 1873. In Central Croatia and Slavonia an impetus for development of cooperative sector was made after the Catholic Congress which was held in Zagreb in 1900. The Promotional Committee for Founding Raiffeisen's Cooperatives was founded and comprehensive activities were proposed at the aforementioned Congress. Two years later, the Croatian Agricultural Bank was founded, which gathered all the Croatian peasant cooperatives and started operation in Zagreb (Mataga, 2014).

By 1907, the Cooperative Alliance was founded in Dalmatia with over 100 active cooperatives at that time. The number of cooperatives significantly increased before World War I (394 cooperatives in 1911). On the other hand, in the region of Slavonia and Croatia at that time (the beginning of the 20th century until WWI), three different Cooperative Alliance were established (Pejnović et al., 2016): Central Association of Croatian Peasant Cooperatives which was founded 1911, Cooperatives which operated under the umbrella of the Croatian-Slavonian Economic Society and cooperatives that operated under auspices of Alliance of Serbian Agricultural Cooperatives in Zagreb. According to some sources, before WWI

² English translation of the term 'Blagajna uzajamne veresije' – Mutual Aid Treasury.

around 1,000 cooperatives with 150,000 members operated in Croatia and Slavonia (Pejnović et al., 2016) part of Croatia.

Between the two world wars, the legal framework for cooperative development in Croatia stood almost unchanged and the aforementioned old Austrian Law on Cooperatives from 1873 still regulated the field. After WWI in 1918 Croatia moved from one nation alliance (Austro-Hungarian) to another, the Kingdom of Serbs, Croats and Slovenes which changed its name into the Kingdom of Yugoslavia in 1929. In the political arena the Croatian Peasant Party became very influential at that time and some of their leaders like the Radić brothers influenced developmental tendencies not only in the cooperative sector in Croatia, but also in general agriculture policy. So, under Croatian Peasant Party's influence cooperative movement under the name 'Economic Concorde' was formed which significantly contributed to the development of cooperative sector in Croatia at that time. This positive framework for cooperative movement resulted in a significant increase in cooperative membership and, according to some research, in 1938 in Croatia more than 2,300 cooperatives were registered with more than 450,000 members (Mataga, 2014). In the beginning of WWII the Independent State of Croatia (NDH) was formed which banned all political parties, including the Croatian Peasant Party and a negative period for cooperative development in Croatia begun and followed after WWII during the socialist period.

After WWII, the socialist period started in Croatia with the development of state planned economy, collectivization and nationalization of private property and agricultural land, and abolition of market economy. Cooperative sector at that time was seen as a 'market economy child', so in that ambient socialist rulers created their own view of the cooperative sector in new socialist society. Consequently, they formed a new institutional framework for creating new 'socialist cooperatives' instead of those old forms of markedly oriented cooperative sector which was highly developed and vivid between the two world wars in Croatia. According to the new socialist legal framework created in 1946 and 1953, bigger and influential cooperative members were forced to 'give their own private property such as agricultural land' to new collective socialist cooperatives which followed the Soviet kolkhoz model. In reality that meant the end of the private cooperative sector in Socialist Croatia and the period of so called 'socialist cooperatives' started from 1946 (Pejnović, 2016). After some social changes within ex socialist regime in Croatia, according to some researchers (Novković and Golja, 2015), a kind of flexibilization was introduced after 1974 and cooperatives were allowed to serve as associations for self-employed farmers, artists or tradespersons, allowing them cost savings for supplies or easier access to markets. On the other hand, cooperatives in socialist Croatia were formed as associations of members sharing an economic interest and the socialist state promoted collectivism, which meant that Croatian cooperatives from socialist time did not follow some of the most important cooperative principles.

Due to the aforementioned and described socialist experience, negative influence and connotations about cooperative sector are still alive in contemporary Croatia. So, especially in the beginning of the transition process, the cooperative sector was seen by some policy makers as a socialist relict what definitely adversely influenced the development of cooperative sector which was discredited in the first ten years of transition to a market economy (last ten years of the 20th century). In contemporary Croatia the impetus for the development of modern cooperative sector started in the transition period with the first Law on Cooperatives, which was enacted in 1995. After that Law there were several changes in legal and institutional settings in the cooperative sector in Croatia, and the details are presented in the next section which deals with current trends.

