Social Enterprise Ecosystems in Croatia and the Western Balkans

A Mapping Study of Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia

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SOCIAL ENTERPRISE ECOSYSTEMS IN CROATIA AND THE WESTERN BALKANS: A MAPPING STUDY OF ALBANIA, BOSNIA & HERZEGOVINA, CROATIA, KOSOVO, FYR MACEDONIA, MONTENEGRO AND SERBIA

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Introduction

IN NOVEMBER 2016 – JANUARY 2017 NESsT$^1$ CONDUCTED IN-DEPTH RESEARCH ABOUT THE SOCIAL ENTERPRISE ECOSYSTEMS IN CROATIA AND SIX COUNTRIES IN THE WESTERN BALKANS IN ORDER TO MAP OUT THE LEGAL AND POLICY ENVIRONMENT, CURRENT STAKEHOLDERS, THE FINANCIAL AND NON-FINANCIAL SUPPORT NEEDS OF SOCIAL ENTERPRISES AND THE FINANCING AND CAPACITY-BUILDING OPTIONS AVAILABLE TO THEM.

The study is the first comprehensive research of its kind, covering seven countries in the region: Albania, Bosnia & Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia. Its ultimate purpose is to inform key stakeholders in the region on how best to move forward in order to strengthen social enterprise in the region.

Chapter 1 provides an introduction to the overall study. Chapter 2 explains the research methodology and how it builds on the social enterprise mapping studies that were commissioned by the European Commission in 2013-14 and published in a series of country mappings. Chapter 3 gives a brief explanation of some of the basic concepts, including the European Union (EU) definition of social enterprise, which was ultimately used in the study. Chapter 4 provides a regional overview and comparative analysis, and gives a summary of the key findings. In order to place Croatia and the Western Balkans into a comparative global context, Chapter 5 includes the case studies of two countries with very different social enterprise ecosystems: the United Kingdom and Taiwan. The study examines these two examples to identify key issues and challenges for social enterprises, summarize lessons learnt and explore their possible application in Croatia and the Western Balkans. Chapter 6 includes the conclusions and possible next steps. Chapters 7 to 13 are the individual country studies; they each follow a uniform structure and end with local analysis and a set of recommendations for action.

This study synthesizes information and data from a large number of documents, reports, statistics and websites. It includes the views of more than 90 important local and regional stakeholders, who were available to the research team for interviews and to share their visions and conclusions. NESsT would like to thank all of them, as without their openness and active participation, this research project would not have been possible.

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$^1$ NESsT is an international non-profit organisation which invests in entrepreneurial solutions that lift people out of poverty in emerging market countries. http://www.nesst.org/
Social Enterprise Basics

The definition of social enterprise

For the purposes of this research, we used the following social enterprise definition adopted by the European Union: “Social enterprises seek to serve the community’s interest (social, societal, environmental objectives) rather than profit maximization. They often have an innovative nature, through the goods or services they offer, and through the organisation or production methods they resort to. They often employ society’s most fragile members (socially-excluded people). They thus contribute to social cohesion, employment and the reduction of inequalities.”

According to our initial findings, most of the seven countries use this definition with modifications or additional criteria. In countries where interesting additional elements or inconsistencies were discovered, those were pointed out in the legal framework section of the country study. In most places, additional criteria on legal form or intended social impact are added in order to aid the implementation of the legislation by public sector agencies. In Croatia, for example, the Strategy for Social Entrepreneurship Development lists nine criteria which social enterprises need to meet in order to obtain the official status. In Serbia, the government uses the term social enterprise to mean only initiatives that employ people who face challenges in the labour market.

The life cycle of social enterprises

In order to give a true picture of the level of development of the social enterprise universe in the countries of this research, we decided to map social enterprises according to number, legal form, size, field of activity and target groups, but we also assessed them according to their level of development along the life cycle. Throughout the studies, we refer back to these stages of development, as they are very relevant for assessing the kind and amount of support – financial and non-financial – that social enterprises need and are able to absorb.

