

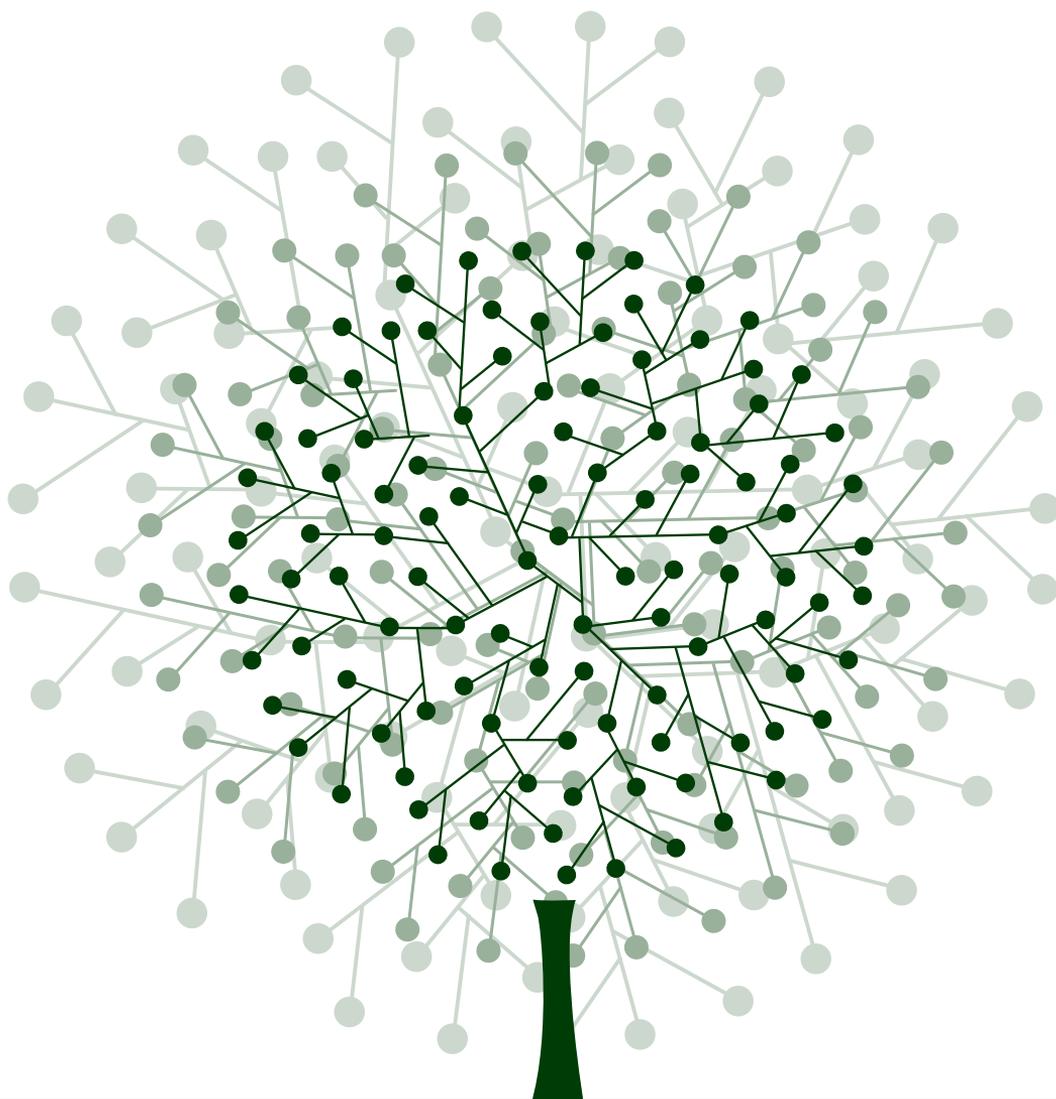
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SMEs and Entrepreneurship Policy Center

# SME Report for Croatia 2012



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# Introduction

Small and medium enterprises (SMEs)<sup>1</sup> represent an important part of the Croatian economy. In 2011 SMEs achieved a share of 50.2% of gross domestic product (GDP), 65.5% of employment and 42% of Croatian exports. International research (Global Entrepreneurship Monitor, Doing Business, Global Competitiveness Report, Corruption Perceptions Index) point out the main characteristics of the small and medium enterprise sector in Croatia, which are: insufficiently intensive activity in start-up of new business ventures, small share of growing enterprises, strong administrative barriers to entrepreneurial activity, underdevelopment of the financial market and lack of education focused on development of entrepreneurial knowledge and skills.

**SME Report for Croatia 2012** presents the important aspects of the small and medium enterprise sector in Croatia. This publication is published by **CEPOR<sup>2</sup> – SMEs and Entrepreneurship Policy Center** – independent policy center which has been dealing with entrepreneurship and small and medium enterprise sector issues in Croatia since 2001. The Report presents data and analyses of the situation in the small and medium enterprise sector in 2011 and their comparison with indicators from previous years. Reference years used in comparison to 2011 were selected depending on the availability of data and intensity of changes during the observed periods.

SME Report for Croatia 2012 consists of six parts. The first part talks about the situation and importance of the small and medium enterprise sector in Croatia. The second part presents institutional and legislative framework for the small and medium enterprise sector in Croatia and describes distribution of competences for making policy decisions related to small and medium enterprises, implementation of those decisions at the level of state institutions, and the availability of support for the small and medium enterprise sector. The third part discusses the sources of financial support for the development of small and medium enterprises in Croatia, while the fourth part describes the access and availability of information and advisory services, as one of the preconditions for development of entrepreneurship. In the fifth part the role and representation of entrepreneurial education at all levels of formal education in Croatia are described. The final part brings concluding considerations of thematic units presented in the Report.

Data on employment in this Report includes aggregate data on the number of employees in crafts businesses and small and medium enterprises. All the other analyses are focused exclusively on the small and medium enterprise sector, excluding crafts businesses, while micro enterprises are included in the small enterprise category.

Sources of data presented and analysed in the Report are state institutions (Ministry of Entrepreneurship and Crafts, FINA, Croatian Chamber of Economy, Croatian Bank for Reconstruction and Development, Croatian Agency for SMEs and Investment, etc.) and reports of international research projects (Global

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<sup>1</sup> Hereinafter, abbreviation SME will be used to denote small and medium enterprises.

<sup>2</sup> CEPOR was established by an agreement between the Government of the Republic of Croatia and Open Society Institute Croatia. Ten institutional founders of CEPOR are leaders in their areas of activity – from academic community to associations of entrepreneurs, development agencies and centers for entrepreneurship. CEPOR's mission is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy. CEPOR wants to contribute to the shaping of entrepreneurial culture and to creation of stimulating institutional and regulatory framework for entrepreneurial activity ([www.cepor.hr](http://www.cepor.hr)).

Entrepreneurship Monitor prepared by the Global Entrepreneurship Research Association consortium, Doing Business prepared by the World Bank, Global Competitiveness Report prepared by the World Economic Forum, Corruption Perceptions Index prepared by the Transparency International, etc.).

The purpose of this publication is to inform the competent institutions and the wider public about the problems of the Croatian SME sector, as well as to create a quality data basis for decision making, which will allow strengthening of entrepreneurial culture and the SME sector for the purpose of increasing employment capacities, stronger contribution to GDP and export potential of Croatia.

# 1. Situation in the small and medium enterprise sector in Croatia

Performance of the small and medium enterprise sector in Croatia is always important, because these enterprises make up a significant part of the economy (through participation in employment, in creation of gross domestic product and exports). The issue of performance of this part of economy is now more important than ever – due to prolonged long-term unemployment in Croatia and Croatia's forthcoming accession to European Union whose economic policy gives special importance to small and medium enterprises. The ability of Croatian small and medium enterprises to compete successfully and respond to the challenges set by the demanding market, new regulations and tough competition in the EU will be of key significance for their survival and development in the European Union's single market.

## 1.1. Criteria for definition of the small and medium enterprise sector in Croatia and European Union

Criteria for classification of entities in the small and medium enterprise sector in Croatia are defined by the Accounting Act<sup>3</sup> and the Small Business Development Promotion Act<sup>4</sup>.

In accordance with the **Accounting Act**, entrepreneurs (enterprises) are classified as small, medium and large, depending on the amount of total assets, the amount of revenue, and the average number of employees during business year.

**Small entrepreneurs** are those that don't satisfy two of the following conditions:

- Total assets 32,500,000 HRK
- Revenue 65,000,000 HRK
- Average number of employees during business year: 50.

**Medium entrepreneurs** are those satisfy at least two out of three conditions for small entrepreneurs, but do not satisfy two of the following conditions:

- Total assets 130,000,000 HRK
- Revenue 260,000,000 HRK
- Average number of employees during business year: 250.

**Large entrepreneurs** are those that satisfy two conditions from the definition of medium entrepreneurs.

According to the **Small Business Development Promotion Act**, small and medium enterprise sector consists of *physical and legal entities that independently and permanently perform allowed activities with the purpose of making profit, i.e. income on the market.*

Total annual revenue up to 50,000,000.00 EUR or balance sum if they are profit tax payers, i.e. long-term assets if they are income tax payers up to 43,000,000.00 EUR.

<sup>3</sup> Official Gazette, NN 109/07

<sup>4</sup> Official Gazette, NN 29/02; 63/07; 53/12

Physical and legal entities that are part of the small and medium enterprise sector must satisfy the following three conditions:

Average annual number of employees is less than 250

Independence in business (meaning that other physical or legal entities individually or jointly possess no more than 25% of share in ownership or decision rights in the small business entity)

Total annual revenue equivalent up to 50,000,000.00 EUR or balance sum if they are profit tax payers, i.e. long-term assets equivalent up to 43,000,000.00 EUR if they are income tax payers.

Regarding entity size, **Small Business Development Promotion Act** distinguishes micro, small and medium small business entities:

- **Micro entities** are physical and legal entities that annually on average employ less than 10 employees and achieve total annual revenue equivalent up to 2,000,000.00 EUR, i.e. have value of long-term assets equivalent up to 2,000,000.00 EUR

- **Small entities** are physical and legal entities that:

- Annually on average employ less than 50 employees

- Achieve total annual revenue equivalent up to 10,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent up to 10,000,000.00 EUR if they are income tax payers

**Medium entities** are physical and legal entities that:

- Annually on average employ more than 50 and less than 250 employees

- Achieve total annual revenue equivalent from 10,000,000.00 EUR to 50,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent from 10,000,000.00 EUR to 43,000,000.00 EUR if they are income tax payers.

The Accounting Act and Small Business Development Promotion Act do not have a harmonized number of employees criterion for classification of small and medium enterprises in Croatia. Amendments to the Small Business Development Promotion Act from May 2012 have harmonized the categorization of size of entrepreneurs in this Act with the criteria applied by the European Union<sup>5</sup>, thus enabling higher quality analysis and comparison of the small and medium enterprise sector in Croatia and EU countries, as well as better use of support mechanisms intended for small and medium enterprises through EU programs (Table 1).

**Table 1:** Criteria of classification of small business entities

Type of business entity	Number of employees	Annual revenue in million EUR	Assets (active/long-term assets) in million EUR
	EU / Croatia	EU / Croatia	EU / Croatia
<b>Micro</b>	0-9	2	2
<b>Small</b>	10-49	10	10
<b>Medium</b>	50-249	50	43

Sources: Small Business Development Promotion Act (NN 29/02; 63/07; 53/12)

[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm)

<sup>5</sup> In accordance with the European Commission Recommendation 2003/361/EC from May 6, 2003

## 1.2. Importance of the small and medium enterprise sector in the Croatian economy

In 2011, as a result of adverse conditions in the environment and general negative economic trends, a decline in the number of business entities was recorded, but the structure of economy with regard to enterprise size remained the same. The biggest drop was in the category of medium enterprises (6.3%), followed by small enterprises (5.7%), while decline in the category of large enterprises was 4.3% (Table 2).

**Table 2:** Enterprise structure regarding enterprise size in 2001, 2010 and 2011

	2001		2010		2011	
	Number of entities	%	Number of entities	%	Number of entities	%
<b>Small and medium enterprise sector</b>	56,416	99	96,383	99.5	90,831	99.6
<b>Small enterprises</b>	54,213		95,004		89,539	
<b>Medium enterprises</b>	2,203		1,379		1,292	
<b>Large enterprises</b>	571	1	375	0.5	359	0.4
<b>Total</b>	<b>56,987</b>	<b>100</b>	<b>96,758</b>	<b>100</b>	<b>91,190</b>	<b>100</b>

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012

Apart in the number of business entities, small and medium enterprises have a significant share in Croatian GDP (Table 3). Share of small and medium enterprises in GDP in 2011 is 50.2%, which represents a decrease of 1.8% compared to 2012 (due to a decrease of GDP in small enterprises). Total revenue generated by exports of Croatian enterprises is increasing in 2011, with the largest growth achieved by small enterprises (growth of 20.5% in relation to 2010). In contrast to medium enterprises in which employment is slightly increasing and large enterprises in which employment is stagnating, employment in small enterprises in 2011 has decreased by 6.9%.

**Table 3:** Enterprise size and GDP, employment and exports in 2010 and 2011

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012; FINA

Economic criterion for sector evaluation	Enterprise size					
	Small		Medium		Large	
	2010.	2011.	2010.	2011.	2010.	2011.
<b>GDP (000 HRK)</b>	199.298.818	191.232.361	109.530.751	111.896.253	289.357.850	300.152.054
<b>GDP (share)</b>	33,3%	31,7%	18,3%	18,5%	48,4%	49,8%
<b>Employment</b>	415.320	386.692	157.147	159.616	287.341	287.035
<b>Employment (share)</b>	48,3%	46,4%	18,3%	19,2%	33,4%	34,4%
<b>Exports (000 HRK)</b>	17.117.654	20.636.597	18.867.160	19.697.332	53.085.416	55.747.578
<b>Exports (share)</b>	20,1%	21,5%	21,0%	20,5%	58,9%	58%

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012; FINA

Asymmetry of changes in employment, depending on enterprise size, is visible in comparison with 2001 (although in 2011 there are certain changes in relation to 2010, the global conclusion is valid): employment in the category of small enterprises is significantly increasing, employment in large enterprises is significantly decreasing, while level of employment in medium enterprises is the most stable (Table 4).