Social entrepreneurship

The development of social entrepreneurship is a relatively new phenomenon in Croatian terms, although social economy has a distinctive history as described above. Approximately 15–20 years ago, the promotion of social entrepreneurial activity in Croatia began, mainly through foreign organizations³. The Anglo-Saxon school of social entrepreneurship was promoted, which can be explained by the donor-driven practice of foreign organizations (Vidović, 2012; Vidović and Baturina, 2016). The unfavourable environment for third sector initiatives is characterized by patron attitudes of the state, and due to the lack of modernization capacities in social policy (Bežovan et al., 2016.b) social entrepreneurship entered policy and practical agenda rather late.

The discourse on social entrepreneurship and social enterprises emerged around 2005 when the concept was “imported” from abroad, i.e., introduced by international organizations and donors (Vidović, 2012)⁴.

With the further development of the sector, particularly with the intensification of the EU accession process, understanding of social entrepreneurship in Croatia came closer to the EU approach. In the year 2006, the first conference “*Emerging models of social entrepreneurship: possible paths for social enterprise development in Central East and South East Europe*” was held. In the same year, a special issue of the online magazine *Civilnodrustvo.hr* on social entrepreneurship was published.

³ Although we may say that the opening of space for social entrepreneurship started with the welfare reforms in the 90s and Law on social care from the year 1997 that enabled other stakeholders than the state to be involved in the provision of the welfare services (Bežovan, 2008, Baturina, 2016). Besides civil society due to lack of available resources intensified discourse and start to plan self-financing activities and way to achieve financial sustainability (Vidović, 2019; Baturina, 2016).

⁴ We must shortly note the issues of terminology and their usage in the different policy fields. Both terms that mean social in Croatian and which are used for social entrepreneurship, “socijalno” and “društveno”, have some unpleasant connotations for different social groups: “društveno” evokes the collectivism imposed during the socialist regime, while “socijalno” evokes poverty, low income, and social assistance.

A year after the Conference on Self-financing Activities and Social Entrepreneurship in Non-Profit Sector was organized. At the end of year 2009, the first conference which specifically discussed social entrepreneurship in Croatia was organized (Šimleša et al., 2016; Vidović, 2012).

Since the early 2010s, many conferences, round tables, and panel discussions have been organized on the topics of social enterprises and social entrepreneurship. Several studies and books have also been published, and information tools created. Many of these dissemination activities have been organized with the financial support of the IPA (Kadunc et al., 2014). Annual assignment of Awards for Social Entrepreneurship was jointly organised by the Association for Creative Development SLAP (Waterfall), the Ministry of Labour and Pension System and Forum for development of social entrepreneurship (SEFOR)⁵. The first awards for social entrepreneurship were given at the beginning of 2012 and an award was also given the next year. After that, this practice has stopped. In 2013 the preparation for development of Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2015–2020 begun, and it was delivered in 2015 and was a key moment for the recognition of the social entrepreneurship in the Croatian context. The period from the delivery of the strategy till nowadays will be in focus in the next chapter where we will discuss current developments in the field.

SOCIAL ECONOMY IN CROATIA: CURRENTS STATUS AND TRENDS

Cooperative sector

The first Law regulating cooperative sector in independent Croatia, Law on Cooperatives, was enacted in Croatian Parliament in 1995 (Official Gazette, 36/1995). The law has introduced international cooperative standards and principles in the Croatian cooperative sector, but many important issues were not properly defined like cooperative property issues, minimum number of members, minimum member contribution fee etc. (Mataga, 2014). The next phase in legal and institutional settings happened in 2002 when Law on Amendments and Additions to the Law on Cooperatives (Official Gazette, 12/2002) was enacted. Aforementioned amendments from 2002 established a new cooperative umbrella organization called Croatian Alliance of Cooperatives (CAC) instead already existing Croatian Cooperative Alliance (CCA). This was not only a change of the name, but also the way and terms of operation that were provided by a leading umbrella institution aimed to promote cooperative sector development. Namely, in the previous umbrella organization (CCA) membership was on voluntary basis, but according to the aforementioned amendment from 2002 membership in (CAC) became obligatory,

⁵ Whose activities in the meantime declined.

what according to some authors ruined one of the basic cooperative principles that membership in cooperative sector should be *open and voluntary* (Mataga, 2014).

According to some other research (Tratnik et al. 2011; Nedanov et al., 2012), after 2000s aforementioned legal and institutional changes resulted in a sharp increase of new cooperatives mainly with the aim to benefit from different kind of state aid and subsidies which were directed towards cooperative ‘revival’ from different ministries, but without real know-how and real cooperative development motives. This upward trend created a superficial development in cooperative sector which was not sustainable. Moreover, very often motivation for creating new cooperatives was maximization of self-interest through using state subsidies which were directed towards cooperative sector development at that time rather than real cooperative development motives (Božić et al., 2019). Authors as, for example, Tratnik (Tratnik et al., 2011) suggest that the low requirement criteria (only three members were required to found a cooperative, and the minimum membership contribution was unspecified), resulted in a sharp increase with 571 new cooperatives that were founded in Croatia from 2000 to 2007 only (not including savings-credit cooperatives).

