

Social Entrepreneurship and the Revitalization of the Cooperative sector: Emergence of Social Cooperatives in Croatia and Serbia

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Abstract:

Despite the long tradition of cooperativism in Croatia and Serbia (as in the rest of the European South Eastern region) dating back to the nineteenth century, nowadays the strong animosity towards cooperatives still prevails, mainly influenced by the experiences from the socialist regime. Moreover, the legal and institutional framework is hardly favourable, leaving cooperatives at the margins of the policy agenda. However, new forms of cooperatives emerged during the last decade. These are greatly influenced by external factors, mainly through intensive discourse and promotion of social entrepreneurship. This paper will focus on the emergence of social cooperatives in two countries – Croatia and Serbia. The aim of this paper is to identify the main drivers of development, features and potential of this emerging sector, and to give an overview of the relevant legal and institutional environment. By mapping, describing and analysing its main features in these countries, the findings of the study will help to understand the evolution of the new social cooperative in Serbia and Croatia, and therefore to support the development of better suited legislative and more supportive public policies, for both social entrepreneurship and the cooperative sector.

Key words: social cooperative, Croatia, Serbia, social entrepreneurship, cooperatives, social enterprise

Introduction

The social cooperative is a historical novelty that emerged 25 years ago as a new type of cooperative, representing an evolution in the cooperative sector. It also marked the emergence of social entrepreneurship, a novel concept of addressing social issues by applying economic activities. In a certain way, social cooperatives revitalized not only the sector of cooperatives, but the discourse on cooperatives as well, emphasizing the fact that the concept of a cooperative is not monolithic, but includes varieties of cooperative models and forms.

The authors' focus on Croatia and Serbia is primarily motivated by the fact that these have been singled out as regional leaders in social economy development (RCC 2015), but also these are the first, and still only, countries from South-East Europe (SEE) where social cooperatives emerged. In addition, these countries share a common history as being joined in several states in the past. One of those, marked with a socialist regime, ended quite recently – two and a half decades ago – and is particularly responsible for the negative perception of 'social economy' and cooperatives. Today, these countries differ in terms of EU integration – Croatia being a member since 2013 and Serbia an official candidate country since 2008. Those similarities and specificities may serve as a good base for a comparative analysis, in particular in identifying influence factors on the development of both cooperatives and social enterprises. Finally, this is also a convenient choice; namely, because the authors of the paper are from these countries and are already embedded in the social economy and social enterprise sector through different roles.

As the social cooperative is in the focus of the authors' interest, and as it is a new form that emerged during the last five years, the paper intends to acknowledge the field and mark its conceptual framework, but also to open space for further research. The paper intends to give an overview of the emergence of social cooperatives in Croatia and Serbia and to describe their characteristics and the process of institutionalization. It also aims to indicate how the complexity of socio-cultural, political and economic dynamics of post-socialist societies, but also external drivers, influence the emergence and shape of the social cooperative. Finally, the paper may assist in recognizing what role this new form may play both in revitalizing the cooperative tradition and stimulating the development of social entrepreneurship. In that sense, the methodological approach uses descriptive, comparative, and historical methods and relies on desktop analysis of existing literature, studies, reports, legislative and policy documents. It relies on available secondary data collected by official government institutions, which are used for analysing the structure and various features of social cooperatives. Those institutions are mainly the Centre for Cooperative Entrepreneurship in Croatia, which is in charge of gathering data on the cooperative sector, and the Ministry of Economy and Business Register Agency in Serbia.

The first part of the paper describes the novelty of the concept and phenomena of social cooperatives and it gives an overview of their historical emergence in Italy and further development across Europe, showing that this type of social enterprise has its specific social, political, and historical origin. The second part outlines the framework for understanding the emergence and development of social cooperatives in Croatia and Serbia. It places increased attention to social cooperatives within the discourse on social entrepreneurship, but also as a way of revitalizing the cooperative sector. The third part provides the main findings of the mapping of social cooperatives in Croatia and Serbia, identifying their structure and important characteristics. The following section opens

the discussion on the main findings on the potential of social cooperatives that interplays with the imposed legislative and policy framework. We conclude with key points that may serve in shaping further research and more supportive policy development for social cooperatives in the two countries.