We used the life cycle of social enterprises model (see Figure 1 on page 5), which is comprised of four phases of development: blueprint, validate, prepare to scale and scaling. The blueprint or start-up phase is all about business planning, market research, financial forecasts and risk assessment. Enterprises take their models to the market in the validation phase, when they obtain crucial information from customers, suppliers and financiers about the viability of their business model. They can use this information to modify the model or decide that it is not going to work after all. A validated business model can be prepared for scaling; this is a phase for building organisational capacity and market demand, i.e. gearing up towards growth. Scaling is a phase only the best social enterprises reach: rolling out the business model to reach more beneficiaries and customers and expand the social impact and financial success of the enterprise.

Country studies contain an assessment, where possible backed by statistics, of the social enterprise landscape and provide case studies of a number of enterprises that illustrate the different life cycle stages, often within the brief history of one single social enterprise.

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1 http://ec.europa.eu/growth/sectors/social-economy/enterprises/

2 H Koch, Karamchandani, R Katz: From blueprint to scale; the case for philanthropy in impact investing, April 2012
Blueprint
• Understand customer needs
• Develop initial customer proposition
• Develop business plan
• Develop core technologies and/or product prototypes

Validate
• Conduct market trials
• Test business model assumptions
• Refine business model, technologies and/or product as required

Prepare to Scale
• Stimulate customer awareness and demand
• Develop supply chains, upstream and downstream
• Build organisational capability to scale: systems, talent, production facilities

Scale
• Move into new geographies and segments
• Invest in assets and talent
• Enhance systems and processes
• Exploit scale efficiencies
• Respond to competitors

FIGURE 1: LIFE CYCLE OF SOCIAL ENTERPRISES

Social Enterprise Ecosystems in Croatia and the Western Balkans

Start-up: nonexistent or almost nonexistent sales

- Capital Needs: US$10-50K
- Equity: founders, family, friends
- Debt: personal loans, credit cards
- Donation: for start-up costs

Validation of business model: revenues exist but not enough to sustain the enterprise

- Capital Needs: US$50-300K
- Equity: family, friends, angel investors
- Debt: personal loans, credit lines, development or government agencies
- Donation: to increase capacity until break-even or to guarantee loans or subsidize soft loans for working capital

Preparing to scale: the enterprise has reached break-even but is not strong enough for rapid growth

- Capital Needs: US$300K+
- Equity: impact investors in the form of convertible loans, merger with existing corporation (not common given the risks)
- Debt: bank loans, development or government agencies, foundations in the form of program-related investments, social impact bonds and other results-based payments
- Donations: repayable donations or donations to subsidize soft loans

Scale: enterprise generates profit and can reinvest in growth

- Capital Needs: US$500K+
- Equity: impact investors, merger with existing corporations or new partners
- Debt: bank loans, development agencies, foundations in the form of program-related investments, social impact bonds and other results-based payments, impact investments

Source: Adapted from Enterprise Development Toolkit and Social Enterprise in Emerging Market Countries: No Free Ride.
The financing needs of social enterprises
This research approached funding and financing needs from the stage of growth perspective. Social enterprises need capital to grow. The type and amount of capital are closely tied to the level of development of the enterprise as well as the sophistication of the financial market it operates in (see Figure 2 on page 6). Start-up social enterprises need mostly grants and non-recoverable types of capital until breaking-even. Validate and prepare to scale social enterprises require more substantial amounts of capital and are able to repay it, but with softer terms and supported by philanthropic sources of capital. And finally, scaling social enterprises can take investment capital with more commercial terms.

When describing and analyzing the demand for and supply side of finance, the country studies point out possible mismatches and opportunities. They recommend that stakeholders develop financial instruments that are appropriate and affordable for the existing social enterprises, and take into account how they are likely to grow going forward. Social enterprises already in the market will need finance and capacity building to accompany them on the growth journey and prepare them to be investment-ready; while the increasing number of start-ups will most likely continue to require grants and donations. The use of equity is not appropriate in most early stage enterprises, given the lack of exit mechanisms for investors, as well as the legal form in the case of civil society organisations (CSOs) which prevents them from distributing profits.