It was noticed that many of these newly established cooperatives were not operating and new amendments of the Law were introduced in 2011 with the aim to increase requirement criteria and also to demand new registration of all cooperatives in order to have a clear picture of cooperative sector⁶. The new *Law of Cooperatives* enacted in Croatian Parliament during 2011 (Official Gazette, 34/2011) stipulates minimal number of members increased from three to seven, minimum member contribution was also defined and all operated cooperatives had to align with new Law requirements within a proposed time limit⁷. Parallel with this increase in legal requirements, Croatian economy was hit by a sharp recession in 2009 which lasted for almost six years, but the hardest hit was in the first years so that macroeconomic framework for cooperative sector development was also negative during the period 2009–2013 (*Table no. 1*). Finally, at the end of this consolidation process the number of cooperatives in Croatia decreased for almost 50%, the number of employees decreased for more than 35%, and the number of members more than 33% (see data in *Table no. 1*).

According to the last available data for 2016 (according to the Croatian Alliance of Cooperatives database), at the end of 2016 in Croatia 1,218 cooperatives operated with 2,595 employees and 20,500 members. Total revenues of cooperative sector amounted to around 220 million Euro in 2016 what was somewhat below 0.5% of GDP in Croatia, while in some EU countries (Italy for instance) the share in GDP is more than 10%.

⁶ To see the real number of operating cooperatives in Croatia due to the problem that many of registered cooperatives have not operated.

⁷ Also, this Act introduced social cooperative as an organizational form, which connected cooperatives more to the social entrepreneurship.

Table no. 1

Trends in cooperative sector in Croatia

| | 31.12.2011 | 31.12.2012 | 31.12.2013 | 31.12.2016 |
|-----------------------|------------|------------|------------|------------|
| COOPERATIVES (number) | 2,060 | 1,069 | 1,169 | 1,218 |
| MEMBERS | 28,866 | 18,767 | 19,485 | 20,483 |
| EMPLOYEES | 4,246 | 2,680 | 2,743 | 2,595 |

Source: Croatian Alliance of Cooperatives database.

Regarding sectoral development in Croatia, cooperatives in agricultural sector are dominant, more precisely the agricultural and fisheries sectors' share in 2016 in the total revenue of the overall cooperative sector was 70%. So, cooperatives are most dominant in agriculture, where 495 organizations (41% of total) operate with 7,580 shareholders (37% of total) and 1,208 employees (47% of total).

Trends presented in *Table no. 1* suggest a mild revival of cooperative sector in the last few years in comparison with the data from 2012, what gives us an insight of a positive development, but these positive trends should be enhanced with proper policy measures and a possible Strategy for cooperative sector proposed by the government and enacted by the parliament.

Social entrepreneurship

Croatian legislation does not recognize social entrepreneurship as a specific legal term. However, the legislation does not prohibit it either (Spreckley, 2012; Vidović, 2019). Social enterprises can be active within the existing legal framework which is constituted from different acts that regulate cooperatives, associations, foundations, professional rehabilitation and business development⁸. The most general social enterprises forms are an association, cooperative, Limited Liability Company and in some cases private institution⁹. Only a minor part of these organizations are recognized as social enterprises, as it will be discussed below. They are not recognized as a separate legal form, but as a status that an organization has by the nature of its

⁸ Cooperatives Act, Law on Associations (OG 74/14), Law on Foundations and Funds (OG 36/95, OG 64/01), Law on Institutions (OG, 76/93, 29/97, 47/99, 35/08), Croatian Companies Act (OG 152/11, OG 111/12), Act on Professional Rehabilitation and Employment of Persons with Disabilities (OG 143/02, OG 33/05, OG 157/13), Public Procurement Act (OG 90/11, OG 83/13, OG 143/13), Law on Small Business Development Encouragement (OG 29/02, OG 63/07, OG 53/12, OG 56/13), Law on the Rights of Croatian Defenders from the Homeland War and the Members of their Families (OG 174/04, 92/05, 2/07, 107/07, 65/09, 137/09, 146/10, 55/11, 140/12, 33/13, 148/13, 92/14).