Interweaving of Social Cooperatives and Social Entrepreneurship

Understanding the role of social cooperatives is difficult without taking into consideration the worldwide growing interest in social entrepreneurship and social enterprises since the middle of the 1990s (Defourny, Nayssens 2013). In a certain way, the unique characteristics of social cooperatives became part of the core 'social enterprise' discourse in the European context, as the major European understanding of social enterprises closely fits with the co-operative tradition (Defourny, Nayssens 2013). Social cooperatives are often seen as "the most developed and successful model of social enterprise" (Borzaga et al. 2014).

Historically, the emergence of social cooperatives occurred in Italy in the late 1980s and was institutionalized in 1991, when the Italian Parliament adopted Law 381/91. This Act enabled the creation of a specific legal form - social cooperatives (*cooperative sociali*). What preceded this was a growing number of cooperatives that tried to respond to the needs of the community affected by the transformation of the Italian welfare system, which that started with the economic downturn of the 1970s (Borzaga et al. 2014). The Law 381/91 introduced two types of social cooperatives, depending on whether they provide social, health, or educational services (type A social cooperatives), or ensure work integration of disadvantaged persons through undertaking other business activities, such as agriculture, manufacturing, or other activities (type B social cooperatives).

Compared to traditional cooperatives, the main difference that social cooperatives bring to their mission is that it is not focused on the interest of their members or owners, but on the welfare of society or the community as a whole, or in particular on the needs of specific, vulnerable, or most fragile social groups (Defourny, Nayssens 2013). In other words, they put more focus on achieving general interest rather than mutualistic goals (Borzaga et al. 2014).

Italy was also a country where the concept of the social enterprise first appeared (Defourny, Nyssens, 2013) in the journal *Impresa Sociale*, which was launched in 1990 to promote this new type of cooperative emerging intensively across the country. Therefore, the Law 381/91 not only introduced social cooperatives as a new type of cooperative, but it configured a new type of enterprise with a distinctive purpose (Borzaga et al 2014). This is where a social cooperative interweaves with social enterprise, introducing a new model of addressing social issues with entrepreneurial tools.

During the next two decades, several European countries followed this initiative and started to recognize social cooperatives as a specific form of cooperative. The spreading of the practice of social cooperatives across Europe and the recognition of its role in a socio-economic context was accompanied by the adoption of legislation in several countries that regulated this new type of cooperative. Among those countries are Portugal, Spain, France, Poland, Hungary, Greece, Czech Republic, and Croatia (European Commission 2015). Some countries created new laws, while others adjusted existing legislation to include the unique characteristics of social cooperatives.

Social cooperatives emerged as a form of social enterprise in societies where the cooperative sector has had a long tradition. In other countries, following the trend of emergence of social cooperatives, other forms of social enterprises were initiated that operated in the same field and on similar principles as social cooperatives. Still, social cooperatives continued to differ from other social enterprises by the fact that they are rooted in a cooperative tradition, mainly a collective dimension of ownership and governance. As a result, in some countries, social cooperatives were not recognized as a new legal form, nor given legal status, but legislation on social enterprises included traditional cooperatives when their pursuit for social aim and general interest was explicit. This is the case with Belgium, Finland, Lithuania, and the United Kingdom (Defourny, Nayssens 2013).

Some authors see the expansion of the new type of cooperative as a result of legislation that permitted cooperatives, traditionally homogeneous entities, to involve a variety of stakeholders in their decision-making process (Laville et al. 2006). Part of their institutionalization was incorporation into public finance schemes and programs, where different policies and financial mechanisms were developed to support social cooperatives. This came with recognition that the mission of social cooperatives is in the societies' general interest.