Capacity-building needs of social enterprises
Social enterprises have diverse capacity-building, technical assistance and mentoring needs throughout their life cycle and having access to the right support at the right time can be just as important for their development as access to appropriate capital. The four life cycle stages have different objectives of business development and therefore need a different level and combination of capacity-building support. In a number of financing models (for example venture philanthropy) funders and investors offer a combination of financial and non-financial support. The latter can comprise of training, workshops, specialized tools, technical assistance, mentoring or coaching; it can take place in groups or one-on-one, depending on resources and the needs of the enterprise. Capacity building may take place independently and be provided by specialized programmes or support organisations, whose purpose is to provide knowledge, skills and expertise to these enterprises. Enterprises that are farther along the life cycle will need more specialized, industry, and strategic support. Most capacity-building support is subsidized through grant funding and is rarely paid by end-users. However, enterprises that are ready for investment capital are often provided investment financing to pay for advisory services.
Regional Overview of Social Enterprise Ecosystems in Croatia and the Western Balkans

THE COUNTRIES IN THE WESTERN BALKANS AND CROATIA CAN BE CONSIDERED AS A HOMOGENEOUS REGION FOR SOCIAL ENTERPRISE DEVELOPMENT AND SOCIAL FINANCE PROGRAMMES. THEY SHARE A COMMON HISTORY, SIMILAR CHALLENGES IN ECONOMIC DEVELOPMENT AND STRUGGLE WITH THE SAME SOCIAL ISSUES IN THEIR TRANSITION TO DEMOCRACY AND A MARKET ECONOMY.

Amidst the exciting and often difficult changes, people and organisation still look to the government for guidance and support in most countries and have not left their dependence on the state behind. In spite of the shared past, people in the Western Balkans do not always find it easy to cooperate with each other and create successful joint initiatives.

The context and ecosystem for social enterprises

Six of the seven countries, with the exception of Croatia (already an EU member) are candidates for EU membership, and are working hard to harmonize their legal and economic framework with EU standards. They already benefit a great deal from European financial support, which is expected to increase, if they become EU members.

The smaller Western Balkan countries of the region are some of the poorest in Europe, with ethnically diverse and socially and economically disenfranchised groups of the population. In addition to high levels of poverty; unemployment, social exclusion and discrimination are on the top of the list of priorities of the governments. They all have national social inclusion or employment strategies and allocated significant resources (often obtained from the EU) toward poverty alleviation and employment creation.

A government social enterprise strategy exists only in Croatia at the moment, while in the other countries social enterprise development is seen as part of the social inclusion strategy or the policies benefiting people with disability. In countries with more advanced social enterprise ecosystems, governments play a beneficial role by launching social enterprise development strategies that allow stakeholders to work towards a common vision and decide their positions in the ecosystem.

In some countries, for example in Serbia, where the government has no such strategy, other stakeholders decided to create one: the Coalition for the Development of Social Entrepreneurship, founded by leading support organisations in 2010, has started to offer policy advice, advocacy and research on the social enterprise sector.

Public sector schemes do not target social enterprises in most countries; they focus either on pressing social problems, for example youth unemployment, or on supporting entrepreneurship in general. The hope is that social enterprises would become increasingly aware of these schemes and successfully apply to them. In practice, however, they are often not eligible to benefit from this support due to their legal form or the fact that they do not meet other business-related criteria. The only exception to this is Croatia, where public sector funding from European Social Funds (ESF) sources was used specifically for social enterprise support programmes.