⁹ The Law defines an institution as an entity for permanent activities in the fields of general interest if they are not performed with the aim of making a profit. To be treated as entities engaged in the general interest, the establishment of the institution in the special fields requires approval from the state.

operations and its mission. However, the presence of legal inconsistencies is confusing and creates problems in the development of social entrepreneurship. In the recent research, organizations stated legal environment as one of the biggest barriers to their development (Bežovan, et al., 2016)¹⁰. More problematic is tax framework that should be improved by the measures of the strategy. It defines its non-profit status and privileges that organizations can use to enhance their activities. For economic activities which are the core of activities of social enterprises, tax framework is certainly limiting (Baturina, 2018).

In 2015, the first *Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2015–2020* was adopted. 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 Strategy addressed four relevant dimensions: 1. legal and institutional framework, 2. financial framework, 3. education, and 4. visibility and recognition. The Strategy allocated around 35 million EUR to be available mostly through the European Social Fund operational programme (2014–2020), which is a really big amount in comparison with finances available in the years before the strategy (Baturina, 2018). There are nine criteria for being a social entrepreneur established in the strategy and these criteria in significant aspects have similarities with the EMES approach (Defourny, 2001: 6–8) and consider three dimensions usually ascribed to social enterprises (entrepreneurial dimension, social dimension, and governance dimension¹¹). Organizations in different above mentioned legal forms that conform with those criteria are considered to be social enterprises¹².

One of the first goals of the Strategy is to develop evidence (or registry) of social enterprises. For now, we do not have the exact number of social enterprises. The registration of social enterprises or social entrepreneurs¹³ will be based on several (nine) criteria. By fulfilling the required criteria, a social enterprise would be eligible for financial supports and grants, but in year 2019 this kind of registry was still not established.

Project iPRESENT (Šimleša et al., 2015) at the end of the year 2014 established 90 social enterprises. The research of Šimleša et al. (2015) noted that 14.4% of social enterprises had 0 employees, 40% had 1–4, and only 6.66% had

¹⁰ Together with a lack of favourable tax treatment and as an especially important barrier increasing bureaucracy.

¹¹ EMES ideal type approach was operationalized to be practically applicable in the Croatian context.

¹² Organisations will prove their compliance with these criteria by their founding acts and business activities, annual work programmes and triennial strategic/business plans, annual reports on the realisation of the annual work programmes, and reports on social impact (Government of the Republic of Croatia, 2015). Practice form grant tenders for social enterprises has shown that those criteria are applied in a limited manner (Baturina, 2018).

¹³ They can also be physical persons.

more than 20 employees. Most organizations (81.1%) had incomes lower than 2 million HRK (around 262,123 EUR). The most recent estimates (Vidović, 2019) suggest the number of 526¹⁴. Among them¹⁵ the author states associations pursuing social entrepreneurship and relevant general interest that registered for economic activities (346), social cooperatives (20), veterans social-working cooperatives (35), cooperatives pursuing social affairs (33), privately owned foundations pursuing general interest activities and pursuing economic activities (5), companies funded by associations pursuing relevant general interest activities (50), other companies pursuing explicit social aims, operating not for profit (10), institutions funded by associations pursuing general interest companies (15), and sheltered workshops (7).

Some initial typologies of social enterprises were established. Vidović and Baturina (2016) recognize social enterprises driven by employment for vulnerable groups, the ones driven by income generation to ensure provision of their free services to beneficiaries, and those driven by innovative solutions to unaddressed social needs¹⁶.

Until recently, different governmental bodies and institutions were regulating the operation of specific legal entities¹⁷. No official governmental body was exclusively responsible for the development of social entrepreneurship. After the Strategy was adopted, the Office for Social Entrepreneurship was established as a central unit for SE sector. The Office is founded within the Ministry of Labour and Pension System, since this Ministry coordinated the process of Strategy development.

The front of this strategy was hard reality of implementation, which shows that stakeholders overestimated possibilities of development of the sector (Baturina, 2018). An institutional acknowledgment that happened in Croatia with the adoption of the Strategy for Social Entrepreneurship Development in 2015 increased expectations from different actors around social enterprise. However, poor implementation of the Strategy caused overall disappointment. The application of the nine criteria turned out to be too complicated, and institutional actors lacked capacity to implement the Strategy. Tenders that were supposed to be available

¹⁴ But they are based on specific criteria and methodology that are counting possible social enterprises, not the actual ones. A report will be published soon and it is part of Social Enterprises and their Eco-systems: A European mapping report.