Social cooperatives as a part of the social economy and social enterprises have been recognized by the EU and its policies as well. Their development has been stimulated by some strategic EU documents, in particular, 'The Social Business Initiative' (SBI) in 2011 (European Commission 2011). The criteria for social enterprises set in SBI became the framework, or at least the guidelines for the adoption and adjustments of national legislation, applicable to various types of social enterprises, including social cooperatives. Improving the legal environment to make it easier to establish social cooperatives in a national context is particularly emphasized as part of the measures proposed in SBI for creating a more enabling environment for the social economy (European Commission 2011).

It is commonly assumed that the number of social cooperatives increased progressively in Europe in the past 25 years. Official data on social cooperatives are not regularly incorporated in all national statistical contexts, so it is difficult to present reliable data. However, there are some estimates published in a recent study that tried to map social

enterprises in European countries. According to that data, mostly referring to 2014, Italy has the most numerous sector, with 11,264 social cooperatives (both type A and B), followed by Poland with around 900, Spain with 566 (in 2009), Greece with 540, France with 266 (in 2012), and Portugal with 108 (European Commission 2015). There are no available data for the Czech Republic, while Croatia has 49 social cooperatives in 2015.

Despite a rich tradition of cooperatives, nowadays post-socialist societies in South-East Europe are lagging far behind the European trends. Apparently, Croatia and Serbia are the first and still the only countries in the region where social cooperatives emerged. The aim of the paper is to map, describe and analyse the emergence and institutionalization of social cooperatives in Croatia and Serbia, but also to recognize what role this new form can play both in revitalizing the cooperative tradition and stimulating the development of social entrepreneurship. Research studies on social entrepreneurship and cooperatives in these contexts are still rare and missing, so by acknowledging social cooperatives as a new field, the paper intends to fill that gap. Additionally, the paper aims to propose a framework for understanding and further research on social cooperatives.

Framework for Understanding Social Cooperatives in Croatia and Serbia

SOCIAL ENTREPRENEURSHIP IN CROATIA AND SERBIA: TWO WAVES OF DEVELOPMENT

The development of social entrepreneurship in Croatian and Serbian society started around a decade ago, which was rather late compared to more progressive countries. However, despite the brevity of the period, we can identify two waves of development – the first driven by international donors, mainly Anglo-Saxon, and the second one by the EU approach (Vidović 2017).

As a new concept, social entrepreneurship emerged in Croatia and Serbia in the middle of 2000s. The first social enterprises and/or social entrepreneurship initiatives emerged among civil society organizations, introduced together with social entrepreneurship by international donor organizations, as part of their exit strategy (Vidović 2012). The first social entrepreneurship initiatives therefore, were mainly donor-driven.

The first wave was characterized by the modest institutional recognition and support, as social entrepreneurship has never been high on the policy agenda. However, the lack of institutional environment influenced the growth of supportive structures rooted in civil society organizations that form networks, coalitions and support clusters - Forum for Social Entrepreneurship (SEFOR) and Cluster for Eco-social Innovation and Development (CEDRA HR) in Croatia and Coalition for Social Entrepreneurship Development in Serbia. Those initiatives played an important role, especially during the first wave,

and became the main promoters of and advocates for social entrepreneurship in these countries.

The second wave of social entrepreneurship development was marked by a greater influence of EU policies. During the last decade and a half, the EU integration process has been a significant political undertaking for both countries, whether they are still at the negotiation stage or have already joined the Union. As part of this process, both countries have already encountered the concepts of social entrepreneurship and social economy in that they have been promoted in the relevant EU policy documents, where social economy and social entrepreneurship were largely perceived as a sector and activities that might be able to address growing social needs and offer a sustainable answer to labour market and education imbalances. Furthermore, the EU approach largely relies on the tradition of cooperatives, and the new type of social cooperatives. Through EU discourse, cooperatives and social cooperatives (re)entered the discourse and in particular the policy discourse in Croatia and Serbia.

The more systematic creation of the policy framework for social entrepreneurship began in Croatia with the adoption of the national Strategy for Social Entrepreneurship Development for the period 2015-2020, which was adopted in April 2015 (Government of Croatia 2015). Additionally, as proposed by the Strategy, the first governmental unit for social entrepreneurship was established within the Ministry of Labour and Pension Fund¹, which marked the process of shaping the institutional framework.