Some of the countries have a law on social enterprises in place (Albania and Kosovo, while Serbia has a draft) in order to provide a clear definition and some committed public resources for supporting the sector. The approach tends to be legalistic overall, defining social enterprise as a legal form, which often leads to excluding a large number of already existing social enterprises. In other cases, such as Serbia for example, the intention is to tie social enterprises closely to employment models and thus reduce them to work integration social enterprises (WISE). While it is true that most social enterprises in the region address employment and employability barriers, such narrowing of
the term excludes promising and innovative service-delivery models that address gaps in poverty reduction, education or social service fields. Even where a social enterprise law exists in the region, it usually has no teeth and lacks the political will and processes for implementation.

The support infrastructure is in its early stages of development, with only a few active support organisations on the horizon. They provide a wide range of capacity-building and training courses related to business planning, product development, sales and marketing. These organisations tend to be local initiatives backed by one-off project funds, so they all struggle with sustainability.

Social entrepreneurship is not included in the school and university curricula; courses are delivered by donor-funded support organisations on a project basis or at university level in some countries. The lack of education and training opportunities leads to a shortage of social enterprise professionals and creates a succession gap in management, as younger generations are not stepping in to fill middle management positions.

Awareness-raising and advocacy work are key to the growth of the social enterprise ecosystems in all seven countries. Serbia and Croatia are the two countries where networks and support organisations have already been set up, are becoming more visible and can count on more resources for further development. Some of them have become members of larger networks such as the European Venture Philanthropy Association or Euclid, thus linking up with European counterparts and exposing the Croatian and Western Balkans ecosystems to new ideas. There is plenty of cross-border communication and information sharing happening between individual organisations, but there is no regional network or joint project which would involve several countries.

Award programmes and competitions exist in several countries and are highly effective in raising the visibility and recognition of successful social enterprises and the sector as a whole. They also provide capacity-building support and small grant funding to the winners.

There seem to be only few regional or cross-border cooperation or support programmes in place, which is surprising, given the similarity in social issues as well as the level of development of the social enterprises in the different countries. Apart from the European Commission, Erste Bank Group and UniCredit Foundation are the only regional players that run social innovation and social enterprise support programmes across the region.

Optimist is a civil society organisation in Serbia that started a program for economic empowerment of Roma families through the production of vegetables.
Social Enterprise Ecosystems in Croatia and the Western Balkans

The mapping of social enterprises
It is very difficult to give an accurate estimate of the number of social enterprises, even in countries with more advanced ecosystems such as Croatia and Serbia. The size of the social enterprise “sector” varies between 19 (the smallest being in Montenegro) and 1,196 (in Serbia in 2012), although these estimates always depend on the social enterprise definition used by the given research. In some countries, such as Serbia, cooperatives are included in social enterprise research and distort the picture, as most agricultural cooperatives are not socially-driven businesses. In all seven countries, CSOs drive the growth of the sector and, except in Serbia, they are the most frequent legal form for social enterprises.

Regardless of its size, this is a nascent sector everywhere, with most social enterprises in the blueprint or validation stages, just launching or testing their business models. Most of them have not reached break-even and are struggling with sustainability; very few are ready to scale.

This is due partly to the novelty of the concept, but also to insufficient funding and lack of capacity-building and business planning support available for young enterprises. Many good ideas never make it to the launch stage; they remain at planning stage, or turn into a modest revenue generating activity within the bounds of a civil society organisation.

Social enterprises use entrepreneurial models to address the critical social issues identified in research and government strategies. The vast majority in Croatia and the Western Balkans are work integration social enterprises (WISE) and focus on job creation or opportunities for entrepreneurship and income-generation of women, youth, people with disabilities, refugees and rural communities. Almost every country study highlights an example of a women-lead social enterprise, as they are success stories of committed and entrepreneurial women at the helm of enterprises that empower women.
People with disabilities are a key target group for social enterprises of various forms and sizes, and their training and employment models are subsidized by the governments in all countries. Service provision models are relatively rare, because social enterprise beneficiaries often cannot afford to pay for the service and governments do not always step in as a purchaser of social or care services.

Social enterprises are active in a wide range of industries and services; the production of goods for household use, decorative products, agriculture, food production, social and healthcare services, to name just a few. They focus on the domestic markets for the time being, which is understandable given their small size and young age, but small local markets could soon become a limitation to the growth of the business and to scaling the impact.