¹⁵ Social enterprises are a minor part of the general third sector, for example, there are more than 52,000 registered associations in Croatia out of which only 346 are recognized as social enterprises, and more than 1,000 cooperatives of which social cooperatives are smaller part (Vidović, 2019).

¹⁶ Vuković et al. (2017) on the other hand recognize three types of social entrepreneurs: those coming from associations and identifying with civil society, those acting as professional managers and those acting as entrepreneurs.

¹⁷ Such as Ministry of Labour and Pension System, Ministry of Entrepreneurship and Crafts, Ministry of Social Policy (former name) and Youth, the Government Office for Cooperation with NGOs and the National Foundation For Civil Society Development.

from the strategy just did not happen¹⁸. In addition, political climate and an absence of political will to prioritize social enterprise development in the policy agenda characterize the current situation (Ferreira et al., 2019; Baturina, 2018).

At the policy level, there is a lack of horizontal coordination between the sectors and the ability to follow and recognise modernisation trends, which is particularly evident in the areas of social innovation and social entrepreneurship¹⁹. Europeanization capacities in this regard are modest (Baturina, 2018; Bežovan 2019). Despite the lack of institutional and financial support and existing legal disadvantages, interest in social entrepreneurship and social enterprises is still growing in several areas of the ecosystem. We are witnessing emergence of new social enterprises, new courses and educational programmes, some social enterprise incubators and accelerators and other financial and support programmes, developed mainly in an intermediary sector²⁰ (Ferreira et al, 2019; Vidović, 2019). Civil society organizations are developing programs in wider conceptualization of WISE (acquiring skills-education, support to employment and social integration), and there are some WISE examples of good practice (Baturina, 2016; Baturina, 2018). In the third sector, social innovations are being thought out, by trying to articulate and suggest some new paths of economic development or the ways of entrepreneurial action (Baturina, 2016). In addition, the new areas of the solidarity economy in Croatia are not yet conceptualized, social supermarkets are one of the examples (Marić and Klindžić, 2018; Knežević et al., 2017). Orlić (2014) also sees solidarity groups as one of the developers of the solidarity economy initiatives²¹.

We may say that social entrepreneurship has past phases from donors-driven to provisionally state-driven (by means of the first Strategy) to bottom up driven. The third sector and the social enterprises in welfare domain are in a restrictive ecosystem, and are trying to evoke bottom up changes (relatively independently –

¹⁸ Namely, the strategy was adopted in 2015 and the first serious tender for the “Strengthening of Social Entrepreneurship” with over 10 million HRK allocated (about 1.3 million EUR) financed 18 projects, which included starting as well-established social enterprises. The resulting contracts were signed in May 2017. Some smaller projects related to other Ministries (like Homeland veterans in the project: “Promoting socially entrepreneurial Croatian war veterans, veteran’s civil society organizations and cooperatives” that was co-financed by European Social Fund) were noted, but overly there is a lack of tenders having in mind the scope of the Strategy. In May of 2019 the tender “Strengthening the Business of Social Entrepreneurs – Phase I.” was announced. It had financial allocation of 100,010,000.00 HRK, which is approximately 37% of funds initially envisaged in the Strategy for development of social entrepreneurship 2015–2020. (Tender info: <http://www.esf.hr/natjecaji/socijalno-ukljucivanje/poziv-na-dostavu-projektnih-prijedloga-jacanje-poslovanja-drustvenih-poduzetnika-faza-i/>).

¹⁹ There are some other Strategies that recognize social entrepreneurship at least in some aspects, like The Strategy for Combating Poverty and Social Exclusion in Croatia, 2014–2020.

²⁰ Also, the first Croatian Network of Social enterprises was established, but it is still informal, gathering around 20 social enterprises (Vidović, 2019).

²¹ The author concludes (Orlić, 2014) that the groups of solidarity debate are a movement and as well as the related idea of the economy of solidarity, and in Croatia they encountered a fertile soil and gradually began to affirm themselves.

with “help” of European social fund). The need for new solutions is highlighted, but welfare state is slow in transformation (Bežovan, 2019; Bežovan et al., 2016), and SE is slowly showing itself as one of emerging answers.