The institutional environment for social entrepreneurship in Serbia is still not shaped. There is no unique governmental institution or body in charge for social entrepreneurship. Due to the wide range of legal forms, many institutions are entitled to regulate part of the social enterprise sector - in particular, the ministries in charge of economy, social policy, finances, and public administration regulate the field where social enterprises operate.

Neither of the two countries have a law designed specifically to regulate social enterprises. They may be established in various legal and organizational forms - associations, cooperatives, foundations, companies, sheltered workshops and social welfare institutions. Existing laws regulating those areas are more or less suitable for social enterprises, but not particularly supportive. Therefore, it is very common in both countries that social enterprises exist in hybrid forms, usually consisting of a non-profit organization and its subsidiary or spin off commercial company. Cooperatives are probably the type of organization that operates under the most unfavourable legislation, and they remain the most neglected in the majority of countries in South East Europe. Legislation regulating cooperatives tends to be contradictory, sometimes even discriminatory for cooperatives compared to other forms of economic entities. For example, Croatian legislation

¹ The official name of the unit is the Department for Preparation and Implementation of the Projects in the Field of Social Entrepreneurship.

does not exclude cooperatives from tax on profit when profit is reinvested, as regular commercial companies are.

After the first wave of social entrepreneurship, mainly focused on civil society organizations, the new wave is giving greater attention to the other models of social enterprises, primarily cooperatives. In that manner, social cooperatives popped-up as a form introduced recently in both countries.

COOPERATIVES - THEN AND NOW

The cooperative sector in Croatia and Serbia, as well as in the rest of South East Europe, is lagging far behind the 'leading' European societies. Despite a long tradition of a cooperative sector, dating back to the nineteenth century, nowadays a strong animosity towards cooperatives still prevails, influenced by the experiences of the socialist regime. This kernel of social economy had been cut off after the Second World War when the socialist regime started to develop a perverted concept of cooperatives strongly connected to the statist approach to the overall economy of the country. The emergence of the renewed concept of cooperatives in the scope of the social economy started mainly in the period after 2000, with more intensified influences from the EU integration, as already stated.

The very first cooperatives, emerging in the second half of the 19th century were following an overall trend in the development of cooperative sector in Europe, when the number of cooperatives constantly increased. The main reason for the development of this sector was high taxation and small portions of land property in rural areas, so it was more cost effective to join resources on the market (Nikolic 2009). When it comes to cooperatives emerging in cities, the idea behind the regulation of this sector was to introduce order in the craft sector, procurement and distribution of goods and services. Furthermore, the craft cooperatives were also providing a social function for their members defined as "jointly taking care of each other in case of illness, work injury, ageing, or death" (*Ibid*).

After the Second World War, the socialist regime tried to incorporate cooperatives in its propaganda. The biggest challenges for cooperatives were property ownership and governance of cooperatives. By the time of the collapse of communism, property was insidiously taken away from cooperative founders and members, becoming part of social (*collective*) property, or "nobody's" and "everybody's" socially-owned property (Kreševac-Chronešo and Petković 2015).

The first decade of transition was marked with some legislative initiatives to return the cooperative sector to its core principles, but it also reflected the overall political and socio-economic destabilization of both countries at the time. Thus, despite a rich tradition of cooperativism, a certain break with the roots occurred, which caused a weak image, practice, and development of cooperatives in contemporary societies.

Today, the marginalized treatment of cooperatives in the policy agenda, due to the fact that cooperatives were not given strategic priority (Golja and Novkovic 2014; RCC, 2015), accompanied with public ignorance and distrust inherited through historical experiences, is causing the slow recovery of the sector. In addition, the socio-cultural climate does not put much value on solidarity and collective involvement in the local community's well-being, which are also the basic principles of cooperatives. The legislation for cooperatives has changed and been improved during the last decade, with Laws on Cooperatives in 2011 and 2014 in Croatia, and 2015 in Serbia, which brought regulation closer to the International Cooperative Alliance (ICA) standards. However, the legal framework is still not fully consistent, and in some cases is even discriminatory.