Social impact and performance measurement is an area to be improved in all of the ecosystems explored. Social enterprises do their best to measure at least the output of their activities, so they are able to report on number of beneficiaries employed or revenue-generated, but they need further supports and tools in order to capture outcomes and impact.

Financing strategies of social enterprises rely mostly on grant funding, given that the majority of the social enterprises are start-ups or early stage businesses. CSOs’ own resources or government grant schemes have provided most of the initial capital, often from social, employment or other development programmes and funds. These have channeled EU funding to social enterprises in the region from IPA,1 TACSO2 and European Social Funds (ESF) programmes. There are no dedicated social enterprise programmes and funds, although expectations from governments are high in this regard. A large number of start-up social enterprises have benefited from private sector support, e.g. from banks or companies. International donor agencies have also contributed to the first social enterprise development programmes. It is expected that foreign donor support will be significantly reduced going forward, so social enterprises have started to think about other types of finance, including the use of loans.

Commercial banks do not offer loan products to social enterprises yet, because they are seen as risky businesses that lack repayment capacity or collateral and have little experience managing debt. At the same time, pilot programmes are underway to come up with adequate financial instruments for more advanced social enterprises. Most of the need is in the lower range, between EUR 10,000 and 25,000, while consolidated businesses need EUR 50,000 and up. The sector in a number of countries would prefer grants and simple patient loans with favourable conditions, preferably combined with a technical support or capacity-building package.

All countries in the Western Balkans and Croatia have active microfinance and SME development programmes, except Serbia, where microfinance faces barriers due to excessive regulation and the involvement of commercial banks. Social enterprises that operate as cooperatives or for profit companies do take advantage of micro and small loans, but civil society organisations are not

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1 The Instrument for Pre-Accession Assistance (IPA), is a funding mechanism of the European Union offering funding to EU candidate countries and potential candidates.

2 Technical Assistance for Civil Society Organisations programme funded by the EU; http://www.tacso.org/default.aspx?template_id=69&langTag=en-US&pageIndex=1
eligible. As social enterprises mature, and they become investment-ready, their eligibility for these loans should be considered. This will need to be accompanied with helping them to reduce their reluctance to take on debt as well as accessing the kind of patient debt that is needed. Entrepreneurship development programmes offer another promising opportunity, as they usually include a combination of grants and technical support, but eligibility is always a question for CSOs.

**The social investment market**
The social investment markets do not exist in any of the seven countries. There is little demand for repayable finance in most of them, as the majority of existing social enterprises do not need and cannot yet absorb this type of finance. Their business models need more time to mature and revenues to become robust and sustainable enough, so social investment would not necessarily increase their social impact. The use of equity is not considered as most early-stage enterprises are reluctant to give up ownership, sharing potential profits with investors. At the same time, equity investment is a challenge for investors too; it is difficult to exit due to the lack of exit mechanisms as well as the legal form in the case of CSOs, which prevents them from distributing profits. There are only a few pioneering regional players on the social finance supply side: a couple of regional commercial banks with their foundations (Erste and UniCredit) and Yunus Social Business. The banks have piloted or are now piloting lending programmes on a small-scale, and Erste Group is planning to roll out its social banking initiative to all of the countries where it operates by 2019. The programme will target traditionally unbanked groups of society including low-income individuals, first-time entrepreneurs and social organisations by offering basic financial products, advice and business mentoring.

**Common challenges and opportunities in the region**
This research has identified a number of challenges and opportunities that stakeholders in the social enterprise ecosystems face across the region, as illustrated in Table 1 (page 13).

Tackling these challenges and opportunities needs a regional approach of large players and a consistent effort of committed local organisations that are willing to form regional alliances and work on solutions together. Many of the recommendations in the country reports address these challenges at local level, yet we would also like to propose a few **regional solutions** for consideration in the Conclusion.