DISCUSSION: CROATIAN SOCIAL ECONOMY AND SOCIAL ENTREPRENEURSHIP IN EU CONTEXT

Croatian social economy compared with more developed western European countries is seriously lagging behind due to the influence of several historical factors that underpinned that development, like ex socialist legacy in which civil activities were under strong socialist government’s patronage, planned economy which hindered entrepreneurial activities, negative legacy towards socialist type of cooperatives formed on nationalized privately owned agricultural land etc. Moreover, at the beginning of transition process Croatia was hit by war and aggression that created high human and economic costs. After the war and in the first years of 21st century, a legal framework was created for cooperatives and for civil society organization development. But on the other hand, negative connotations about cooperatives influenced even policy makers of that time and resemblance of that approach could unfortunately be still felt today, while, for instance, Strategy for social economy or cooperative sector development was not launched to date²². In the process of the accession to the EU Croatia harmonized its legislation and social economy approach was formally accepted, but in real, practical field small steps were taken. These are the most important explanations which lie behind underdeveloped cooperative sector in Croatia within EU context, as it is presented with comparative statistical indicators in *Table no. 2*.

Table no. 2

Croatian cooperative sector in EU context

| | EU | Croatia |
|--|-------------|----------------|
| COOPERATIVES (number) | 176,461 | 1,218 |
| MEMBERS | 141,502,512 | 20,483 |
| EMPLOYEES | 4,707,682 | 2,595 |
| REVENUE (Euro, million) | 1,004,830 | 215.3 |
| COOPERATIVE MEMBERSHIP (per 1000 citizens) | 277.3 | 4.9 |
| Share of cooperative employment in total employment (in %) | 2.2 | 0.2 |

Source: Cooperatives Europe 2015 and Croatian Alliance of Cooperatives data base (2017).

²² It is important to initiate a discussion about the need to formulate Strategy for social economy or cooperative sector as the Strategy for the Development of Social Entrepreneurship in the Republic of Croatia for the period of 2015–2020 encompasses only a small part of cooperative sector – social cooperatives, but more than 90% of cooperative sector in Croatia are a different kind of cooperative organization.

Regarding statistical data covering broader social economy sector in Croatia, the situation is similar according to the data published by the European Economic and Social Committee (Monzon and Chavez, 2016). Namely, the displayed data (Monzon and Chavez, 2016) showed that in all types of social economy organizations (cooperatives, mutuals, associations and foundations) around 15,500 paid employment jobs were registered in Croatia in 2014/15, which was around 1% of the Croatian total employment, while at same time EU28 average was a share of 6.3% employees in social economy sector.

As it could be concluded from the data presented in *Table no. 2*, according to all statistical indicators, the number of cooperatives, cooperative membership, cooperative employment or total revenue of cooperative sector in Croatia are significantly underdeveloped compared within the EU context. There are different explanations regarding underdevelopment of cooperative sector in Croatia, from the lack of adequate institutional support, socialist legacy and path dependent theory which resulted in similar developmental trajectories in many Eastern European countries, to the negative effect of ‘crony capitalism hypotheses’ in some work (Božić at al., 2019). According to Broz and Švaljek (Broz and Švaljek, 2019), another explanation is hiding behind a lack of public policy measures specifically aimed at cooperatives like subsidies or tax exemptions (except few support measures for veterans’ cooperatives only). Broz and Švaljek stated that cooperatives in Croatia are in a way discriminated because, in recent years, state aid measures directed to small and medium-sized enterprises are mainly directed towards companies and crafts, but cooperatives have been excluded from those measures (Broz and Švaljek, 2019). From the text above it is clear that the cooperative sector in Croatia needs a strong impetus from policy makers in order to achieve its full potential, especially having in mind the aforementioned strong cooperative tradition which was present in Croatia between the two world wars.

In other aspects, related to social entrepreneurship, we need to recognize differences between the specific development of the sector in Croatia and the development of social entrepreneurship in the EU. There is a growing recognition of the role of social enterprise in Europe (European Commission, 2014). We can reflect on what is the developmental status of social entrepreneurship in CEE (Central Eastern European) countries which Croatia is a part of.

A map of social enterprises and their eco-systems in Europe maybe gives the best overview of the status and development of social entrepreneurship in Europe. The level of social enterprise activity, relative to the number of ‘mainstream enterprises’, is small, perhaps in the order of less than 1 per cent of the national business population, but the number is getting bigger (European Commission, 2014). The numbers of social enterprises in Europe vary significantly. The smallest number of social enterprises is estimated for Malta (31–62), and the biggest one for France (96,603). Croatia has several times fewer social enterprises than countries

of similar size (Borzaga et al., 2020)²³. Main mission areas of social enterprises in Europe include social and economic integration of the disadvantaged and excluded, social services of general interest, other social and community services, public service and land-based industries (European Commission, 2014).