According to the latest data for 2015, there were 1,302 cooperatives in Croatia, which is around 3.2 cooperatives per 100,000 citizens. Cooperatives bring together 21,462 members and employ 2,744 employees. The total income of cooperatives in 2015 was 212.6 million Euros, which is 0.5 per cent of the Croatian GDP (CCEP 2015; 2016). A quick analysis, based on employment and economic performance, showed that only around 200 cooperatives hold the entire sector in Croatia, which indicates its weaknesses (RCC 2015). In Serbia, there are 3,878 cooperatives, of which 2,083 are active (Serbian Business Register Agency, 2016). The more detailed data on the cooperative sector is from 2014, when there were 2,124 cooperatives, with 123,000 members and 4,707 employees. The total income of cooperatives was 533 million Euros, which is around 1.5 per cent of the national GDP.

Agricultural cooperatives still dominate the sector in both countries, with around 40 per cent of agricultural cooperatives in Croatia (with fishery and forestry cooperatives they even make close to 60 per cent of total cooperatives) and around 65 per cent in Serbia. In addition, except for privileged types of cooperatives, such as war veteran cooperatives in Croatia (Vidović 2017), there are neither enough financial mechanisms of support, nor enough fiscal incentives.

Despite those facts, which are far from enthusiastic, one may witness the rare but evident emergence of the new types of cooperatives during the last decade –engineering, media, but also social cooperatives.

The methodological approach we used for the empirical part was based on descriptive, comparative, and historical methods and relies on desk top analysis of existing data, studies, reports, legislative and policy documents. It primarily used available secondary data collected by official government institutions, mainly the Centre for Cooperative Entrepreneurship in Croatia, which is in charge for gathering data on the cooperative sector, and the Ministry of Economy and Business Register Agency in Serbia. This limited possible indicators to those already included in the official statistics. The analysis was based on descriptive statistics used as a tool for describing the structure and main features of social cooperatives.

Mapping Social Cooperatives in Croatia and Serbia: Main Findings

THE CROATIAN CASE

An outline for social cooperatives was introduced through the legislation adopted in 2011. The Law on Cooperatives created possibilities for the establishment of new types of cooperatives with certain characteristics, such as workers, housing, consumers and others. Social cooperatives were enabled through Article 66, which says little about their characteristics and does not prescribe specific regulations. It states that social cooperatives may be established for two broadly defined purposes: (a) for providing assistance to socially vulnerable or disabled persons who are not capable, alone or within families, to meet their basic needs, due to unfortunate personal, economic, or social circumstances; and (b) for working and economic integration of persons with reduced work capacity and other excluded or disadvantaged persons, who lack resources for meeting basic needs, and are unable to meet those needs by working, from property income, or other sources.

Article 66 also states that various stakeholders may become members of social cooperatives, namely users, providers of services, and workers of the cooperatives. In other words, legislation enables multi-stakeholder participation in democratic governance, which is closely in line with the unique nature of this type of cooperative. For any other aspect, the law on cooperatives is applied to social cooperatives as well, which consequently produces some contradictions. The most obvious one is that social cooperatives are not excluded from tax on profit when profit is reinvested, as regular commercial companies are, even though non-profit cooperatives by definition need to reinvest their profit in full. In addition, there is an 'asset lock' prescribed by law, which is applicable to all types of cooperatives, but is particularly suitable for social cooperatives.

According to the law, social cooperatives can operate as non-profit organizations if they choose to. Legislation does not automatically grant non-profit status for social cooperatives, but they are obliged to register in the Register of Non-Profit Organizations. However, in practice, this is hardly applicable to the public administration and often results in social cooperatives being rejected admission in the Register. Furthermore, a significant disadvantage of the legislation is that it does not allow volunteers to be engaged in cooperatives.

Social cooperatives were also recognized in the Strategy for Social Entrepreneurship Development. The Strategy mentions cooperatives as one of the key legal forms suitable for social entrepreneurship and emphasizes the link between cooperatives' principles and the values of social entrepreneurship, in particularly democratic governance, autonomy, cooperation, and welfare for the community.