Governments can play a crucial role in creating a more advanced ecosystem in their own countries; while these solutions would need to be implemented locally, we include them in the regional summary, because they apply to all countries in the region. Governments should:

- Not regulate nascent ecosystems or create a legal definition of social enterprise, as that will stifle the development of a variety of business models
- Allow a broad range of activities and social impact areas and not reduce social enterprise to employment models only
- Open the public sector markets to social enterprises, so they can compete with other market actors
- Support infrastructure organisations in their training and capacity-building efforts, rather than running such programmes directly
- Support and fund research and tools development programmes, whose results can be shared and used for further capacity development and to avoid duplication of efforts
- Encourage participation and investment, rather than over-controlling and reporting, since governments usually do not have the resources to fund everyone’s initiative anyway
### Regional Overview of Social Enterprise Ecosystems in Croatia and the Western Balkans

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<th>Ecosystem</th>
<th>Challenges</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td><strong>Challenges</strong></td>
<td>* Absence of strategic approach and commitment of governments to social enterprise development; even if there is a strategy, implementation is lacking</td>
<td>* Active local CSO and social enterprise support organisations and networks that offer assistance to social enterprises as well as advocate on their behalf</td>
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<td></td>
<td>* Focusing too much on the regulatory aspect carries the risk of neglecting support policies. There is also a danger here of getting stuck in a definition discussion and legal interpretation of social enterprise</td>
<td>* Emergence of the CEE Social Investment Task Force, which wants to promote impact investment in Central and Southern Europe</td>
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<td></td>
<td>* Regulatory frameworks often contain contradictions (e.g. social enterprise law and tax regulation), which stifle social enterprise growth</td>
<td>* Growing importance and availability of European and regional networks, support programmes, funding schemes</td>
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<td>* Potential stakeholders including from both the private and public sectors are not aware of and do not understand social enterprise models and success stories; lack of general public awareness</td>
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<td>* Lack of information and research about social enterprises locally and regionally</td>
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<td></td>
<td>* Social enterprises cannot access public sector markets (social service provision) due to lack of contacts, capital and non-transparent public procurement contracting procedures</td>
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<tr>
<td><strong>Opportunities</strong></td>
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<th>Challenges</th>
<th>Opportunities</th>
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<tr>
<td><strong>Challenges</strong></td>
<td>* Social enterprise business models are not sustainable</td>
<td>* Growing interest by corporations that work regionally in supporting social enterprises through their corporate social responsibility and grant programmes</td>
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<td></td>
<td>* Social enterprises lack business planning and financial management skills, which prevents them from strategic growth and repayable financing options</td>
<td>* Examples of successfully scaling social enterprises who have used social investment are available for sharing</td>
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<td>* Weak social impact measurement culture and lack of tools and skills on the social enterprise side</td>
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<th>Challenges</th>
<th>Opportunities</th>
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<td><strong>Challenges</strong></td>
<td>* Social enterprises cannot access appropriate and affordable financing that corresponds to their stage of development</td>
<td>* Increasing availability of EU funding programmes for social enterprise development, training and capacity building, as well as social inclusion and employment programmes</td>
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<td>* Risk averse behaviour on supply side of finance leading to reduced availability of resources</td>
<td>* Opening up of SME financing and entrepreneurship support facilities of local governments and foreign donors</td>
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<td>* Small size of sector is not attractive to budding investors interests</td>
<td>* Presence of pioneer funders and social investors who are willing to pilot new ideas</td>
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<td>* Social enterprises still not seen by corporations as service providers for their value chains</td>
<td>* Possible access to microfinance facilities</td>
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| **Opportunities**          | * Increasing availability of EU funding programmes for social enterprise development, training and capacity building, as well as social inclusion and employment programmes |                                                                                                    |
|                            | * Opening up of SME financing and entrepreneurship support facilities of local governments and foreign donors |                                                                                                    |
|                            | * Presence of pioneer funders and social investors who are willing to pilot new ideas |                                                                                                    |
|                            | * Possible access to microfinance facilities |                                                                                                    |