When we examine the region, there are some common elements of CEE & SEE (Central and South Eastern European) countries that have marked the path of social entrepreneurship development compared to the EU context²⁴. Leš and Kolin, (2009) argue that the growth of social enterprises in CEE can be mostly attributed to democratization, decentralization, and the changes that resulted in growing unemployment, and widening welfare gaps²⁵. Fragile institutional frameworks have hindered the development of social enterprises. Comparative analyses have shown that, when compared to western EU, social enterprises in CEE&SEE are less developed, more invisible and unrecognized (Galera, 2016; European Commission, 2014). Their role appears to be marginal (Borzaga et al., 2008) when compared to Western countries. It is rather new and small and there is a lack of sufficient financial support from governments as well as support mechanisms (Vandor et al., 2017).

The facts related to the comparison with EU tradition and development of social entrepreneurship are reflected in Croatia. The lack of a policy and institutional framework for the development of social entrepreneurship, with a particular emphasis on tax status, greatly reduces the impacts of social entrepreneurship (Baturina, 2016). Frequently unclear responsibilities at the level of ministries and implementing bodies that go along with a lack of understanding and general knowledge of this part of the third sector make the development of the area even more fragile and fragmented.

Although financing is a significant problem that would contribute to a greater economic impact in Croatia, innovative financing mechanisms have not been developed (Kadunc et al., 2014). In that area, there are some limited recent developments (Vidović, 2019). Social entrepreneurship is still not recognized among citizens (Šimunković et al., 2018)²⁶ or in the educational system (Baturina, 2019; Vidović, 2019)²⁷.

²³ New wave of mapping social enterprises and their eco-systems in Europe is currently under the way. We still wait for the comparative report but have reflected some results for Croatia.

²⁴ For example, Galera (2016) cited incomplete decentralization, corruption, low investment and social protection, lack of transparency low inclination towards entrepreneurship, cultural legacies, severe stigmatization of disadvantaged groups, under-development of public-private partnerships. Many CEE countries had undergone structural changes and severe economic shocks that have overall led to social problems (Borzaga et al., 2008).

²⁵ Welfare state did not integrate non-profits in social policy and specifically social service delivery in CEE countries (Mansfeldová et al., 2004.), which was also potential space for development of social entrepreneurship.

²⁶ Authors conducted a survey, with a limited sample, which showed that Croatian citizens are still not sufficiently familiar with the concept of social entrepreneurship.

²⁷ Although there are certain positive developments (Vidović, 2019). Also, according to some analyses (Toplek, 2019), faculties are increasingly recognizing the importance of social entrepreneurship and the benefits that come with introducing such subjects into teaching content.

Social policy is the most prominent area for social entrepreneurship development which brings some opportunities, but also some limitations. Third sector in general has some impact in providing social services for the groups on “margins” of society and in local communities (Baturina, 2016). Regarding opportunities, the Strategy for Development of Social entrepreneurship is partly oriented towards social and work integration of disadvantaged groups but, as we note, it faced significant challenges in implementation. The new strategy for relieving poverty and social exclusion mentioned social entrepreneurship and civil society in some spheres, for example entrepreneurship for socially disadvantaged persons and PWD (persons with disabilities), as well as fostering social cooperatives employing persons with limited work abilities, but this was not followed up by concrete actions in implementation.

Social Work Act (in 2013) introduced “workfare” obligation for the recipients of minimal income benefit. They are obligated to work for public good when called by local government for 30–80 hours per month. But that obligation was not imposed due to limited capacities of local communities to organize public works. The development of WISE social innovations in local communities, together with public partners could be an opportunity to answer this challenge in more effective ways (Baturina, 2018).

The tradition of Work Integration Social Enterprises (WISE) is practiced in Croatia in a limited fashion. Marginalized persons are mainly supported by state measures (Marković et al., 2017). Active labour market policies are, particularly recently through European Social Fund, opening some space to civil society organizations and social enterprises. Although WISE’s are not an integral part of active labour market policies, there is a wider opportunity for their development in the activities of social and economic integration of vulnerable groups. Civil society organizations are developing programs for wider conceptualization of WISE, as mentioned, as well as for social integration of different vulnerable groups. Besides, social cooperatives are created in different areas related to social inclusion.

Also, some specific new social problems are quicker addressed by civil society initiatives (for example homelessness or youth work), and could be institutionalized in social policy partly by the development of social entrepreneurship area. The relatively generous resources that the first Strategy for the Development of Social Entrepreneurship (2015–2020) foresees, due to the question of the capacity of the administration of funds, but also of the underdeveloped sector and its potential for absorption, did not have an impact on the sector’s development (Baturina, 2016; Baturina, 2018).