**Table 4:** Employee structure regarding enterprise size in 2001, 2010 and 2011

Type of enterprise	2001.		2010.		2011.	
	Number of employees	%	Number of employees	%	Number of employees	%
<b>Small</b>	247.340	34,0	415.320	48,3	386.692	46,4
<b>Medium</b>	161.426	22,2	157.147	18,3	159.616	19,1
<b>Large</b>	318.467	43,8	287.341	33,4	287.035	34,5
<b>Total</b>	<b>727.233</b>	<b>100,00</b>	<b>859.808</b>	<b>100,00</b>	<b>833.343</b>	<b>100,00</b>

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012

Employment in the small and medium enterprise sector can also be analysed by comparing the average number of employees in small and medium enterprises (tables 5 and 6). The average number of employees in small enterprises ranges between 4 and 5, while in medium enterprises it increased by 8.3% (from the average of 114 employees in 2010, to the average of 123.5 employees in 2011).

**Table 5:** Employee structure in small enterprises in the period 2008-2011

Year	Number of small enterprises	Number of employees in small enterprises	Average – number of employees in small enterprises
2008.	87.807	448.803	5,1
2010.	95.004	415.320	4,4
2011.	89.539	386.692	4,3

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012

**Table 6:** Employee structure in medium enterprises in the period 2008-2011

Godina	Number of medium enterprises	Number of employees in medium enterprises	Average – number of employees in medium enterprises
2008.	1.396	170.038	121,8
2010.	1.379	157.147	114,0
2011.	1.292	159.616	123,5

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012

Results of international research project about entrepreneurship Global Entrepreneurship Monitor (GEM), in which Croatia has been involved since 2002, indicate a very low level of activity in start-up of new business ventures, which is measured by the Total Entrepreneurial Activity index – TEA<sup>6</sup> (Table 7). With TEA index of 5.52 in 2010 and 7.32 in 2011, Croatia belongs to countries with low level of activity in start-up of business ventures, in relation to the average value of TEA indexes of all the countries involved in the GEM research.

**Table 7:** Entrepreneurial activity in Croatia, measured by the TEA index

	2002.	2008.	2010.	2011.
TEA index, Croatia	3,62	7,59	5,52	7,32
TEA index, average*	7,99	10,49	11,72	11,39

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012

\*The average relates to all the countries involved in the GEM research in that year.

In addition to new business ventures, growing enterprises also have a significant role in solving the unemployment problem, which, according to the results of the GEM research for 2011, there are very few in Croatia (only around 3% measured by the criteria of innovativeness, share of exports in total revenue and intensity of new employment). Low level of activity in start-up of business ventures and low share of growing enterprises do not contribute to solving the problem of long-term and high unemployment in Croatia (19.13% in 2011).

<sup>6</sup> TEA index represents the number of entrepreneurially active people (it combines the number of people that are trying to start-up an entrepreneurial venture and the number of owners or owners/managers of enterprises younger than 42 months) per 100 examinees that are 18-64 years old.

However, information about a slight increase of innovativeness of small and medium enterprises (which is a prerequisite for increasing competitiveness and market penetration) is promising (Table 8).

**Table 8:** Growing enterprises in Croatia, according to the new product development criterion

Criterion for categorization of growing enterprises	2010.	2011.
Enterprises that have new products that are new to everyone (%)	9,46	12,63
Enterprises that have products that are new to some (%)	15,25	25,16
Enterprises that have products that are new to no one (%)	75,29	62,21

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012

With regard to financial performance, small and medium enterprises show worse results than large enterprises, not only in absolute values, but also in relative values measured through the relationship to number of employees (Table 9).

**Table 9:** Financial efficiency of enterprises in 2009, 2010 and 2011

Enterprises	2009.		2010.		2011.	
	Million HRK	%	Million HRK	%	Million HRK	%
<b>Small</b>						
Profit	10.453	42,2	10.569	37,5	12.745	40,2
Loss	9.766	43,7	13.055	43,7	13.454	53,2
Consolidated result	687		-2.486		-709	
<b>Medium</b>						
Profit	4.695	18,9	4.184	14,8	4.173	13,2
Loss	4.121	18,4	8.209	27,5	4.416	17,4
Consolidated result	574		-4.025		-243	
<b>Large</b>						
Profit	9.640	38,9	13.450	47,7	14.799	46,7
Loss	8.462	37,9	8.603	28,8	7.438	29,4
Consolidated result	1.178		4.847		7.361	
<b>Total</b>						
Profit	24.788	100	28.203	100	31.717	100
Loss	22.349	100	29.866	100	25.308	100
Consolidated result (Profit – Loss)	2.439		-1.663		6.409	

Source: Croatian Chamber of Economy, Centre for Entrepreneurship, Innovations and Technological Development, 2012; FINA

In 2011, small and medium enterprises continue to show negative business results, but their net loss is significantly decreasing. Decrease of net loss in 2011 is the result of a 20.6% profit increase generated by small enterprises, with a simultaneous increase of loss by 3%. Decrease of net loss of medium enterprises in 2011 is the result of decrease of loss by 46%, with the same level of achieved profit. In 2011, large enterprises have increased their financial efficiency with an increase of profit by 10% and a decrease of loss by 13.5%. But, when this data is connected to the number of employees in those companies, then it is obvious that in 2011 34.5% employees in large enterprises created 7,361 billion HRK consolidated net profit, while 65.5% of employees in small and medium enterprises created consolidated net loss of 952 billion HRK. This raises many questions about the level of business efficiency and competitiveness of small and medium enterprises.

### **Trades and crafts in Croatia - in numbers<sup>7</sup>**

*According to the data of the Croatian Chamber of Trades and Crafts in December of 2011 in Croatia there were 86,424 crafts businesses registered in the Book of Craftsmen<sup>8</sup> – members of the Croatian Chamber of Trades and Crafts, which represent 44.2% of the total number of registered business entities in Croatia (195,355<sup>9</sup>). In December of 2011, crafts businesses in Croatia had a total of 197,680 employees (including owners / partners of the craft and their employees), which in relation to the total number of employees in legal persons in Croatia, which was 1,128,166<sup>10</sup> in December 2011, represents 17.5%.*

*The most active crafts businesses are recorded in the City of Zagreb (14,755 or 17.1%), followed by Split-Dalmatia County (10,167 or 11.8%), Primorje-Gorski Kotar County (8,478 or 9.8%), Istria County (8,033 or 9.3%) and Zagreb County (5,995 or 6.9%). The least number of active crafts businesses is present in Požega-Slavonia (1,040 or 1.2%), Lika-Senj (1,236 or 1.4%) and Bjelovar-Bilogora County (1,335 or 1.5%).*

*Out of 86,424 recorded crafts businesses, 81,068 crafts businesses, or 93.8% are active during the entire year, while 5,356 crafts businesses or 6.2% are registered in the Crafts Register, which perform their activity for no longer than six months within a calendar year.*

*The number of privileged crafts businesses, that is, crafts businesses that can be performed only on the basis of the privilege certificate issued by the relevant ministry, depending on the type of craft is 2,348, or 2.7%, while the other crafts businesses fall into the category of non-privileged crafts businesses. According to the guild structure<sup>11</sup>, the highest share of active crafts businesses in Croatia belongs to service crafts businesses (34.4%), followed by hospitality and tourism (17.3%), retail (16.2%), manufacturing (11.2%), transport of people and goods (9.1%), guild that gathers hairdressers, beauticians, crafts businesses for body care and fitness (6.2%), and finally, fishing, aquaculture and agriculture (5.6%).*

7 Source: Trades and Crafts in Numbers 2012, Croatian Chamber of Trades and Crafts, Tomić, S. (ed.), February 2012

8 Book of Craftsmen – members of the Croatian Chamber of Trades and Crafts consists of data from the Crafts Register of the Ministry of Economy, Entrepreneurship and Crafts, records of voluntary membership in the Croatian Chamber of Trades and Crafts and companies that operate in craft manner.

9 According to the data of the Croatian Bureau of Statistics, First Release 11.11.1/4., February 10, 2011

10 According to the data of the Croatian Bureau of Statistics, First Release 9.2.1/12., January 31, 2012, including the number of employed in the police and defence services.

11 Guild – class association of craftsmen based on their trade

*According to the data of the Ministry of Entrepreneurship and Crafts<sup>12</sup>, based on projects within the SME Promotion Operational Plan for 2011, craftsmen were granted 2,140 aids in the amount of over 26.6 million HRK in 2011. From that amount, 298 aids or 6,832,599 HRK were granted within the Education for Trades and Crafts, while 1,191 aids in the amount of 2,513,758 HRK were granted within the Promotion of Development of Trades and Crafts project.*

*The most attractive craft occupations in the school year 2011/2012 were: hairdresser, cook, car mechanic, waiter, heating and air conditioning installer and carpenter, while not a single pupil was enrolled for occupations such as plasterer, blacksmith, furrier, miller and optometrist.*

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<sup>12</sup> Entrepreneurial Impulse - Plan for Promotion of Entrepreneurship and Crafts for 2012, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2012, p.9.

### 1.3. Regional aspect of the importance of the small and medium enterprise sector

GEM data about the TEA index for 2010 and 2011 indicate an increase of activity in start-up of business ventures in all regions, although large regional differences are still present. Significant improvements are evident in Dalmatia, which records the increase of the TEA index by 65%, and in the region that includes Istria, Primorje and Gorski Kotar, where the TEA index is increased by 45% (Table 10).

**Table 10:** Regional differences in business venture start-up activity in 2010 and 2011

Region*	2010.		2011.	
	TEA	Rank	TEA	Rank
<b>Istria, Primorje and Gorski Kotar</b>	6,00	2	8,68	2
<b>Zagreb and surroundings</b>	7,10	<b>1</b>	9,14	<b>1</b>
<b>Dalmatia</b>	5,20	3	8,57	3
<b>Northern Croatia</b>	4,60	4	5,17	5
<b>Lika and Banovina</b>	6,00	2	7,16	4
<b>Slavonia and Baranja</b>	3,90	5	4,74	6

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012

\* For the purposes of the GEM research, Croatian counties are grouped in six regions by criteria of geographical-historical conception of the regional structure of Croatia:

**Istria** – Istria County and Primorje-Gorski Kotar County

**Zagreb** – City of Zagreb and Zagreb County

**Dalmatia** – Dubrovnik-Neretva County, Split-Dalmatia County, Šibenik-Knin County and Zadar County

**Northern Croatia** – Bjelovar-Bilogora County, Krapina-Zagorje County, Koprivnica-Križevci County, Međimurje County, Varaždin County and Virovitica-Podravina County

**Lika and Banovina** – Karlovac County, Lika-Senj County, Sisak-Moslavina County

**Slavonia and Baranja** – Brod-Posavina County, Osijek-Baranja County, Požega-Slavonia County and Vukovar-Srijem County

Although an increase in business venture start-up activity is also present in regions that are traditionally at the bottom of the ranking list of regions according to this criterion, the increase in those regions is of lower intensity (by 21% in Slavonia, by 19% in Northern Croatia), which further deepens the differences in development of regions. Regions with the highest level of activity in start-up of business ventures (Zagreb, Istria) also have the highest GDP per capita and the lowest unemployment rate (Table 11). Increase in business venture start-up activity in Istria by 65% in 2011 in relation to 2010 is accompanied by the indicator of decrease of unemployment in the same period by 12%, which confirms the fact that creation of preconditions for starting business ventures represents an important lever in addressing the issue of unemployment.

**Table 11:** GDP and unemployment rate in counties and regions

	GDP per capita (EUR)	Unemployment rate		
	2008.*	2008.	2010.	2011.
<b>Istria</b>	12.893	11,24%	15,91%	13,98%
<b>Zagreb</b>	15.470	7,99%	10,98%	10,94%
<b>Dalmatia</b>	8.818	22,34%	26,18%	22,62%
<b>Northern Croatia</b>	8.618	18,58%	24,46%	20,57%
<b>Lika and Banovina</b>	8.622	27,24%	32,36%	27,54%
<b>Slavonia and Baranja</b>	7.474	28,37%	34,53%	30,26%

Source: Croatian Bureau of Statistics, Statistical Information 2012

\* Data on GDP per capita for counties for 2010 and 2011 have not been published. The latest data on GDP for counties was published in 2008.

GEM research indicates regional differences in respondents' attitudes about entrepreneurship and intentions to start a business venture (Table 12). The largest number of respondents in regions Zagreb, Istria and Dalmatia have expressed the intention to start a business venture in the next three years (more than 20%), and see an opportunity to start a business venture in the next 6 months (more than 20% of respondents in Zagreb and Istria).

**Table 12:** Comparison of regional differences in attitudes towards entrepreneurship in 2010 and 2011, in %

	Intention to start a business venture in the next 3 years		See an opportunity to start a business venture in the next 6 months		Have the knowledge, skills and experience needed for business venture start-up		Majority of people see entrepreneurship as a good career choice		Media have a positive influence on entrepreneurial culture development	
	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.
<b>Zagreb</b>	10,9	22,1	20,4	20,7	51,2	48,9	60,3	59,6	34,5	36,3
<b>Northern Croatia</b>	8,5	15,3	18,6	12,1	46,3	42,4	59	60,2	43,5	42
<b>Slavonia and Baranja</b>	8,3	19,7	14,9	11,2	47,3	41	63,8	66,1	42,5	38,9
<b>Lika and Banovina</b>	2,9	15,7	8,2	10,8	47	50,6	65,2	60,2	31,7	41,4
<b>Istria</b>	11,2	21,9	23,3	19,9	53,4	50,9	59,8	65,9	38,2	41,4
<b>Dalmatia</b>	10	23,4	25,6	17	55,5	49,8	59,6	60,4	37,3	34,9

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012

Comparing the results of the GEM research on regional differences in attitudes about entrepreneurship in 2010 and 2011, it can be observed that in 2011 the number of respondents who intend to start a business venture in the next 3 years is significantly increasing in all the regions, however, the number of respondents who see an opportunity to start a venture in the next 6 months is stagnating or declining. Also declining in all the regions, except Lika and Banovina, is the number of respondents who believe that they have the knowledge, skills and experience needed for business venture start-up, while in all the regions 60% and more respondents believe that majority of people see entrepreneurship as a good career choice.