Table 1: Common Challenges and Opportunities in the Region
Conclusion

THE RESEARCH IN CROATIA AND THE SIX TARGET COUNTRIES IN THE WESTERN BALKANS HAS SHED LIGHT ON A NUMBER OF SIMILARITIES AND DIFFERENCES REGARDING THE LEVEL OF DEVELOPMENT OF THE SOCIAL ENTERPRISE ECOSYSTEMS. THE COUNTRY STUDIES END WITH COUNTRY-SPECIFIC RECOMMENDATIONS. AND THE REGIONAL CHAPTER POINTS TO RECOMMENDATIONS THAT COULD BE IMPLEMENTED AT THE REGIONAL LEVEL FOR THE BENEFIT OF ALL SEVEN ECOSYSTEMS AND THEIR STAKEHOLDERS.

While there are significant differences in the size, sophistication and social impact potential of social enterprises in the different countries, they all have nascent ecosystems, with a strong focus on defining, understanding and promoting the concept of social enterprise and the new business models and philosophy it brings. Croatia and the Western Balkans ecosystems are evolving and can learn from and build onto the experiences of more developed ones in Europe. Although the research shows that there is a need to continue supporting and deepening awareness-raising and sector-building initiatives, there is also a more urgent need to ramp up and intensify efforts to provide business advisory services and tailored financing to validate and scale social enterprises. By stressing the latter, there will be more investment-ready enterprises and more proven models with impact that can have a tremendous demonstration effect on the sector.

Figure 3 (on page 15) outlines the most essential elements to building a strong social enterprise ecosystem that is capable of delivering real impact.

What is needed to be developed regionally?

Ecosystem building
- The information and data deficit could be addressed by regional research and data collection, which could be made available to national governments for policy development purposes.
- A regional state of the sector report could be produced on a regular basis that would help regional investors and support organisations to adjust their programmes, and help all stakeholders appreciate the size and impact of the sector.
- The data could be converted into a joint regional data base showing who is who in each country and at a regional level. Such a database could become a partnership and investment matching platform for investors and investees alike.
- Platforms that share information, tools and best practices across Croatia and the Western Balkans could be streamlined and linked up with each other and existing platforms in Central and Eastern Europe in order to avoid duplication of efforts.
- A regional annual social enterprise day could be launched and held in a different location each year in order to showcase the development of the ecosystems and to motivate stakeholders.
- Information events focusing on social enterprise and impact investing could be streamlined and better coordinated with events in Central and Eastern Europe and thus provide exposure to other European models and ideas, and include Croatia and the Western Balkans in larger networks and coalitions.

Capacity building
- Skill and capacity gaps could be addressed with regional capacity-building and training programmes, using tested know-how and material.
- Regional private sector players, such as companies or banks could become involved in mentoring and technical assistance support, as well as funders of such regional capacity-building programmes.
FIGURE 3: ESSENTIAL ELEMENTS FOR BUILDING A STRONG SOCIAL ENTERPRISE ECOSYSTEM

What is needed for awareness and sector building?

Ecosystem building
- Developing national social enterprise strategies involving key stakeholders
- Creating an enabling regulatory and legal framework that fosters the growth of social enterprise with a broader definition
- Building awareness to better understand the power of social enterprise through events, award schemes and campaigns
- Increasing the understanding and commitment of public sector officials of social enterprise models and their potential
- Regular research and statistics for evaluation and policy development

Capacity building
- Supporting the development of social entrepreneurial talent for the sector
- Supporting the development of tools and best practices to foster social entrepreneurship at each stage including the use of impact measurement
- Launching and supporting social enterprise incubators that assist a high number of start-ups
- Documenting and learning from models of best practices both on the supply and demand side of social enterprise and impact investing
- Organizing capacity-building and knowledge-sharing convenings that develop the skills of entrepreneurs and supporting organisations
- Encouraging and supporting intermediaries who channel resources and skills to social enterprises

Financing
- Developing funding schemes that offer easy-to-access affordable funding to blueprint and validation social enterprises
- Encouraging community participation in supporting start-up social enterprises
- Piloting new financing models (e.g. loans or impact bonds) for growth and scaling social enterprises

What is needed to support the validation and scaling of social enterprises?