The arbitrariness in the usage of the label 'social cooperative' is reflected in an uneasiness to define reliable data. Being 'social' appears as an additional feature, not the cat-

egory of the main area of activities. Therefore, the cooperative may decide voluntarily to add specific features, such as ‘social’, but it does not grant them any status that would distinguish them from other types of cooperatives.

According to that indicator, the Croatian Register of Cooperatives counts a total of 49 social cooperatives. Among them, only 29 use the “social cooperative” label in their official name, thus acknowledging it as a part of their identity.

Table 1: Structure of the social cooperative sector

	Entities		Members			Employees			Income		
	No.	%	No.	%	⊘	No.	%	⊘	mil EUR	%	% GDP
Social cooperatives (July 2016)	49	3.8	466* (1,958)**	2.2 (9.1)	9.5 (39.9)	104	3.8	2.1	3.3	1.6	0.007
Cooperatives (Dec. 2015)	1,302	100	21,462	100	16.5	2,744	100	2.1	211	100	0.5
* Data based on 48 social cooperatives. To reduce bias, one cooperative with 1,492 members was excluded.											
** Data based on 49 social cooperatives (in parenthesis)											

Source: Data base provided by the Croatian Centre for Cooperative Entrepreneurship, July 2016; CCCE, 2016.

Recent data on social cooperatives indicates that they comprise a tiny portion of the cooperative sector in Croatia. Measured in numbers, social cooperatives constitute only 3.8 per cent of cooperatives, and with 466 members, they make up only 2.2 per cent of total cooperatives’ membership. On average, they have 9.5 members, which is almost half the average of the sector as a whole (16.5). Around 8 per cent of their members are legal entities. In addition, 57 per cent of social cooperatives have 7 members, the minimum number of members prescribed by the law, which indicates there is huge potential to broaden their scope.

The cooperative sector in Croatia is far from being a significant employer. The total number of employees is 2,744 persons, which is around 2.1 employees per cooperative. The social cooperatives sector keeps the same average by employing 104 persons. However, half of social cooperatives (or 25) do not have a single employee. According to available data², somewhat more women than men are employed in social cooperatives: 1.5 employed women per 1 employed man. The opposite is true when it comes to the members’

2 Not all cooperatives provided data on gender structure

gender structure: the total membership of social cooperatives consists of around 57 per cent men and 43 per cent women.

Social cooperatives can be described as an 'urban' rather than a 'rural' phenomenon, with around two-thirds of cooperatives established in cities and urban areas. However, the members of social cooperatives are not particularly young. Data shows that only 2 per cent of the total number of members of social cooperatives are younger than 30.

Providing social services is the main activity for 41 per cent of social cooperatives, which indicates their potential to occupy the part of the former role of the welfare state. In addition, an analysis of their employees' structure indicates that social cooperatives do not yet have any significant role in the employment of vulnerable groups. Half of social cooperatives do not have a single employee. For the other half, the most common case (one third) is to have only one employee. Only three social cooperatives employ more than 10 persons, but the number of employees does not exceed 22 persons. There is no data on what proportion of employees are persons from disadvantaged social groups, which makes it difficult to estimate how common this practice is from the side of some social cooperatives.

THE SERBIAN CASE

The new Law on Cooperatives in Serbia was adopted in 2015. One of the most important novelties with new Law is that a cooperative can be established by 5 members, compared to the previous law that prescribed 10 founders. Nevertheless, with this opportunity there is also an obstacle, as it prescribes that only private entities can be founders. The Law also enables the establishment of new types of cooperatives, with specific features. One of the new types is a social cooperative that is introduced by Article 11:

“Social cooperatives perform various activities in order to achieve social, economic activities and labour market inclusion, as well as the satisfaction of other related needs of members of disadvantaged social groups, or to satisfy the general interests of the local community. Social mission of social cooperative is specified by the cooperative rules. Social cooperatives are obliged to reinvest at least half of the profit, or surplus of revenues over expenditures realized by conducting the activity, in the promotion and achievement of social objectives.”