#### **1.4. Obstacles to the development of the small and medium enterprise sector in Croatia**

For many years, numerous worldwide studies in which Croatia is included point to the same obstacles to the development of entrepreneurship in Croatia:

- Administrative obstacles (long and expensive procedures for start-up and termination of an enterprise)
- Inefficiency of the judiciary
- Long ownership registration procedures
- Low focus on entrepreneurial education
- Underdevelopment of non-formal forms of financing of start-up of business ventures.

**Global Entrepreneurship Monitor - GEM** researches the connection between general macroeconomic<sup>13</sup> conditions and entrepreneurial conditions framework<sup>14</sup>. Based on the results of GEM research in Croatia 2002 - 2011, it is possible to identify the main areas within entrepreneurial conditions (out of a total of 9 areas) where there is need for improvement of conditions for entrepreneurial activity. Apart from the two components of entrepreneurial environment (infrastructure and dynamics of domestic market), all the other components have grades below 3 (with scores ranging from 1 to 5). All the components with grades below 3 act by their quality as obstacles to entrepreneurial activity. In all the years, including 2011, the biggest obstacles to entrepreneurial activity are government policies towards regulatory framework, entrepreneurial education and transfer of results of research and development to the small and medium enterprise sector (these components have the lowest grades).

Results of the GEM research are confirmed by other international research projects that analyse different aspects of national economies.

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<sup>13</sup> General macroeconomic conditions include openness of the national economy, financial market efficiency, level of investment in research and development, availability and the level of development of physical infrastructure, managerial competences, labour market flexibility and efficiency of legal and social institutions.

<sup>14</sup> Entrepreneurial conditions framework includes availability of financial resources for business venture start-up, government policies and programs for promotion of entrepreneurial ventures, quality of education and training for entrepreneurs, openness of the internal market and competitiveness, transfer of research and development results, access to physical infrastructure, as well as cultural and social norms.

**Global Competitiveness Report 2012-2013**<sup>15</sup>, which is prepared and implemented by the World Economic Forum, according to the results for 2011, positions Croatia in 81<sup>st</sup> place out of 144 countries involved in the research, which represents a drop by 5 places in relation to results from 2010. Since 2002 when it was first included in this research, Croatia's results in the competitiveness rankings have been oscillating until 2005, followed by a period of improvement (2005-2007), and a continuous decline after that (2008-2012). Research results for 2011 show a significant drop in infrastructure (44<sup>th</sup> place) and technological readiness (50<sup>th</sup>), worrying results in health and primary education (60<sup>th</sup>), while higher education (56<sup>th</sup>), labour market efficiency (114<sup>th</sup>) and market size (71<sup>st</sup>) are stagnating. Rankings of financial market development (92<sup>nd</sup>), business sophistication (96<sup>th</sup>) and institutions (98<sup>th</sup>) continue to deteriorate. Improvement of ranking was recorded in the evaluation of labour market efficiency (106<sup>th</sup>), but it continues to be at a very low level<sup>16</sup>.

As the most problematic factors for doing business in Croatia the Global Competitiveness Report identifies: low efficiency of public administration, corruption, instability of policies, tax rates, restrictive labour legislation, access to financial resources, tax policy, and poor work ethic of the national workforce.

According to results of the Global Competitiveness Report for 2011, Croatia is still situated among the countries of Southeastern Europe (Table 13) – Montenegro (72<sup>nd</sup>), Romania (78<sup>th</sup>), Bosnia and Herzegovina (88<sup>th</sup>) and Albania (89<sup>th</sup>), while Macedonia (80<sup>th</sup> place) is ahead of Croatia for the first time.

**Table 13:** Global competitiveness results for 2011 – Croatia and reference countries

Country	Ranking 2012 (out of 144 countries)	Ranking 2011 (out of 142 countries)	Change	
<b>Czech Republic</b>	39.	38.	↘	-1
<b>Poland</b>	41.	41.	→	0
<b>Slovenia</b>	56.	57.	↗	+1
<b>Hungary</b>	60.	48.	↘	-12
<b>Bulgaria</b>	62.	74.	↗	+12
<b>Slovakia</b>	71.	69.	↘	-2
<b>Montenegro</b>	72.	60.	↘	-12
<b>Romania</b>	78.	77.	↘	-1
<b>Macedonia</b>	80.	79.	↘	-1
<b>Croatia</b>	81.	76.	↘	-5
<b>Bosnia and Herzegovina</b>	88.	100.	↗	+12
<b>Albania</b>	89.	78.	↘	-11
<b>Serbia</b>	95.	95.	→	0

Source: *Global Competitiveness Report 2012-2013*, World Economic Forum / National Competitiveness Council, 2012

<sup>15</sup> Results are based on perceptive data obtained by research of entrepreneurs' opinions and from publicly available statistical indicators in 2010 and 2011, which were published in 2012. Methodology of the World Economic Forum is based on the analysis of 12 competitiveness factors, which include: institutions, infrastructure, macroeconomic stability, health and elementary education, higher education, labour market efficiency, goods market efficiency, technological readiness, business sophistication, innovativeness, market size and financial market.

<sup>16</sup> "Declining Competitiveness", National Competitiveness Council (press release), Zagreb, 2012

In the research that measures **Corruption Perceptions Index**<sup>17</sup>, Transparency International confirms corruption as a significant problem in the functioning of the Croatian economy. Corruption Perceptions Index in 2011 measures the level of perception of corruption in the public sector and among officials in 183 countries worldwide (5 countries more than in the 2010 research). Results of the Corruption Perceptions Index are prepared on the basis of 17 polls conducted by 13 independent institutions, and respondents are business people and analysts. It is believed that only in countries with a score of 5 or higher corruption does not endanger the development of economy and society as a whole.

According to Transparency International's Corruption Perceptions Index, on a scale from 0 (complete corruption) to 10 (no corruption), Croatia scored 4 in 2011, which positions it in the 66th place. Slovenia has the best result of all surrounding countries (5.9), while Bulgaria (3.3), Serbia (3.3) and Bosnia and Herzegovina (3.2) have a less favourable level of Corruption Perceptions Index than Croatia. In previous two years, Croatia had the score of 4.1, and the highest value of the index was achieved in 2008 – 4.4.

The results of measurements of the Corruption Perceptions Index indicate the need for implementing radical reforms of legislation, public administration and judiciary in Croatia with the aim of influencing transparent actions of bodies of public authority and creating a stimulating environment for the development of entrepreneurial activities.

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<sup>17</sup> Corruption Perceptions Index evaluates all levels of work of bodies of public administration. Most studies assess to what extent legal framework in a country prevents corruption, and some take into account how clear and transparent the processes of issuing documents by public authorities are. Within the research, respondents were asked questions such as: are there clear procedures and a system of supervision when it comes to the allocation and use of public funds; do officials misuse public funds for private or party purposes; does the government directly appoint a large number of officials.  
Source: <http://www.transparency.hr/>, downloaded on November 5, 2012

## 2. Legislative and institutional framework

Legislative and institutional framework defines:

- Distribution of competences in policy making regarding policies connected with the small and medium enterprise sector
- Implementation of those decisions at the level of state institutions (ministries and agencies)
- Direction of development of national and regional development policies for the small and medium enterprise sector
- Availability of support to the small and medium enterprise sector.

### 2.1. Distribution of competences for making and implementation of policy decisions

The main actors in formulation, adoption and implementation of the policy framework for activity of the small and medium enterprise sector, with different intensity of influence, are:

- **Ministry of Entrepreneurship and Crafts** ([www.minpo.hr](http://www.minpo.hr)) is responsible for the creation of policies aimed at the development of small and medium enterprises and creation of a favourable environment for entrepreneurship. Ministry of Entrepreneurship and Crafts took over tasks from the segment of entrepreneurship from the Ministry of Economy, Labour and Entrepreneurship due to reorganisation of ministries after the parliamentary elections in December of 2011.
- **Croatian Bank for Reconstruction and Development – HBOR** ([www.hbor.hr](http://www.hbor.hr)) is the development and export bank of the Republic of Croatia whose main task is to stimulate the economy through providing loans, insuring exports from political and commercial risks, issuing guarantees and business consulting.
- **Croatian Agency for SMEs and Investment – HAMAG INVEST** ([www.hamag.hr](http://www.hamag.hr)) is a state agency whose mission is to develop Croatian economy, create a favourable entrepreneurial environment and stimulate the development of entrepreneurship. HAMAG INVEST implements government programs, approves guarantees to small and medium enterprises for returning bank loans, develops a network of consultants for small businesses, and works on attracting new investment projects.
- **Business Innovation Center of Croatia – BICRO d.o.o.** ([www.bicro.hr](http://www.bicro.hr)) – business-innovation agency of the Republic of Croatia, which acts as the central institution for the development and improvement of innovation and technology systems. The mission of this agency is to connect the economy with science.
- **Croatian Employers’ Association** ([www.hup.hr](http://www.hup.hr)) – voluntary, non-profit and independent organisation of employers that protects and promotes the rights of its members. Associations’ activities are in the fields of labour-social legislation, industrial relations, protection of private property, promotion of development and regulation of market conditions, strengthening competitiveness and favourable entrepreneurial climate.
- **Croatian Chamber of Economy** ([www.hgk.hr](http://www.hgk.hr)) – non-profit, non-governmental association of all active legal entities (membership in CCE is mandatory), which consists of 98% of small enterprises, 1.5% medium and 0.42% large enterprises. CCE is organised in 20 county chambers and 17 centers and sectors, from which **Centre for Entrepreneurship, Innovations and Technological Development** should be pointed out, whose goal is to create synergy between entrepreneurs, CCE and Croatian Government in order to create a more favourable entrepreneurial climate, stimulate

development of economy and entrepreneurship, new employment and revive the areas of special state concern.

- **Croatian Chamber of Trades and Crafts** ([www.hok.hr](http://www.hok.hr)) – independent professional and business organisation of craftsmen founded to promote, harmonize and represent the common interests of craftsmanship. Membership in CCTC is obligatory, and it operates through 20 district chambers, 116 craftsmen associations and 18 sections and guilds.
- **SMEs and Entrepreneurship Policy Center – CEPOR** ([www.cepor.hr](http://www.cepor.hr)) – think tank, represents the only institution in Croatia whose aim is to influence the public-political environment emphasizing the role of entrepreneurship, and small and medium enterprises in the development of Croatian economy. CEPOR is focused on creating stimulating institutional and regulatory framework for entrepreneurial activity.

## 2.2. National and regional policies and programs

Current national and regional policies and programs that regulate and stimulate the small and medium enterprise sector in Croatia are:

- **SME Promotion Programme 2008-2012**, from 2008, which contains an overview of guidelines for the implementation of incentives for SME development, and determines goals, measures and assignments including mechanisms for implementation and monitoring of activities and projects;
- **SME Promotion Operational Plan for 2011**, from February 2011, which includes projects, beneficiaries, measures and incentive funds on the annual level with the aim of implementation of the SME Promotion Programme 2008-2012;
- **Strategy for Regional Development of the Republic of Croatia 2011-2013**, from May 2010, which determines the development goals aimed at socio-economic development of the Republic of Croatia, and reducing regional development disparities;
- **Strategy for Development of Women Entrepreneurship in the Republic of Croatia 2010-2013**, from 2010;
- **National Strategy for Entrepreneurial Learning 2010-2014**, from 2010;
- **Cluster Development Strategy in the Republic of Croatia 2011-2020**, from 2011;
- **Program of measures for simplification of business of small business entities**, from 2010, goals of which are protection of the market from unfair competition and imports of goods of unknown origin, fight against the grey economy, and improvement of e-commerce;
- **Guidelines for short-term development crafts 2011-2012**, from 2010.

Programs and policies relevant for the small and medium enterprise sector in Croatia must be aligned with the **Small Business Act of Europe**<sup>18</sup> from 2008, with which European Union provided the guidelines for appreciation of the central role of small and medium enterprises in the economy of European Union. Croatia can monitor deviations from expectations defined by the Small Business Act for Europe through two evaluations: SBA Fact Sheet and SME Policy Index:

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<sup>18</sup> [http://ec.europa.eu/enterprise/policies/sme/small-business-act/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm), November 15, 2012

**SBA Fact Sheet 2012<sup>19</sup> for Croatia** - annual EU report that analyses changes in trends in the environment and regulatory framework at the national level for the small and medium enterprise sector shows that Croatia, despite the significant progress that has been achieved in the last 5 years, is still significantly behind the EU member states in the quality of entrepreneurial environment. Croatia is catching up with the EU only in two areas: **Responsive administration** and **Access to financial resources**. In relation to the previous report, progress has been made in the area of **Skills and innovation, Internationalisation** and **Access to financial resources**. The most room for improvement exists in the field of perception of entrepreneurship in society. A better image of entrepreneurs in Croatian society opens up space for increasing the number of citizens who are willing to assume risk and start a business venture.

**SME Policy Index** monitors implementation of the Small Business Act for Europe through 108 indicators which provide a framework for evaluation of national policies for small and medium enterprises, and are based on the principles of the Small Business Act. Preliminary report for 8 countries of Southeastern Europe (Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Serbia and Croatia and Turkey) was published in October 2012, and it relates to evaluation of changes in policies during the period 2009-2011.