Ecosystem building
- Opening the public sector market to social enterprises through public procurement
- Developing government incentives for social enterprises through support measures for critical social issues, such as long-term employment of marginalized people or integration of disadvantaged communities

Capacity building
- Supporting accelerators and incubators to build strong social enterprises; supporting efforts to become sustainable

Financing
- Developing grant/loan instruments to help social enterprises at blueprint, validate and prepare to scale stages
- Developing funding for first loss or to help guarantee riskier investments particularly among governments, the EU and regional investors
- Encouraging investors to cooperate in the investment process and co-invest in social enterprises
- Opening microfinance and small business support networks to social enterprises
- Encouraging and rewarding community participation and investment in social enterprises
• More cooperation and coordination with accelerators and incubators across Central and Eastern Europe should be encouraged, so that the specific focus and value added by each is clear. This could help provide consistent and long-term support to individual social enterprises.

• Successful capacity-building programmes could be replicated using a regional “growth and replication fund”. This fund would target support programmes in all countries of the region and cover the costs of testing and implementing their models in new countries. It could lead to the dissemination of tools, literature and research in local languages, as well as cross-border partnerships of capacity-building organisations. Funding for replication could also become an important piece in their sustainability strategies and this could avoid duplication of efforts.

Financing
• A regional financing approach should be considered in order to create a more robust investment pipeline and more secure investments. Regional funding opportunities could be set up along specific social issues that are common to all seven countries, for example youth unemployment or lack of access to health services. This would encourage the emergence of innovative models as well as the spreading of strong and tested ones from one country to another.

• Pooled resources could help address the lack of adequate financing. Social enterprises often complain about the mismatch between their needs and the offer at local level; this could be better resolved through a regional fund or financing facility.

• Regional players such as the European Commission or UNDP could consider setting up or co-financing a Western Balkans guarantee scheme, including Croatia, which could facilitate the use of debt and other social finance instruments for social enterprises.

• Microfinance facilities and SME technical assistance programmes could be reviewed at a regional level and successful elements piloted as a regional programme also for social enterprises.

Moving through the ecosystem phases needs innovation and a risk-taking attitude from early pioneers and time for a critical mass of social enterprises to prove their business models. The process is not likely to be smooth and steady; there would be breakthroughs (such as the establishment of an ethical bank) and setbacks (for example the failure of some high profile social enterprises). The role of government will remain to be a central issue: an active and supportive government can be crucial to mainstream social enterprise and make sure that key elements of the ecosystem are in place. At the same time, too much government involvement and direct participation may discourage or squeeze out other stakeholders and thus be detrimental to the development of the social enterprise ecosystem.
Foundation Mozaik provides financial and non-financial support to organisations with viable business ideas in Bosnia and Herzegovina through their incubator program.
ABOUT NESsT

NESsT has been working for 20 years to provide dignified employment to lift people out of poverty in emerging markets. NESsT achieves its mission by raising philanthropic capital to invest in and develop social enterprises that create employment and viable income opportunities for the poorest communities facing isolation, discrimination, lack of job skills and poor education. To date, NESsT has invited 170 social enterprises to enter its portfolio providing them with an average of four years of support and investing more than US$14 million in capacity building and direct funding. Though this investment, NESsT has contributed to creating more than 49,000 dignified employment and sustainable income opportunities.

ABOUT THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The European Bank for Reconstruction and Development (EBRD) is a multilateral bank committed to the development of market-oriented economies and the promotion of private and entrepreneurial initiative in more than 30 countries from Morocco to Mongolia and from Estonia to Egypt. The Bank is owned by 65 countries, the European Union and the European Investment Bank.