This definition does not grant any specific status of social cooperatives in comparison to other legal forms. They are not considered as non-profit organisations, despite the obligation to reinvest their profits. They do not have any specific or favourable tax treatment - they operate by the same rules as any other for-profit company.

Considering that the Law does not stipulate pre-legal acts by which social cooperatives would be fully functional and their development encouraged, the question remains how social cooperatives will be encouraged to develop.

Data on cooperatives in Serbia are scarce and unreliable. The existing data are mainly related to agricultural cooperatives. A formal adjustment of the overall cooperative sector is expected to be finished by the end of the 2016, which is the time span for complying with the new procedures arising from the provisions of the new Law. According to the data from the Serbian Business Registers Agency, only one social cooperative has been registered so far in compliance with the new Law as a social cooperative in area of social service provision.

Most of the data relevant for this study came from studies on the social entrepreneurship sector, where cooperatives and social cooperatives are recognised as one of the actors within the sector. Most importantly, this data was gathered before the new Law on Cooperatives.

According to most recent research (SORS 2014), there were 1,196 social enterprises in 2012. However, having in mind the methodology applied, it is clear that the data more accurately refer to the social economy sector as a whole. The study showed that there were 10,326 persons employed in the sector, which accounted for 0.60% of all employed persons in Serbia. The whole sector performs modestly in the economic sphere and its contribution to the overall GDP in Serbia is only at the level of 0.2% (SORS 2014). Major contributors were cooperatives (75.3%), followed by associations (10.3%) and companies for the disabled (5.5%) (RCC 2014). The cooperative sector appeared as the most sizable part of the sector, with the highest share going to agricultural cooperatives. Cooperatives also employ the greatest number of people working in the social economy – 58.6%. The majority of those employed in the social economy sector as a whole are men (62.3%) and half of them are from age groups that are difficult to employ (35.7% older than 51 and 14.3% younger than 30) (RCC 2014).

Discussion

From its focus both on providing social welfare services and work integration, it is obvious that the Italian model influenced the understanding of social cooperatives in Croatia and Serbia and shaped their institutionalization. The legislation in both countries leaves the assignment of 'social cooperative' status to an arbitrary decision of the cooperative itself. In that sense, it becomes a matter of self-identification, with no legal obligation, monitoring, or cooperative audit. Therefore, the status itself may have various meanings and interpretations, and furthermore, may be subject to opportunistic misuse. This does not provide adequate public recognition of truly committed social cooperatives, nor does it enable any kind of financial or fiscal incentives that would valorise the added social value they generate.

What is significant, at least for the Croatian case where more data is available, is that much of the social cooperatives do not fit into either of the two criteria prescribed by the

law. If they do not provide social services, their focus should be on the employment of vulnerable groups; however, this criterion appears to be hard to achieve. Except in two cases that undoubtedly fit this requirement, for the other almost 50 per cent of all social cooperatives, it is not clear whether they are still struggling to employ (more) persons, or are simply misusing the term 'social.'

Data available for Croatia showed that social cooperatives are still a marginal and underdeveloped sector, consisting mostly of micro and small ventures. The unclear status and regulation, and inadequate and inconsistent legislation seriously undermine their potential to act more significantly in the socio-economic development of society. The inclusion of social cooperatives into the Croatian Strategy for Social Entrepreneurship Development, where they have been recognized as one of the key actors, may be seen as a more serious step in the institutionalization of social enterprises and social cooperatives and may be an opportunity for a more systematic and harmonized policy approach to this sector.

A sustainable response to social challenges in both countries, particularly in Serbia at this stage, has been provided through other legal forms due to the weak policy framework for the development of social cooperatives, and its compromised practice. Therefore, social enterprises have been dominantly developing through citizens' associations.

It took more than ten years for Serbia to deliver a new law on cooperatives that could slightly set cooperatives in real time and allow them to operate on the market with new preferences. This long timeframe, followed by many disputes within the sector, resulted in a quite deficient law. It is obvious from its content that the main focus of the legislator was to bring some kind of regulation into the agricultural cooperative sector, particularly regarding property.