In this group of countries, Croatia, together with Serbia and Turkey, is considered the leader in changes of policies related to the small and medium enterprise sector. However, the report also identifies areas that demand significant changes, such as further improvement of regulatory framework for small and medium enterprises, improvement of business environment, simplification of bankruptcy proceedings, stronger support to development of venture capital funds and other non-traditional sources of financing of small and medium enterprises, and support to the development of innovative and knowledge-based businesses.

Also in 2011, GEM project identifies lack of consistent government policies related to issues of small and medium enterprises as one of the greatest obstacles to the development of the small and medium enterprise sector (Table 14).

**Table 14:** Evaluation of government policies in 2010 and 2011

	2010.		2011.	
	Average	Croatia	Average	Croatia
Policies of support for entrepreneurial activity	2,51	<b>2,27</b>	2,48	<b>2,07</b>
Policies towards regulatory framework	2,34	<b>1,96</b>	2,38	<b>1,84</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

Low grades of policies of support for entrepreneurial activity (2.07), as well as of policies towards regulatory framework (1.84), even in relation to the previous year, show that too little and too slowly is done in the field of development of consistent policies focused on the small and medium enterprise sector.

<sup>19</sup> Areas of analysis of the SBA Fact Sheet reports are: Entrepreneurship, Second chance, Think Small First, Responsive Administration, State aid and Public procurement, Access to finance, Single market, Skills and innovation, Environment and Internationalisation.

## Report

### Assessment of the Impact of EU Accession on Croatian SMEs<sup>20</sup>

*Within the technical assistance project „Improvement of Administrative Efficiency on National Level“ financed within the European Union program for Croatia, IPA IIIc Regional Competitiveness 2007-2011, the Assessment of the Impact of EU Accession on Croatian SMEs report was created.*

*The aim of the report is, through assessment of impacts, to provide entrepreneurs with information on what expects them after European Union accession, as well as the makers of policies related to the small and medium enterprise sector in order to be able to provide appropriate measures and incentives based on that information.*

*Based on the conducted study it was concluded that consequences of the accession will be felt progressively and mainly in the short-term, and that uncertainty about the impact of the accession will last for some time. The study estimates that the impact of the accession on the majority of small and medium enterprises will be either neutral or positive. Also, the study identifies the need for measures to increase the number of small and medium enterprises on which the accession would have a positive impact, that is, to reduce the impact of increase of competition on Croatian enterprises after joining the EU.*

*The report identified three main areas to which support should be directed:*

- Upgrading of the operations of small and medium enterprises in order to raise quality and productivity, and improve competitiveness through financial and consultancy support for entrepreneurs;*
- Strategic marketing for the small and medium enterprise sector with the aim of entering new or under-exploited EU markets;*
- Improvement of the business environment.*

*Recommendations aimed at entrepreneurs relate to the best possible preparedness of Croatia to enter the EU, through information providing, compliance with technical and environmental standards required by the European market, expansion of production, improvement of product quality, boosting productivity and reducing prices.*

### 2.3. Regulatory environment

The following acts constitute the regulatory framework for the small and medium enterprise sector in Croatia:

- Small Business Development Promotion Act (Official Gazette, NN 29/02, 63/07, 53/12)
- State Aid Act (Official Gazette, NN 140/05) and Act on Amendments to the State Aid Act (Official Gazette, NN 49/11)
- Companies Act (Official Gazette, NN 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12)

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<sup>20</sup> „Assessment of the Impact of EU Accession on Croatian SMEs“ – publication published within the EU project Improvement of Administrative Efficiency on National Level, Ministry of Entrepreneurship and Crafts, 2012

- Ownership and Other Proprietary Rights Act (Official Gazette, NN 91/96, 68/98, 137/99, 22/00, 73/00, 129/00, 114/01, 79/06, 141/06, 146/08, 38/09, 153/09)
- Act on Investment Promotion and Development of Investment Climate (Official Gazette, NN 111/12)
- Foreign Exchange Act (Official Gazette, NN 96/03, 140/05, 132/06, 150/08, 92/09, 133/09, 153/09, 145/10)
- National Payment System Act (Official Gazette, NN 133/09)
- Concessions Act (Official Gazette, NN 89/92, 125/08)
- Capital Market Act (Official Gazette, NN 88/08, 146/08, 74/09)
- Crafts Act (Official Gazette, NN 73/93, 90/96, 102/98, 64/01, 71/01, 49/03, 68/07, 79/07, 40/10)
- Trade Act (Official Gazette, NN 87/08, 96/08, 116/08, 76/09, 114/11)
- Court Register Act (Official Gazette, NN 1/95, 57/96, 1/98, 30/99, 45/99, 54/05, 40/07, 91/10, 90/11)
- Act on the National Classification of Economic Activities (Official Gazette, NN 98/94, 58/07, 72/07, 80/07, 45/09)
- Act on Services (Official Gazette, NN 80/11)

The following acts are relevant for investment processes:

- Free Zones Act (Official Gazette, NN 50A/91, 44/96, 92/05, 85/08)
- Act on Public Private Partnerships (Official Gazette, NN 129/08, 78/12)
- Accounting Act (Official Gazette, NN 109/07)
- Audit Act (Official Gazette, NN 146/05, 139/08)
- Competition Act (Official Gazette, NN 122/03, 79/09)
- Public Procurement Act (Official Gazette, NN 110/07, 125/08, 90/11)
- Environmental Protection Act (Official Gazette, NN 110/07)
- Physical Planning and Building Act (Official Gazette, NN 76/07, 38/09, 55/11, 90/11, 50/12, 55/12)
- Labour Act (Official Gazette, NN 149/09, 61/11, 82/12)
- Consumer Protection Act (Official Gazette, NN 79/07, 125/07, 79/09, 89/09, 133/09, 78/12)
- Bankruptcy Act (Official Gazette, NN 44/96, 29/99, 129/00, 123/03, 82/06, 116/10, 25/12)
- Enforcement Act (Official Gazette, NN 139/10, 112/12)
- Act on Deadlines for Settlement of Financial Obligations (Official Gazette, NN 125/11)

Tax system legislation consists of the following acts:

- General Tax Act (Official Gazette, NN 147/08, 18/11)
- Contributions Act (Official Gazette, NN 84/08, 152/08, 94/09, 18/11)
- Profit Tax Act (Official Gazette, NN 177/04, 90/05, 57/06, 146/08, 80/10)
- Regulation on Profit Tax (Official Gazette, NN 95/05, 133/07, 156/08, 146/09, 123/10)
- Income Tax Act (Official Gazette, NN 177/04, 73/08, 80/10)
- Value Added Tax Act (Official Gazette, NN 47/95, 106/96, 164/98, 105/99, 54/00, 73/00, 127/00, 86/01, 48/04, 82/04, 90/05, 76/07, 87/09, 94/09)
- Regulation on Value Added Tax (Official Gazette, NN 149/09, 89/11)
- Real Estate Transfer Tax Act (Official Gazette, NN 69/97, 26/00, 127/00, 153/02, 22/11)
- Excise Duties Act (Official Gazette, NN 83/09, 111/12)

The principal acts of the customs system are:

- Customs Act (Official Gazette, NN 78/99, 94/99, 117/99, 73/00, 92/01, 47/03, 140/05, 138/06, 60/08, 45/09, 56/10)
- Customs Tariff Act (Official Gazette, NN 61/00, 117/00, 119/00, 146/08)

In 2011, length and complexity of regulatory procedures still remain the greatest obstacles in business activity start-up according to GEM, Doing Business and Global Competitiveness Report studies. These obstacles induce a domino effect in other spheres of business activities, such as an increase in corruption.

World Bank's Doing Business study for 2011 also indicates that nothing is happening to improve the quality of regulatory environment in Croatia (out of 183 countries included in the survey, Croatia took the 80<sup>th</sup> place in 2011, while in 2010 it was in the 79<sup>th</sup> place). A negative trend is also visible in other observed indicators: regulations for enterprise start-up, obtaining construction permits, protection of investors, payment of taxes, execution of contracts, while progress has been made in access to electricity and access to credit funds.

Table 15 provides an overview of indicators of regulatory environment for Croatia, according to the Doing Business study, in relation to the best ranked countries and the neighbouring Slovenia.

**Table 15:** Overview of selected regulatory framework quality indicators according to Doing Business study for 2011

Regulatory area	Indicator			
	Croatia	Best indicator (country)	EU (average)+	Slovenia
<b>Regulations for enterprise start-up</b>				
Number of procedures	6	New Zealand 1	6	2
Time (days)	7	1	14	6
Cost (% of income per capita)	8.6	0.4	5.1	0.0
Minimum capital (% of income per capita)	13.8	0.0	15.9	43.6
<b>Payment of taxes</b>				
Number of payments per year	17	Canada 8	17	22
Time (hours per year)	196	131	208	260
Profit tax (% of gross profit)	11.5	9.3	-	14.1
Income tax and contributions (%)	19.4	12.6	-	18.2
Other taxes (%)	1.5	6.8	-	2.4
Total tax burden (% of profit)	32.3	28.8	43.4	34.7
<b>Execution of contracts</b>				
Number of procedures	38	Luxembourg 26	32	32
Time (days)	561	321	556	1290
Cost (% of debt)	13.8	9.7	20.6	12.7
<b>Resolving insolvency (bankruptcy)</b>				
Time for resolving insolvency (years)	3.1	Japan 0.6	2.0	2.0
Cost of insolvency (% of assets)	15.0	4	10	4
Recovery rate	29.7	92.7	60.6	51.1

Source: *Doing Business in 2012, Croatia – Country Profile, International Bank for Reconstruction and Development / World Bank*

According to *Doing Business* study for 2011, Croatia is worse positioned according to the criterion of complexity of regulatory framework for enterprise start-up, measured by the number of procedures required for enterprise registration, number of days required for enterprise registration, registration costs and minimal capital required for enterprise start-up. In 2011, Croatia was positioned in the 67<sup>th</sup> place, while a year earlier it was in the 57<sup>th</sup> place. The reason for this position lies primarily in the fact that in 2011 nothing has changed in the area of regulations for enterprise start-up in relation to the year before, while other surveyed countries, including the surrounding countries, reduced the

number of procedures needed to start and register a business. Thus, for example, it takes 5 days and 5 procedures to register a business in Albania, while 4 days and 4 procedures are needed in Hungary.

In the *Payment of taxes* category, Croatia has the same position in 2011 as it had in 2010 – the 30<sup>th</sup> place (Doing Business 2011). Canada has the best grade according to this indicator in 2011, where 8 taxes are paid annually and it takes 131 hours to prepare and pay taxes (measured by the number of hours per year). Among European examples of good practice, Norway, which has only 4 taxes per year, and Luxembourg, where it takes only 59 hours to prepare and pay taxes, should be pointed out.

The total tax burden of entrepreneurs in Croatia in 2011 is 32.3%, and it takes 196 hours to prepare and pay taxes.

The major tax burdens for businesses in Croatia are value added tax, income tax, profit tax and income of local communities (municipalities and towns) – surtax (Table 16).

**Table 16:** Taxes in Croatia

Type of tax	Tax payer	Tax base	Tax rate
<b>VALUE ADDED TAX</b>	Physical and legal entity (entrepreneur) that deliver goods or performs services	Fee for goods delivered or services performed	0% 10% 25%
<b>INCOME TAX</b>	Physical entity that earns taxable income	Total income earned by local tax payers in Croatia and abroad and by foreign tax payers in Croatia	12% 25% 40%
<b>PROFIT TAX</b>	Enterprises and other legal and physical entities that perform activity with the aim of making profit	Profit (difference between income and expenses)	20% 0% for reinvested profit 12% for payments of profit and dividends
<b>SURTAX</b>	Tax on income of tax payers	Income tax	Municipality: up to 10% Town with population less than 30,000: up to 12% Town with population above 30,000: up to 15% City of Zagreb: up to 30%

Source: Tax system of the Republic of Croatia, [www.porezna-uprava.hr](http://www.porezna-uprava.hr), 2012

### 3. Access to financing

The main sources of financial support to the development of small and medium enterprise in Croatia are: banking sector, credit unions, venture capital funds, informal forms of financing (business angels) and government incentive programs and subsidized credit lines.

The results of GEM research from 2002 to 2011 indicate that access to financing is more of an obstacle than an incentive in all the years (because grade of that component of entrepreneurial environment is below 3). At the same time, small and medium enterprises are more significantly focused on traditional sources of financing (bank loans). A lower focus on non-traditional sources of financing (venture capital funds and business angels) is connected with the limited supply of such sources in the Croatian financial market. Perception of the availability of non-traditional sources of financing in 2010 was above the average of countries involved in the GEM research (2.42 compared with the average of GEM countries: 2.39), while in 2011 perception deteriorates and falls below the average of GEM countries (2.26 in Croatia in relation to 2.44 – the average of GEM countries, Table 17). Switzerland has the highest grade of availability of non-traditional sources of financing in 2011: 3.50.

**Table 17:** Perception of availability of non-traditional sources of financing in 2010 and 2011

	Grade 5 indicates:	2010.		2011.	
		Average	Croatia	Average	Croatia
<b>Financial support</b>	There are enough equity funds, debt financing, government subsidies, private investors, venture capital funds; availability of initial public offering (IPO)	2,39	<b>2,42</b>	2,44	<b>2,26</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

Information about the access to financing provided by the GEM research is complemented with information about the credit market, protecting investors and registering property provided by the World Bank's Doing Business study (Table 18).