CONCLUSION: FUTURE PERSPECTIVES OF SOCIAL ECONOMY AND SOCIAL ENTREPRENEURSHIP IN CROATIA?

Potential space for social economy development in Croatia is significant. There are new forces mainly concentrated in academic and entrepreneurial circles,

which are aware of this new opportunity especially after Croatia became a full EU member in 2013, and some European funds became available for this kind of activities. On the other hand, the public sector and policy makers, especially at the local level, are still not familiar with social economy concept and development potentials and that is a serious obstacle for social economy growth in Croatia. In that sense, it seems reasonable to start an awareness raising campaign about social economy development potentials among policy makers at local levels and even to organise short educational seminars to inform them and increase their capacity. The next phase should be forming a strategic partnership between educational institutions with research and education capacity in social economy field with those local communities and their policy officials in order to start concrete social economy projects. Regarding social entrepreneurship, these suggestions were somewhat included in the first Strategy for its development, but unfortunately its implementation is almost non-existent.

The Social Economy Report (CIRIEC, 2017)²⁸ has shown that Croatia significantly lags behind in statistical indicators of the volume, economic strength and recognition of the social economy in relation to other countries. The social economy sector in Croatia has been neglected for a long time and has not been recognized as a space for sustainable jobs and the development of an inclusive and cohesive society, as is the case in many European countries. The report can be a catalyst for initiating a greater interest of policy makers, practitioners and the academic community in order to provide an appropriate framework and support for the development of the social economy and the exploitation of its demonstrated potentials. Under conditions of indefinable and delayed implementation of the development strategy of social entrepreneurship, the lack of any strategy of the development of cooperatives, and the general lack of perspective of social development and alternative (solidarity) economic practices, this seems more than necessary.

Cooperatives, especially social ones, and social enterprises in welfare domain are “swimming against the current” and trying to evoke bottom-up changes relatively independently with some “help” from European (social) funds. Social entrepreneurship is far from the horizon in which it would have what European Commission recognizes as an ecosystem (European Commission, 2014) that would support its development (Baturina, 2018; Vidović, 2019)²⁹. Obstacles to the development of social economy and social entrepreneurship also apply to the value system that is based on a passive behaviour and dependence on the state, a high level of expectations from government programs and subsidies (Vidović, 2012;

²⁸ Mapping exercise regarding social enterprises and their eco-systems in Europe (European Commission, 2014) gives similar results of lag of development of the social entrepreneurship sector in comparison to other European countries.

²⁹ Vidović (2019) states that social entrepreneurship is still in the phase of progressive emergence (as identified in the study of Galera and Salvatori in 2015), because it is stagnating due to a weak performance of institutional actors in providing the supportive framework.

Bežovan et al., 2016). A need for new solutions and social innovations is highlighted in Croatia. However, civil society and social enterprise sector as well is still recognized as a space for debate on social innovations and as a new perspective to address social risks in an innovative way (Bežovan et al., 2016). Welfare state, as well as other parts of society, is slow in transformation. Social economy and social entrepreneurship can be one of the emerging answers for enhancing the quality of life, making changes in the ways of thinking about economy and focusing on sustainable development.

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Sectorul economiei sociale în Croația a fost neglijat o lungă perioadă, nefiind recunoscut ca un spațiu pentru locuri de muncă sustenabile și de dezvoltare a unei societăți mai incluzive și cu un grad de coeziune sporit, ca în cazul multor țări din estul și centrul Europei. Pe de altă parte, antreprenoriatul social este un fenomen relativ nou, propriu secolului actual. Scopul acestui articol este să evalueze tendințele și provocările dezvoltării economiei sociale în Croația, ca cel mai nou stat al Uniunii Europene. Pe baza analizei secundare de date, articolul investighează tendințe în dezvoltarea economiei sociale. Antreprenoriatul social este analizat ca parte a economiei sociale care capătă forță, dar și ca activitate economică a asociațiilor care tind să se transforme într-o economie socială și solidară. Articolul oferă, de asemenea, o panoramă a stadiilor contextului instituțional al dezvoltării cooperativelor și întreprinderilor sociale, cum ar fi recente schimbări legislative și de politici, cu unele referiri la recomandările de dezvoltare a sectorului economiei sociale în Croația.

Cuvinte-cheie: economie socială; sectorul cooperativ; întreprinderi sociale; Croația.

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