Nevertheless, the new Law on Cooperatives in Serbia was adopted less than a year ago, and it is too early to predict whether it will lead to the (greater) establishment of social cooperatives. However, as it is similar to the Croatian law, one may assume that practical challenges for social cooperatives will not differ significantly.

Overall, there is much overlap and inconsistency in the legal environment, which indicates just how poorly legislation recognizes the specificities of a social cooperative as an entity. For social cooperatives, that means operating in an environment that is not particularly stimulating. More importantly, in both cases, legislation on (social) cooperatives was not followed by specific financial and tax instruments that could lead to greater interest among citizens to take risks and engage in this type of economic and social activity.

The development of social cooperatives may be seen as one of the ways to transform the traditional social economy sector into a more suitable one for social problems in a contemporary market-dominated society. Even with the new laws on cooperatives adopted

recently in both countries, it seems those have kept an obsolete approach to regulating cooperatives and the question is will it represent a new opportunity for the revival of cooperatives and especially social cooperatives as one of the forms of social enterprise. Based on the content of the new legislation concerning social cooperatives in both countries, the lack of regulatory specificities leaves this sector too risky for new social entrepreneurship initiatives. Therefore, we may expect that the growth of social cooperatives in the upcoming years will not be so fast.

Conclusions

The emergence of social cooperatives in Croatia and Serbia belongs to a 'second wave' of social entrepreneurship development influenced by EU discourse, where (social) cooperatives interweaved with increased interest in social entrepreneurship. Thus, the cooperative as an organizational model is seen as suitable for the hybrid nature of social enterprise which includes social issues, economic approach, and participatory governance (Defourny and Nyssens 2012). In line with the European setting and the Italian origin, legislation enabled social cooperatives in two directions: towards providing social services and towards work integration of disadvantaged social groups.

In both countries there is a valuable legacy of cooperativism, especially of cooperatives that in different historical periods had a more or less important role in socio-economic development. However, a certain break with the roots of the cooperative tradition is causing a slow revitalization of the sector, which does not seem to meet a friendlier legal and policy environment, nor is becoming more popular among the general public. In that sense, the social cooperative appears as a novelty that, in synergy with social entrepreneurship, gives greater attention to the cooperative sector and may influence its revitalization.

EU policies that promote cooperatives and social entrepreneurship are recognized as drivers of new approaches to solving social and economic challenges. This new wind offers different proposals that could be used in both countries for setting a more supportive ecosystem for the development of social cooperatives and social entrepreneurship. This may be seen as an early stage of social cooperatives institutionalization, by including them as a 'status' in a national legislation on cooperatives. However, the 'import' of those ideas is not enough if there is no adequate regulative environment to support it. This is especially relevant for Serbia and its cooperative sector, which proves to be highly resilient to its improvement and modernisation.

In both countries, Croatia and Serbia, obstacles mainly come from misleading legal and institutional frameworks that reflect persistent mistrust toward cooperatives. Both cooperatives and social enterprises still take low priority in the political agenda, which continuously postpones the adoption and implementation of supportive policies and

measures. Additionally, in both countries there is poor knowledge on the sector's capacities and its importance both for local development and social cohesion of societies. The absence of data and research on this sector, especially in Serbia, strongly emphasises this finding.

In order to try to contribute to the development of social cooperatives, it is of utmost importance to develop support to the sector aside from the legal framework. Mainly, it should embrace the specific nature of social cooperatives, including the development of institutional capacities, fiscal and tax benefits, followed by raising awareness among citizens on the importance of (social) cooperatives in dealing with social challenges.

Research, in-depth analyses and collecting data on the sector is a precondition for each new initiative towards creating an enabling environment for social cooperatives. It should also be followed by analysing the overall environment around cooperatives, in order to ensure that measures tailored for the development of the sector can be adequately applied and can substantially respond to the needs of social cooperatives and contribute to their sustainability.

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