**Table 18:** Overview of regulatory framework quality indicators from the Doing Business study, which are related to the credit market for 2012

Regulatory area	Indicator			
	Croatia	Best indicator (country)	EU (average)	Slovenia
<b>Credit market</b>				
		Great Britain		
Strength of legal rights index (0-10)	6	10	7	4
Depth of credit information index (0-6)	5	6	4	4
Public registry coverage (% of adults)Private bureau coverage (% of adults)	0	0	16.8 50	3,3 100,0
<b>Registering property</b>				
		New Zealand		
Number of procedures	5	2	5	5
Time (days)	104	2	32	110
Cost (% of property value)	5.0	0.1	4.8	2,0
<b>Protecting investors</b>				
		New Zealand		
Extent of disclosure index (0-10)	1	10	6	3

*The index ranges from 0-10, where the highest value indicates a high level of transparency of corporate governance and encompasses 5 aspects of transparency of corporate governance.*

*Source: Doing Business 2012, Croatia – Country Profile, International Bank for Reconstruction and Development /World Bank*

Doing Business study analyses *Credit market* through the following criteria: strength of legal rights index, depth of credit information index and public registry coverage. According to these criteria, in the 2012 study, World Bank positions Croatia in the 48<sup>th</sup> place out of 183 countries that have participated in the research. On a 1-10 scale protection of interests of creditors and debtors through regulatory framework in Croatia is graded 6 (which is lower than the average grade of EU countries: 7, but higher than 4, which is how protection of interests of creditors and debtors through regulatory framework is graded in Slovenia). Depth of credit information is given grade 5, on a 0-6 scale, which is higher than grade 4, which is the average of EU countries and the grade of depth of credit information in Slovenia. In Great Britain, which is ranked 1<sup>st</sup> in the area of *Credit market*, the interests of creditors and debtors are fully protected by quality legal framework (grade 10), with a high transparency of credit information (grade 6).

Complexity of registering property is valued through three criteria: number of procedures needed for registering property, required time and cost of registration, in percentage of property value. Compared to the EU average, Croatia has the same number of procedures (5) and registration cost, but the time needed to register property is significantly longer (104 days in Croatia, compared with 32 days, which is the EU average).

### 3.1. Banks

The market of banking loans and services intended for small and medium enterprises is highly developed in Croatia. Almost all banks offer loans to small and medium enterprises in a wide range of products and services: loans for tourism services, for young people, for women, for new technologies, for Croatian war veterans, for export, for investments, for working capital, for start-ups, etc., Based on a review and analysis of the offer of financial products intended for small and medium enterprises, the following financing terms have been identified:

#### *Long-term loans*

Amount: up to 250,000 EUR (depending on creditworthiness and purpose)

Duration: up to 25 years

Grace period: up to 36 months

Interest: consensual, up to 6%

Insurance: 1:1 – 1:1.5; promissory notes, debentures, deposits

#### *Short-term loans*

Amount: from 2,500 EUR, depending on client's creditworthiness

Duration: up to 12 months

Interest: consensual

Insurance: deposit, pledge of commission disbursements, pledge of securities, promissory notes, debentures

Table 19 shows the terms for allocation of long-term and short-term financing to small and medium enterprises according to the offer of largest banks in Croatia.

**Table 19:** Terms of financing of small and medium enterprises according to the offer of largest banks in Croatia<sup>21</sup>

	Zagrebačka banka d.d.	Privredna banka Zagreb, d.d. and HBOR	Erste Steiermarkische Bank d.d.	Hypo-Alpe-Adria Bank d.d.
<b>Long-term loans</b>				
<b>Amount</b>	5.000 EUR – 250.000 EUR	75% of investment value, up to 8,000,000.00 HRK	depending on creditworthiness	up to 70% of total investment value
<b>Own participation</b>	at least 25% of loan	-	-	-
<b>Duration</b>	up to 25 years	up to 10 years including grace period	3 – 15 years	10 – 15 years
<b>Grace period</b>	up to 12 months	up to 2 years	12 – 24 months	1 – 3 years
<b>Interest</b>	consensual	annual fixed, 2%, 4% or 6%	consensual	depending on instalments
<b>Insurance</b>	1:1,5	1:1,5, other instruments according to Bank's and HBOR's assessment	1:1 - 1:1,5	promissory notes, debentures, deposits, land registry certificate, deed, property valuation
<b>Short-term loans</b>				
<b>Amount</b>	depending on client's credit standing		depending on creditworthiness	depending on creditworthiness
<b>Duration</b>	up to 12 months	up to 12 months	up to 12 months	up to 12 months
<b>Interest</b>	consensual	consensual	consensual	depending on instalments, consensual
<b>Insurance</b>	1:1	1:1,5, other instruments according to Bank's and HBOR's assessment	deposit, pledge of commission disbursements, pledge of securities	promissory notes, debentures, deposits, land registry certificate, deed, property valuation

Source: web pages of banks – Zagrebačka banka d.d., Privredna banka d.d., Erste Steiermarkische Bank d.d. and Hypo Alpe Adria Bank d.d., November 10, 2012

21 Analysis of the offer of financial products for small and medium enterprises was conducted on the basis of offer posted in November 2012 on the web pages of the following banks:

**Zagrebačka banka d.d.** – (loan in collaboration with European Investment Bank, loan for project financing, loan for development of tourism activity, loan for financing investment works and repairs of residential buildings, loan from the Senior program, loan from the Beginner program, loan for development of olive growing, loan for development of winemaking and viticulture, loan for financing solar systems for production of electrical and thermal energy – Green loan) – long-term loans: [http://www.zaba.hr/home/wps/wcm/connect/zaba\\_hr/zabapublic/poduzetnici/financiranje/investicije/](http://www.zaba.hr/home/wps/wcm/connect/zaba_hr/zabapublic/poduzetnici/financiranje/investicije/) (Beginner, pdf); short-term loans: [http://www.zaba.hr/home/wps/wcm/connect/zaba\\_hr/zabapublic/poduzetnici/financiranje/obrtna+sredstva/](http://www.zaba.hr/home/wps/wcm/connect/zaba_hr/zabapublic/poduzetnici/financiranje/obrtna+sredstva/) (Loan for business financing, pdf)

**Privredna banka Zagreb, d.d.** – (special loan programs for small and medium entrepreneurs and craftsmen – loan programs with HBOR) – long-term loans: <http://www.pbz.hr/Default.aspx?art=2727> (pdf); short-term loans: <http://www.pbz.hr/Default.aspx?sec=188>

**Erste Steiermarkische Bank d.d.** – long-term loans: [http://www.erstebank.hr/hr/Poslovni\\_subjekti/Mali\\_poduzetnici/Dugorocno\\_financiranje](http://www.erstebank.hr/hr/Poslovni_subjekti/Mali_poduzetnici/Dugorocno_financiranje) (investment loans, loans for permanent working capital, loans for construction works, loans covered by cash deposit, tourism loans); short-term loans: [http://www.erstebank.hr/hr/Poslovni\\_subjekti/Mali\\_poduzetnici/Kratkorocno\\_financiranje](http://www.erstebank.hr/hr/Poslovni_subjekti/Mali_poduzetnici/Kratkorocno_financiranje) (lines of credit, revolving loans, loan for working capital, short-term limit, loans covered by cash deposit or pledge, loan for export financing)

**Hypo Alpe Adria Bank d.d.** – long-term loans: [http://www.hypo-alpe-adria.hr/home.nsf/pages/tvrtke-kredit\\_i\\_financiranje-vrste\\_financiranja-739](http://www.hypo-alpe-adria.hr/home.nsf/pages/tvrtke-kredit_i_financiranje-vrste_financiranja-739); short-term loans: [http://www.hypo-alpe-adria.hr/home.nsf/pages/tvrtke-kredit\\_i\\_financiranje-vrste\\_financiranja-739](http://www.hypo-alpe-adria.hr/home.nsf/pages/tvrtke-kredit_i_financiranje-vrste_financiranja-739)

According to the Croatian National Bank's Annual Report<sup>22</sup>, the banking sector has disbursed 291,724.5 million HRK in 2011, out of which 122,936.1 million HRK, or 42.1% of the total amount, was disbursed to companies. In contrast to 2010<sup>23</sup>, when total disbursement of the banking sector was 274,954.2 million HRK, and disbursement to companies 109,234.6 million HRK, a 2.4% increase of banking sector's disbursements to companies was recorded in 2011. The largest part of total disbursement of loans in 2011 was directed towards the population (43.9%), while 10.8% of total loans were disbursed to state units. Same as in 2010, majority of loans given to companies were used for financing working capital and maintaining liquidity. However, data in question does not include an overview of loan disbursement by company size.

### 3.2. Microfinance and credit unions

Microfinancing, in contrast to the standard financing models, entails lending and provision of basic financial services with very flexible terms and conditions which allow clients to overcome the lack of traditional forms of guarantee (such as property and guarantors), as well as education and mentoring.

Providers of microcredit services in Croatia are credit unions, which, in accordance with the **Credit Unions Act**<sup>24</sup> have replaced savings and loan cooperatives as a new organisational form. Numerous restrictions have resulted in a significant reduction of the number of savings and loan cooperatives that have been transformed to credit unions. The territorial principle constraint, according to which every member must reside in the same local (regional) self-administrative unit where the credit union is registered, has almost halved membership of credit unions, which has also halved the deposit and loan funds needed for normal operation. Also, payment transaction services were terminated, and lending is allowed only to physical persons and craftsmen.

Out of 124 savings and loan cooperatives, according to the Croatian National Bank's Annual Report, 22 credit unions operated in 2011, with 569.17 million HRK in assets<sup>25</sup>. In 2011, 10 credit unions were in the process of liquidation, and one was undergoing bankruptcy proceedings.

According to the data of the Croatian Association of Credit Unions, Association's members<sup>26</sup> have disbursed 4,868 loans in total amount of 156,253,936 HRK in 2011, which represents an increase of 88% in relation to 2010, when 4,065 loans with total value of 82,939,717 HRK were disbursed (Table 20). In 2010, credit unions have disbursed a smaller number of loans in relation to 2009 by 6.5%. Average loan amount disbursed by credit unions in Croatia was 21,400 HRK in 2009, 20,403 HRK in 2010, and 32,098 HRK in 2011, which confirms credit unions' orientation and significant role in financing the development of micro enterprises.

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22 "Annual Report 2011", Croatian National Bank (HNB), Zagreb, 2012, p.93. HNB's Annual Report presents data about overall disbursement of loans to companies, without overview of disbursement by company size.

23 "Annual Report 2010", Croatian National Bank, Zagreb, 2011, p.70-71.

24 Official Gazette, NN 141/2006, 25/2009, 90/2011

25 <http://www.hnb.hr/publikac/godisnje/2011/h-god-2011.pdf>, p.29-30.

26 ABC Credit Union Sisak, Credit Union Apoen Valpovo, Credit Union Deponent Zagreb, Credit Union Dukat Viškovo, GAMA Credit Union Zagreb, Credit Union Kod Sata Sisak, Credit Union Libertina Čakovec, Credit Union Noa Osijek, Zagorska Credit Union Zabok, CU Jamstvo Županja

**Table 20:** Loans granted by credit unions – members of the Croatian Association of Credit Unions in 2009, 2010 and 2011 (HRK)

Name of credit union	2009.			2010.			2011.		
	Number of loans	Loan amount	Average loan amount	Number of loans	Loan amount	Average loan amount	Number of loans	Loan amount	Average loan amount
ABC CU Sisak	694	14.202.039	20.464	636	11.357.000	17.857	633	15.750.658	24.883
CU Apoen Valpovo	678	6.575.000	9.698	755	6.960.968	9.220	733	8.533.000	11.641
CU Deponent Zagreb	319	11.412.445	35.776	245	8.944.287	36.507	237	8.403.242	35.457
CU Dukat Viškovo	197	2.955.000	15.000	215	3.225.000	15.000	296	6.620.000	22.365
GAMA CU Zagreb	894	11.042.000	12.351	929	7.928.000	8.534	401	43.078.000	107.426
CU Kod Sata Sisak	288	2.448.000	8.500	315	2.677.500	8.500	452	3.374.779	7.466
CU Libertina Čakovec	338	8.101.343	23.969	329	9.772.441	29.704	291	10.690.500	36.737
CU Noa Osijek	154	6.569.315	42.658	131	4.988.513	38.080	190	5.840.788	30.741
Zagorska CU Zabok	581	25.358.199	43.646	510	27.086.008	53.110	299	18.105.394	60.553
CU Jamstvo Županja	-	-	-	-	-	-	1.336	35.857.575	26.840
<b>Total</b>	<b>4.143</b>	<b>88.663.341</b>	<b>21.401</b>	<b>4.065</b>	<b>82.939.717</b>	<b>20.403</b>	<b>4.868</b>	<b>156.253.936</b>	<b>32.098</b>

Source: Croatian Association of Credit Unions, 2012

Comparison of the model of microfinancing in Croatia with the best international practice developed in the last three decades indicates underdevelopment of microfinancing in Croatia in comparison with developed financial markets where a wide range of institutions operates, while only a limited number of institutions is present in Croatia – mainly banks and credit unions with a limited range of products for small and medium enterprises<sup>27</sup>. The target market for microfinancing services are micro enterprises, self-employed and unemployed individuals to whom limited access to financing represents a high barrier to implementation of entrepreneurial activity.

Survey<sup>28</sup> about the state of microfinance in Croatia, which was carried out by CEPOR in 2010, indicated the following problems:

- Lack of guarantees for loans (60%)
- Inadequate offer of banking products and services (53%)
- Demanding loan documentation (46%)
- Too high interest rate (34%)
- Lack of information among users regarding financial products (26%).

The focus of the initiative of the Croatian Association of Credit Unions for changes of the Credit Unions Act is on the provisions of the Act pertaining to principles of establishment of credit unions, types of activities/services (payment transactions), membership, insurance of savings, that is, deposits, and on cash assets and deposits of credit unions in credit institutions.<sup>29</sup>

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27 Korynski, P.: "Microfinance in Croatia: Research results", CEPOR, 2010

28 Organized by the Croatian bank for Reconstruction and Development – HBOR and SMEs and Entrepreneurship Policy Center – CEPOR, the Microfinance Workshop was held in 2010. During the workshop, a survey was conducted among participants, the aim of which was to gather opinions regarding current use and possibilities of microfinancing in Croatia. 85% of 300 workshop participants participated in the survey, of which 22% were bank representatives, 13% civil servants, 7% members of the academic community and students, 4% experts on economic development, 28% representatives of entrepreneurial support institutions and 26% other participants.

29 [http://www.hukreditneunije.hr/dokumenti/Kreditne\\_unije\\_u\\_RH.pdf](http://www.hukreditneunije.hr/dokumenti/Kreditne_unije_u_RH.pdf), p.2.

### 3.3. Venture capital funds<sup>30</sup>

Economic co-operation funds (ECF), Croatian version of venture capital funds, which represent a public-private partnership between the Government of the Republic of Croatia and the private sector comprised of large institutional investors such as pension funds, banks, insurance companies and large Croatian companies were established in 2011. On the one hand, the project aims to encourage the development of venture capital funds in Croatia, and to stimulate the Croatian economy by providing access to an additional source of long-term capital on the other. By establishing economic co-operation funds, the state plans to recapitalize investments of private investors with amounts ranging between 75 and 300 million HRK per fund. The Ministry of Entrepreneurship and Crafts paid 170 million HRK to economic co-operation funds in 2011.

Through this project two billion HRK will be made available to Croatian companies in the next five years, through the following funds:

- Alternative Private Equity ECF (600 million HRK)
- Honestas ECF (155 million HRK)
- Nexus ECF (380 million HRK)
- Quaestus Private Equity Kapital II (525 million HRK)
- Prosperus ECF (340 million HRK)

Since investments by venture capital funds entail entering into the ownership structure, procedures related to analysis and approval of financing are extremely complex and take a lot longer when compared to other forms of financing (six to nine months on average). For these reasons, the first investment by economic co-operation funds took place only in late 2011, when Nexus ECF invested 40 million HRK in a data centre construction project (IT sector).

This type of financing is not oriented towards small enterprises because of several reasons<sup>31</sup>:

- Fund founders will not finance projects worth less than 100,000 EUR because of reduced profitability;
- Analysis and due diligence of each enterprise costs at least 25,000 EUR, regardless of enterprise size;
- Business policy directs management of a maximum of 10 projects.

During 2011 Croatian Private Equity and Venture Capital Association (HVCA), which gathers Croatian venture capital funds, continued to promote this type of financing. Jointly organized with the Croatian Chamber of Economy (CEE) a range of seminars for entrepreneurs titled "*How to Finance Business with Venture Capital Funds?*" was held throughout Croatia. A special brochure was also published, which represents the first official publication on the topic of venture capital funds, which can be

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<sup>30</sup> The term "venture capital" was mentioned in legislation for the first time in 2006, in the Investment Funds Act. The first venture capital funds have appeared in Croatia at the end of the 1990s. One of the first was SEAF – Croatia, which has, through a combination of development and commercial elements, attempted to introduce patterns of corporate governance and investment of private capital with satisfactory financial returns. Fund's development component was derived from the structure of investors: USAID, Norwegian and Finnish Government funds, etc. After that, regional funds with purely commercial interests started appearing, e.g. Austrian Horizonte Venture Management. Investments of these funds did not have any significant impact on the economy, nor were their activities recognized by the public or business community. The first Croatian venture capital fund Quaestus Private Equity Capital was established in 2003, and it has realized 7 investments, 4 of which were start-up projects (Tele 2, Metronet Telecommunications, Akromion, Hospitalija Trade, Hlad and Vulić&Vulić). The second Croatian venture capital fund Nexus Alfa was established in 2008. Source: "How to Finance Business with Venture Capital Funds?", Croatian Private Equity and Venture Capital Association, Marović, M. (ed.), Zagreb, 2011

<sup>31</sup> [www.cvca.hr](http://www.cvca.hr)

downloaded from the web page of the Croatian Bank for Reconstruction and Development ([www.hbor.hr](http://www.hbor.hr)) which manages the economic co-operation funds project in the name of the Government of the Republic of Croatia and the Ministry of Entrepreneurship and Crafts.

Information about conditions of venture capital funds financing in Croatia is provided by the Croatian Private Equity and Venture Capital Association whose members are the following venture capital funds: Quaestus Private Equity d.o.o. ([www.quaestus.hr](http://www.quaestus.hr)), Alternative Private Equity d.o.o. (<http://www.alternative-pe.hr/>), Nexus Private Equity Partneri d.o.o. (<http://www.nexus-pe.hr/>), Prosperus-invest d.o.o. ([www.prosperus-invest.hr](http://www.prosperus-invest.hr)), Honestas Private Equity Partneri ([www.honestas-pe.hr](http://www.honestas-pe.hr)).

### 3.4. Business angels

CRANE (CRoatian Angel NEtwork) – Croatian Association of Business Angels ([www.crane.hr](http://www.crane.hr)) is a non-profit association, which connects entrepreneurs that need capital for their business ventures (mostly start-ups) and business angels<sup>32</sup> – successful entrepreneurs and corporation leaders who want to magnify their earned money with investments in projects in their starting stage, since September 2008. From 2008 to 2010 CRANE had financed just a few projects (Table 21), which indicates poor development of this type of financing of business ventures in Croatia. In 2011, according to the CRANE association, business angels in Croatia invested 2,634,100 HRK in 5 projects, which represents an increase of the total invested funds by 1,502,600 HRK in relation to 2010.

**Table 21:** CRANE – Croatian Association of Business Angels – investments from 2008 to 2011 (HRK)

	Number of projects / investments	Amount	Average investment amount
<b>2008.</b>	1	1.800 000	1.800.000
<b>2009.</b>	3	1.029 000	343.000
<b>2010.</b>	2	1.131 500	565.750
<b>2011.</b>	5	2.634.100	526.820
<b>Total</b>	11	6.594.600	599.509

Source: CRANE, 2012

As the major obstacle to expansion of activities of business angels in Croatia, the CRANE association states underdeveloped market of capital funds that would invest in successful start-up projects in the phase of entering foreign markets, lack of quality projects in the market, and low level of education of entrepreneurs<sup>33</sup>, as confirmed by numerous international studies.

<sup>32</sup> Business angels are investors that provide seed capital needed for project realization to entrepreneurs, help by transferring their own entrepreneurial and management experience and by giving practical advice and guidance. These are mostly individuals, but also possible are syndication deals, i.e. pooling of multiple investors who invest together. There are different modalities of business angels' investments, with equity deal being the most common, where business angels receive a share of ownership in the company as compensation for their investment.

<sup>33</sup> Source: "Business angels seek more developed capital funds market", Lider, July 20, 2012, <http://liderpress.hr/tvrtke-i-trzista/poslovna-scena/poslovni-andeli-traze-razvijenje-trziste-kapitalnih-fondova/>, downloaded on November 11, 2012

### 3.5. Government incentive programs and subsidized credit lines

Government of the Republic of Croatia implements numerous measures – indirectly through promotion of investment<sup>34</sup> and directly through loan programs, purpose of which is to promote development of the small and medium enterprise sector.

Government's measures implemented in 2011 are part of the **SME Promotion Programme 2008-2012**. Annual operational plans for promotion of small and medium entrepreneurship are implementation acts of the SME Promotion Programme 2008-2012. Based on the **SME Promotion Operational Plan for 2011**, the Ministry of Economy, Labour and Entrepreneurship approved aids in the amount of 198,848,066 HRK, which is 21.6% less compared to 2010, when the total amount of aids approved to entrepreneurship and crafts was 253,564,217 HRK.

In 2011, a total of 5,400 aids were approved within the following projects (Table 22): Strengthening small business competitiveness; Competitiveness through innovation; Competitiveness of the most successful "Gazelles"; Women entrepreneurship; Entrepreneurship of young people, start-ups and disabled people; Entrepreneurship in culture; Cooperative entrepreneurship; Clusters; Construction of entrepreneurial zones; Business support institutions; Education for entrepreneurship; Promotion of development of crafts; Additional training and retraining in crafts; Development of traditional and artistic crafts; Promotion of entrepreneurship; Internationalisation of Croatian economy and Strengthening international competitiveness.

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<sup>34</sup> The Act on Investment Promotion and Development of Investment Climate entered into force in September 2012, and with its entry into force the Investment Promotion Act ceased to be in effect. The objective of the act is to promote economic growth and the achievement of economic policy of the Republic of Croatia, its involvement in international trade flows and strengthening the investment and competitive capacity of Croatian entrepreneurship. At the level of business entities the objective and purpose are establishing of the internationally competitive, transparent and attractive system of incentive measures for investments of the legal or natural persons registered in the Republic of Croatia, persons liable to profit tax, carrying out an economic activity in the Republic of Croatia. The incentive measures provided by this Act refer to investment projects and strengthening of competitive capacities in production-processing activities, development-innovation activities, business support activities and high value-added service activities.

Source: <http://www.zakon.hr/z/544/Zakon-o-poticanju-investicija-i-unapre%C4%91enju-investicijskog-okru%C5%BEenja>, November 20, 2012

**Table 22:** Aids of the Ministry of Economy, Labour and Entrepreneurship approved within the SME Promotion Operational Plan for 2011

	<b>Number of awarded aids</b>	<b>Amount of awarded aids (HRK)</b>
<b>COMPETITIVENESS AND INNOVATION</b>		
Strengthening small business competitiveness	720	40.266.041
Competitiveness through innovation	206	7.858.000
Gazelles	18	8.075.000
Gazelles 2010 – obligation of payment of 2nd instalment	16	6.150.000
Gazelles 2009 – obligation of payment of 3rd instalment	30	7.450.000
Women entrepreneurship	1.203	10.740.316
Entrepreneurship of young people, start-ups and disabled people	605	4.000.000
Entrepreneurship in culture	128	4.000.000
Clusters – success through association	46	4.900.000
Cooperative entrepreneurship	49	3.000.000
<b>ENTREPRENEURIAL INFRASTRUCTURE</b>		
Construction of entrepreneurial zones	104	51.000.000
Business support institutions	58	4.603.000
<b>EDUCATION FOR ENTREPRENEURSHIP</b>		
Education for entrepreneurship	174	4.399.300
<b>CRAFTSMANSHIP</b>		
Education in crafts	298	6.832.599
Promotion of development of crafts	1.191	2.513.758
Development of traditional and artistic crafts	316	5.843.201
<b>PROMOTION OF ENTREPRENEURSHIP</b>		
Promotion of entrepreneurship	67	1.897.100
<b>PROMOTION OF INTERNATIONAL COMPETITIVENESS AND INTERNATIONALISATION</b>		
Internationalisation of Croatian economy	43	3.199.950
Strengthening international competitiveness	128	22.119.800
<b>TOTAL:</b>	<b>5.400</b>	<b>198.848.066</b>

Source: Ministry of Entrepreneurship and Crafts, Register of State Aids, 2012

Due to reorganisation of ministries after the parliamentary elections in December of 2011, the Ministry of Entrepreneurship and Crafts took over tasks related to the small and medium enterprise sector from the Ministry of Economy, Labour and Entrepreneurship. In March of 2012, the Ministry of Entrepreneurship and Crafts adopted the **Plan for Promotion of Entrepreneurship and Crafts for 2012 – Entrepreneurial Impulse**, with which allocation of 376 million HRK in grants is planned in 2012, of which the largest part, 115 million HRK is allocated to projects for improvement of competitiveness of the small and medium enterprise sector. Projects from the Entrepreneurial Impulse have partly been changed in relation to projects implemented within the **SME Promotion Operational Plan for 2011**, with the most significant change relating to disbursement of funds in 2 parts (60% upon signing the contract and 40% upon the delivery of report on implementation) with the purpose of achieving better control of purposeful spending of funds.

In addition to grants from the Entrepreneurial Impulse, in the first 6 months of 2012, the Government of the Republic of Croatia adopted several measures with the objective to create better conditions for entrepreneurial activity, which are:

- Reduction of the contribution rate for health insurance by 2% (from 15% to 13%)
- Reduction of contribution for forests and waters by 50%
- Temporary suspension of indirect of monument annuity
- Reduction of CCE membership fee by 5%, and chamber contribution by 15%
- Zero tax rate on reinvested profit
- Increased threshold for entry into the VAT system from 85,000 HRK to 230,000 HRK
- Two-year suspension of contributions on salaries for newly employed workers
- Temporary exemption of payment for issuance of trade license (until the end of 2012).

### ***Employers' reactions to Government policies***

*Government measures were met with criticism of employers in Croatia. The government has been criticised for the lack of fundamental reforms that are considered necessary to overcome the crisis, and inconsistency of measures at the national level with those made at the local level. It is considered that certain measures, such as the decision on retroactive taxation of profits generated after 2000 or the abolition of the VAT privilege on cars, further worsen the business climate and discourage investors from investing in Croatia.*

*According to the Croatian Employers' Association, the key problems are still overburdened labour and capital, poor labour legislation, education system that does not meet the needs of the labour market, slowness of the judiciary, and inefficiency and slowness of the state and local administration<sup>35</sup>.*

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<sup>35</sup> Source: "CEA: Government's measures are insufficient, there will be no economic growth", Večernji list, March 12, 2012, <http://www.vecernji.hr/biznis/hup-vladine-su-mjere-nedovoljne-nece-biti-gospodarskog-rasta-clanak-386063>, downloaded on November 20, 2012

## Promotion of development of women entrepreneurship

Empowering women to start business ventures has special significance for the development of small enterprises. GEM research in Croatia in 2011 indicates 2.12 times greater activity of male population in relation to female population in business venture start-up activities (TEA index for women was 4.71, and 10.01 for men), in contrast to 2010, when activity of male population in that segment was 1.8 times greater than activity of female population (TEA index for women was 3.91, and 7.17 for men, Table 23).

**Table 23:** Difference in business venture start-up activity by women and men in Croatia in 2010 and 2011

	2010.		2011.	
	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia
<b>TEA women</b>	9,65	<b>3,91</b>	8,67	<b>4,71</b>
<b>TEA men</b>	13,71	<b>7,15</b>	10,01	<b>10,01</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

GEM research also indicates a lower level of support for women entrepreneurs in Croatia than the average of countries involved in the GEM research, and that, unlike in other countries involved in the GEM research in which support for women entrepreneurs is growing, that support in Croatia is decreasing (grade of support in Croatia was 2.83 in 2010, in relation to 2.71 in 2011; in other GEM countries 3.13 in 2010, in relation to 3.2 in 2011, Table 24).

**Table 24:** Perception of relationship towards women in entrepreneurship in 2010 and 2011

	2010.		2011.	
	Prosjek GEM zemalja uključenih u istraživanje	Hrvatska	Prosjek GEM zemalja uključenih u istraživanje	Hrvatska
<b>Podrška poduzetnicama</b>	3,13	<b>2,83</b>	3,2	<b>2,71</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

These differences indicate that there are significant obstacles to the development of women entrepreneurship in Croatia, and the need for a wider range of policy instruments and programs (from vouchers for training programs, ensuring kindergarten places and full-day school attendance for children, to stronger awareness of gender equality in responsibility for family life), which will enable more women to enter into entrepreneurial activities.

Strategy for Development of Women Entrepreneurship in the Republic of Croatia<sup>36</sup> 2010-2013 has identified a number of proposals for removal of obstacles and improvement of various aspects of participation of women in business activities. The Strategy and the Action Plan for Implementation of Strategy in 2011 determined implementation of 17 measures, some of which are:

- Implementation of incentive measures through the "Entrepreneurship of Women" project, and encouraging women entrepreneurs to participate in all incentive measures projects
- Introduction of the Guarantee Programme for Women Entrepreneurs, which is implemented by HAMAG INVEST, aimed at facilitating access to financial resources with guarantees for loans up to 700,000 HRK
- Loans with subsidized interest for future investments in entities in which one or more women own at least 51% of capital, in which women are registered owners or CEOs of a small business, based on the concluded Agreement on Business Cooperation in the implementation of favourable financing of women entrepreneurship for loans up to 700,000 HRK, signed between HBOR, Ministry of Entrepreneurship and Crafts and HAMAG INVEST.

### **Program for Promotion of International Competitiveness and Internationalisation of the Republic of Croatia**

Since 2009, the Ministry of Economy, Labour and Entrepreneurship has been implementing the **Program for Promotion of International Competitiveness and Internationalisation of the Republic of Croatia** aimed at keeping current and strengthening new competitive advantages of medium and small enterprises, through strengthening export capacities of Croatian enterprises and increasing employment, strengthening competitive capability of Croatian enterprises when entering international markets, stronger promotion of the Croatian economy in international markets and strengthening mutual cooperation and connecting enterprises for joint appearance in international markets. Through this Program in 2011 export-oriented enterprises were able to use measures that co-financed activities related to easier entry into foreign markets (marketing activities, development of new products for new markets and preparation of production for export).

Based on the Program, in 2011 a total of 171 aids were awarded within the projects Internationalisation of Croatian Economy and Strengthening International Competitiveness in the total amount of 25,319,750 HRK.

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<sup>36</sup> On invitation of the Ministry of Economy, Labour and Entrepreneurship, in 2010 CEPOR has produced the Strategy for Development of Women Entrepreneurship in the Republic of Croatia 2010-2013. The Strategy is based on the analysis of best practices of female entrepreneurship development in EU member countries, and on the proposal of policies and instruments for strengthening entrepreneurial activity of women in Croatia, which were shaped by application of participatory methodology that allowed participation of civil society representatives, women entrepreneurs, state institutions, academic institutions, media and others. The Strategy was adopted by the Croatian Government in 2010. Strategy has identified numerous suggestions for removal of obstacles and improvement of different aspects of female participation in business activities, such as strengthening of female business mentor network – "Business Godmothers", establishment of a women's entrepreneurial venture capital fund and a network of women business angels, development of women entrepreneurship in rural areas, campaigns to raise awareness with the final goal of strengthening women for their own business start-up, publishing of "catalogues" of successful business women and the best examples in women entrepreneurship, etc. Implementation of the Strategy foresees strengthening of civil society associations in their activities of advocacy for more intensive inclusion of women in business and social life.

Through the credit line **“Local projects for small enterprise development”**, the Ministry of Economy, Labour and Entrepreneurship awarded 148 aids by counties in the total amount of 262,305,761 HRK in 2011, which is 1,144,694,239 HRK less than in 2010. The average value of aids awarded in 2011 was 1,722,336 HRK, and by the end of 2011, 43.11% of credit potential had been used.

Through the credit line **“Local development projects - microcrediting”**, 24 aids have been awarded in the total amount of 4,225,971 HRK in 2011, which is 4,785,978 HRK less than the total amount of aid awarded by the same credit line in 2010. The average value of aid was 176,082 HRK, and by the end of 2011 23.90% of credit potential had been used<sup>37</sup>.

In addition to the stated programs of the Ministry of Economy, Labour and Entrepreneurship, small and medium enterprises had the possibility of applying for financing programs of other ministries. Financing programs of individual ministries are focused on encouraging development of entrepreneurship closely connected to the area of interest of individual ministries<sup>38</sup>.

### **Croatian Bank for Reconstruction and Development (HBOR)**

Financing of SMEs is also conducted through subsidised credit lines of the Croatian Bank for Reconstruction and Development (HBOR). The objectives that HBOR wants to achieve through loan programs for encouraging small and medium enterprises are:

- Starting entrepreneurial activity
- Strengthening competitive capability of craftsmen and small and medium entrepreneurs
- Balanced regional development and
- New job creation.

Loan programs are implemented directly and/or through commercial banks, and the loan terms depend on purpose, type and area of investment. HBOR provides support to entrepreneurs that are involved in export through loans for preparation and collection of payment in export jobs, as well as through insurance of export jobs from commercial and political risks, which helps reduce the risk of entering new foreign markets.

One of the main goals of HBOR in 2011 was to increase the availability of credit lines for small and medium enterprises with favourable interest rates, and thus affect their competitiveness and liquidity, and encourage start-up and development of entrepreneurial activity. During 2011, small and medium enterprises had at their disposal 23 loan programs that were implemented by HBOR, either directly or through commercial banks.

HBOR approves loans for small and medium entrepreneurs for the following programs: loans for small

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<sup>37</sup> Source: Ministry of Entrepreneurship and Crafts, Directorate for international cooperation, investments and development, Sector for innovation, new technologies and financial institutions, December 2012

<sup>38</sup> Information about implementation of Government programs for financing small and medium enterprises through ministries in 2011 has not been published on web pages of ministries, in contrast to information about implementation of the same programs in 2010, which is publicly available on web pages and presented in the SME Report for Croatia 2011, CEPOR, 2011, p.39.

and medium entrepreneurship in special state care areas and on islands, loans for agriculture; loans for small and medium entrepreneurship for start-up and development of entrepreneurship; loans for small and medium entrepreneurship for tourism; loans for small and medium entrepreneurship for financial restructuring; loans for small and medium entrepreneurship for export and loans for small and medium entrepreneurship for working capital.

Table 25 shows the number, total amount of granted loans and the average loan amount of loans granted by HBOR in 2009, 2010 and 2011 through individual programs. 1,331 loans in the amount of 3.6 billion HRK for financing small and medium enterprises have been granted in 2011, which is 15% more compared to 2010. The highest growth of loans granted to small and medium enterprises was achieved through **programmes for start-up and development of entrepreneurship** (170%) and **programmes for financing development of tourism** (166%), while the **programme for financing agriculture and balanced development** recorded a 70% increase in granted funds. At the same time, the largest drop in the number of granted loans in 2011 was recorded by the **programme for financing export activities of small and medium enterprises** (35%).

In 2009 the average amount of loans granted by HBOR was 3,007,196 HRK, while in 2010 it was 2,334,186 HRK, and 2,712,227 HRK in 2011, which is a significant difference in relation to the average amount of loans granted to small enterprises by credit unions (21,400 HRK in 2009, 20,403 HRK in 2010 and 32,098 HRK in 2011).

**Table 25:** Overview of loans granted to small and medium enterprises through HBOR loan programmes in 2009, 2010 and 2011 (HRK)

HBOR loan programmes	2009.			2010.			2011.		
	Number of loans granted	Total amount of funds approved	Average loan amount	Number of loans granted	Total amount of funds approved	Average loan amount	Number of loans granted	Total amount of funds approved	Average loan amount
Loans for SMEs in special state care areas, on islands and for agriculture	145	333.300.411	2.298.624	130	305.491.753	2.349.937	141	395.486.000	2.804.865
Loans for SMEs for start-up and development of entrepreneurship	126	537.815.327	4.268.376	207	352.549.304	1.703.137	426	878.626.000	2.062.502
Loans for SMEs for tourism	42	251.185.055	5.980.597	45	183.461.314	4.076.918	47	488.549.000	10.394.660
Loans for SMEs for financial restructuring	5	52.305.885	10.461.177	13	132.644.514	10.203.424	20	191.227.000	9.561.350
Loans for SMEs for export	314	1.249.085.253	3.977.979	288	1.251.293.623	4.344.770	187	815.367.000	4.360.251
Loans for SMEs for working capital	345	514.338.216	1.490.835	660	909.371.207	1.377.835	510	840.720.000	1.648.471
<b>TOTAL</b>	977	2.938.030.147	3.007.196	1.343	3.134.811.715	2.334.186	1.331	3.609.974.000	2.712.227

Source: HBOR – Croatian Bank for Reconstruction and Development, 2012

In 2011 HBOR started with implementation of a programme for crediting women entrepreneurs, in accordance with the Action Plan for Implementation of Strategy for Development of Women Entrepreneurship in the Republic of Croatia 2010-2013, with the aim of encouraging founding and development of small and medium enterprises majority-owned by women. After the programme was introduced, 32 loans in the total amount of 15,000,000 HRK have been approved by the end of 2011.

During 2011 HBOR introduced the following loan programmes:

***Financing the preparation of agricultural production***

The objective of the programme is financing of the working capital required for smooth operation of agricultural production. The programme finances working capital for current production activities (purchase of raw materials, base materials and other materials for production in agriculture), and working capital that is used for the purchase of agricultural products.

***Programme for financing candidates for IPARD Measure 101 and Measure 103***

The purpose of the programme is to finance projects for co-financing within the framework of Measures 101 and 103 of the IPARD – in the manner that, within the framework of this loan programme, the entire investment is financed investment is financed within this loan programme.

***Loan programme for the improvement of liquidity***

The goal of the programme is to maintain and improve liquidity of final borrowers by financing settlement of obligations towards suppliers, financial institutions, the state, and settlement of short-term obligations.

A novelty in HBOR's operations in 2012 in relation to previous years is the new Programme for the development of economy through which HBOR will assume more risk, which so far was entirely on commercial banks, and thus try to encourage commercial banks to increase loan placements intended for entrepreneurs. According to the new model, HBOR assumes 40% of risk of loan repayment, and banks 60%. Also, in 2012, HBOR lowered the interest rates in 8 loan programmes – as a temporary measure, which applies to loans granted 2012, the purpose of which is to encourage new investments in agriculture and fishing, tourism, industry, energy efficiency, environmental protection and renewable sources of energy. The interest rates have been lowered thanks the Loan Contract for the financing of small and medium entrepreneurship and mid-cap companies in the Republic of Croatia signed with the European Investment Bank.

***Participation in implementation of activities of economic co-operation funds***

HBOR, as the qualified investor appointed by the Government of the Republic of Croatia participates in the implementation of activities of economic co-operation funds (described in detail in Chapter 3.3. on venture capital funds), together with private investors.

Beneficiaries can be companies with the seat in Croatia that are active exclusively or predominately in the Republic of Croatia and have:

- Products and services with high growth potential
- Advantage over their competitors
- Good management
- Sound and transparent operation and a sound business plan
- Acceptable rate of return on funds invested by economic co-operation funds.

Amount of financing and percentage of co-ownership are not limited – they depend on the financing possibilities of companies for management of economic co-operation funds and on concrete investment projects. The sale of shares is initiated 5 years after the investment at the latest.

According to the consolidated report on the work of all the economic co-operation funds, during 2011 companies for management considered investment in 371 companies / projects, majority of which belonged to the category of small enterprises that needed capital for further business growth. The majority of analysed projects were from the manufacturing industry (33%), followed by energy, food industry, services and information technology.

### ***Croatian Credit Insurance (HKO)***

Croatian Credit Insurance is a company owned by HBOR (since 2010), specialised in the insurance of short-term receivables (up to one year) related to the selling of goods and services in Croatia and abroad. All business entities selling goods and services with deferred payment can be insured, regardless of their economic activity and size. By insuring their receivables, small and medium enterprises can protect liquidity and assets, i.e., ensure collection of payment for specific jobs, do business with new clients more securely and lower possible costs of additional measures for the collection of receivables. Also, the policy can be used as collateral, which allows easier access to funding from commercial banks.

### **Croatian Agency for SMEs and Investment (HAMAG INVEST)**

Croatian Agency for SMEs and Investment (HAMAG INVEST) is a national agency whose activity is aimed at the development of small and medium enterprises. Amendments to the Small Business Development Promotion Act<sup>39</sup> from May 2012 extended HAMAG's jurisdiction to the area of promotion and attraction of investment, and the agency's name was changed to Croatian Agency for SMEs and Investment – HAMAG INVEST. The most important activities of HAMAG INVEST are issuance of guarantees, awarding of grants, certification of consultants, co-financing of consulting services, development of business infrastructure, and attracting new investment projects into sectors with high added value and export orientation that create new jobs and stimulate balanced regional development.

Decision of the Government of the Republic of Croatia increased the HAMAG INVEST's guarantee fund from 1 billion to 2 billion HRK in 2012. Guarantee programs have been aligned with credit lines

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<sup>39</sup> Small Business Development Promotion Act (NN no. 29/02; 63/07; 53/12)

of the commercial banks and the HBOR guarantees for leasing and performance bonds have been introduced, conditions for financing innovations have been significantly improved, and the maximum guarantee amounts for individual programs have been increased. Also, first call guarantee is introduced, which will make HAMAG INVEST's guarantee a stronger instrument for stimulation of development of small and medium enterprises and a more attractive insurance instrument for banks.

Depending on the program, the maximum amount of guarantee issued by HAMAG in 2011 could have been up to 80% of the loan principal, and the maximum amount of a loan guaranteed for is 15,000,000.00 HRK. From 2008 to 2010, HAMAG issued guarantees based on 9 guarantee programs. In 2011, guarantee program "Agriculture"<sup>40</sup> was amended and guarantee program "Women Entrepreneurs" was introduced.

Table 26 shows the number of guarantees issued by HAMAG from 2009 to, the amount issued guarantees and the amount of total investments:

**Table 26:** Statistics of guarantees issued by HAMAG and amount of investments covered with guarantees from 2009 to 2011 (HRK)

	<b>2009.</b>	<b>2010.</b>	<b>2011.</b>
<b>Number of guarantees issued</b>	106	133	112
<b>Amount of issued guarantees</b>	137.433.395	178.157.658	154.264.185
<b>Amount of investments</b>	621.726.306	638.421.410	494.269.086

Source: HAMAG INVEST – Croatian Agency for SMEs and Investment, 2012

The most important conditions for issuance of a guarantee are: fully completed financial package of the project, liquidity of the project throughout the duration of the project, non-existence of debt to the state, economic justification of the investment, and the professional and entrepreneurial abilities of the investor.

<sup>40</sup> The guarantee program was supplemented to stimulate restructuring investment projects and achieving the EU standards within the Component V Instrument for Pre-accession Assistance of the EU (IPARD Programme).

## 4. Access to information and advisory services

Access to information and advisory services is one of the prerequisites for the development of entrepreneurship. GEM research in Croatia indicates stagnation of the grade of perception of quality of professional infrastructure support for the small and medium enterprise sector development in 2011 compared to 2010, and somewhat lower grade of commercial and professional infrastructure in Croatia in relation to other countries that participate in the GEM research (Table 27).

**Table 27:** Perception of commercial and professional infrastructure for support of the small and medium enterprise sector in 2010 and 2011

	Ocjena 5 pokazuje:	2010.		2011.	
		Average	Croatia	Average	Croatia
<b>Commercial and professional infrastructure</b>	There are consultancy, professional legal and accounting services; companies can afford them; they are of high quality	2,95	<b>2,83</b>	3,02	<b>2,84</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

Access to information and advisory services for and medium enterprises in Croatia is provided through business support institutions<sup>41</sup> (regional development agencies, centers for entrepreneurship, business incubators, business zones). The criteria for allocation of grants direct business support institutions towards implementation of the same programs and encourage them to compete with each other, instead to cooperate<sup>42</sup>. Clearer profiling in accordance with the institution's mission and focus on improvement of quality of services would enable business support institutions to build healthy foundations for mutual cooperation and influence on increasing the capacity, variety and quality of offer in the market of professional services for small and medium enterprises development.

<sup>41</sup> Virtual map of business support institutions in Croatia is located at [www.cepor.hr](http://www.cepor.hr)

<sup>42</sup> Lauc, B.: "Market of services for the promotion of entrepreneurship in Croatia" (master's thesis), J.J. Strossmayer University in Osijek, Faculty of Economics in Osijek, Graduate Program in Entrepreneurship, Osijek, 2004, page 53

### **Example of good practice: Support system for small and medium enterprises in Finland<sup>43</sup>**

*The support system for small and medium enterprises in Finland is very complex, and it takes place through some 30-odd organisations that provide 200 different services, around 50 of which are financing-related services. Besides, services to enterprises are also offered through several thousand projects within EU structural funds.*

*Although, according to the GEM research, the grade of perception of commercial and professional infrastructure for the support of development of the small and medium enterprise sector in Finland in 2010 and 2011 is significantly more favourable in comparison to Croatia (in 2010 in Croatia it was graded with 2.83, and with 3.46 in Finland; in 2011 the grade of perception of commercial and professional infrastructure in Croatia was 2.84, while in Finland it was 3.26), the analysis of the Finnish support system indicated a need to improve the system, in the direction of:*

- Simpler access to business services*
- Increased availability of information about the services offered by various business support institutions*
- Possibility of contacting experts in the whole of Finland*
- Evaluation of the needs of the small and medium enterprise sector for services of business support institutions in Finland*
- Uniformity in quality of services throughout the country.*

*With the aim of improving services that business support institutions in Finland provide to business users, the Finnish Ministry of Trade and Industry appointed a Workgroup for improvement of the system of business support institutions, which has identified the following recommendations:*

*Recommendation 1: Development of a national web portal [www.enterpriseinland.fi](http://www.enterpriseinland.fi) for providing services to business customers;*

*Recommendation 2: Creation of a national call-center that will provide the necessary information to end users in the shortest possible time, as well as provide the contact information of experts in specific fields;*

*Recommendation 3: Development of a regional network of professional services intended for start-up entrepreneurs and micro and small enterprises in order to identify client needs for services on the one hand, and identify potential providers of services on the other hand;*

*Recommendation 4: Operation of the Finnish Growth Development Service whose aim is to identify growing enterprises and provide them with appropriate support in development;*

*Recommendation 5: Development of services to support innovative projects through innovation centers, whose aim is to develop ideas based on research and develop products into business concepts. Innovation centers provide services through business incubators, technology centers and other organisations which are developing contacts between universities and the business community.*

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<sup>43</sup> "A Development Track Adds Finnish Business Services to World Lead", Ministry of Trade and Industry Finland – Working Group for Finnish Business Services, 2005

The most important institutions focused on the support of development of small and medium enterprises in Croatia are:

### **Croatian Chamber of Economy (CCE)**

CCE offers a wide range of services, from business information about companies, regulations and legislative in the field of economy, to business education and professional development, improvement of quality and environmental protection. **Centre for Entrepreneurship, Innovations and Technological Development** operates within the CCE since March 2012, whose aim is to influence the creation of favourable entrepreneurial climate, encourage economic development and entrepreneurship, new employment and revitalize the areas of special state concern. The Centre's activities are related to monitoring and analysis of business results of small and medium enterprises, representing interests and providing expert assistance to members in financing of entrepreneurial projects, providing counselling on applying to aid schemes for small and medium enterprises, etc.

### **Croatian Chamber of Trades and Crafts (CCTC)**

CCTC's activities are: crafts and craftsmanship promotion, representation of craftsmen interests before state authorities in formation of the economic system, provision of opinions and proposals to state authorities during enactment of legislation regarding crafts, establishment of commissions for apprentice and master exams, providing help to craftsmen during the establishment and operation of a craft, and performing all other tasks defined by law and CCTC's statute.

### **Croatian Employers' Association (CEA)**

CEA offers to its members free protection before the courts in labour disputes, discounts in management training programs (PUMA), discounts in educational programs regarding application of legislation, participation in international projects (benchmarking), consulting free of charge, participation in study trips and presentations abroad, protection in industrial actions (strikes) and mediation in disputes with state institutions and services.

### **Centers for entrepreneurship**

Centers for entrepreneurship constitute part of entrepreneurial infrastructure, within which advisory and educational services are provided: information about possibilities of enterprise start-up and incentive measures, advice on the conduct of business, help in preparation of business plans, networking of small and medium enterprises, etc. Centers for entrepreneurship organise seminars and other forms of additional education for entrepreneurs and cooperate with local and regional administration on implementation of development programs. Centers operate as parts of county/city administration, as independent enterprises or as associations i.e., nongovernmental organisations, and are financed from local budgets, donations of international organisations, European Union projects, Ministry of Entrepreneurship and Crafts aids and own sources of financing. Over the years of work some of the centers for entrepreneurship have developed into regional development agencies.<sup>44</sup> Currently, there are over 50 centers for entrepreneurship<sup>45</sup> in Croatia.

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44 For example, Regional Development Agency REDEA originated from the Medimurje Center for Entrepreneurship Čakovec.

45 CEPOR, Map of institutional support of entrepreneurship development – Centers for entrepreneurship, [www.cepor.hr](http://www.cepor.hr)

## **Business incubators**

Business incubators gather entrepreneurs that are just starting their business or are in the growth and development stage and do not have their own premises. Incubators allow entrepreneurs to use business premises under very favourable conditions (without charge or with reduced rent) for a limited period (approximately 3 years). In addition to business premises, business infrastructure, intellectual and business services are at their disposal during the incubation period, after which they become independent and surrender the premises to another enterprise. The goal of business incubators is primarily generation of new small enterprises, increasing the number of enterprises that survive in the market, reducing the probability of failure of start-up enterprises, provision of business, technical, educational and other services to incubator's clients and small and medium enterprises. There are about 30 incubators<sup>46</sup> in Croatia. Incubators, same as centers for entrepreneurship, are financed from local budgets, donations of international organisations, European Union projects, Ministry of Economy, Labour and Entrepreneurship funds, and sales of their services.

## **Business and technology parks**

Business parks represent areas which gather business entities that primarily perform tertiary activities, which differentiates them from industrial parks (production activities) or technology parks (research and technology development activities). Business parks in Croatia are: Business Park Bjelovar, Business Park Karlovac, Business Park Virovitica and Business Park Zagreb.

Technology Parks connect experts and entrepreneurs who want to achieve their business goals based on new technologies. As opposed to business parks, which are primarily oriented towards business and production, technology parks place emphasis on development and scientific-research activities. They are established primarily in the vicinity of higher education institutions and research centers, i.e. important economic-technological systems, and their aim is to attract both top experts and young talents. Technology parks in Croatia<sup>47</sup> are: Technology Park Čakovec, Technology Park Varaždin, Technology Park Zagreb, Technology Park Kutina, Science and Technology Park of the University of Rijeka, Technology Park BISC Nova Gradiška and Technology Park Vinkovci.

## **Entrepreneurial zones<sup>48</sup>**

Entrepreneurial zones promote development of small and medium enterprises by providing benefits to entrepreneurs in construction of business premises on land that is fully equipped with infrastructure. The objective of development of entrepreneurial zones at the level of local and regional administration is to encourage balanced development and increase of employment. There are about 370 entrepreneurial zones in Croatia.

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<sup>46</sup> CEPOR, Map of institutional support of entrepreneurship development – Business incubators, [www.cepor.hr](http://www.cepor.hr)

<sup>47</sup> CEPOR, Map of institutional support of entrepreneurship development – Technology parks, [www.cepor.hr](http://www.cepor.hr)

<sup>48</sup> CEPOR, Map of institutional support of entrepreneurship development – Entrepreneurial zones, [www.cepor.hr](http://www.cepor.hr)

### **Development agencies**

The role of development agencies is the promotion of development of small and medium enterprises by providing financial support, education, developing entrepreneurial infrastructure, informing and advising entrepreneurs, providing services to potential foreign investors and implementing different interregional and international projects that are directed towards creation of favourable business climate. There are about 20 development agencies<sup>49</sup> in Croatia, some of which are regional agencies (e.g. Regional Development Agency REDEA from Čakovec, Istrian Development Agency – IDA, Regional Development Agency of Slavonia and Baranja, etc.).

### **European Enterprise Network (EEN)**

The goal of European Enterprise Network ([www.een.hr](http://www.een.hr)) is to ensure support and advisory services to entrepreneurs in Europe and to enable exploitation of opportunities provided by the EU and the single European market. Croatia became a member of EEN in 2010. EEN services are created for small and medium enterprises, but they are also available to business institutions, research centers and European universities. EEN is composed of almost 600 partner organisations and institutions (chambers, agencies, institutes, etc.), it provides contacts and connections in 49 countries and 83 consortiums, and connects over 4,000 experts in the field of entrepreneurship, innovation and technology transfer, in Croatia located in Osijek (Technology Development Centre – Tera Tehnopolis), Rijeka (Science and Technology Park of the University of Rijeka – STeP Ri), Split (Technology Transfer Office), Varaždin (Technology Park) and Zagreb (Croatian Chamber of Economy, BICRO and Croatian Institute of Technology).

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<sup>49</sup> CEPOR, Map of institutional support of entrepreneurship development – Development agencies, [www.cepor.hr](http://www.cepor.hr)

## 5. Education for entrepreneurship

European Union defines 8 crucial lifelong competences<sup>50</sup> which are an important precondition for personal fulfilment and individual development, role of active citizen in society, social inclusion and employability:

1. Ability to communicate in the mother tongue
2. Ability to communicate in foreign languages
3. Understanding and utilisation of knowledge in mathematics, science and technology
4. Ability to use digital technology
5. Ability to learn
6. Social and civic skills in multicultural environment
- 7. Entrepreneurship**
8. Ability of cultural expression.

Learning about entrepreneurship and for entrepreneurship represents an important aspect of curricula in EU member countries. In the process of preparing for EU accession, Croatia has adopted the **National Strategy for Entrepreneurial Learning 2010-2014** in 2010, whose goal are *“to raise public awareness about entrepreneurship, develop a positive attitude towards lifelong learning for entrepreneurship, and introduce learning and training for entrepreneurship as a key competence to all forms, types and levels of formal, non-formal and informal learning.”*<sup>51</sup> The Strategy lists the measures and reasons for development of learning about entrepreneurship, proposal of implementation of the program of learning about entrepreneurship within the educational system, as well as the expected results of entrepreneurship education development.

The Action plan for implementation of the Strategy for the period 2010-2014 period implies the implementation of the following measures<sup>52</sup>:

- Development of positive attitude and sensitizing the public about entrepreneurship
- Increase of interest for training for entrepreneurship
- Introduction of entrepreneurial learning and training to all development policies and programs
- Introduction of entrepreneurship as one of the key competences in all education curricula
- Increase of capacities of educational institutions as the result of introduction of education for entrepreneurship
- Increase of competences of educators, teachers and trainers for education for entrepreneurship
- Strengthening cooperation and networking between educational institutions, scientific-research and business entities on entrepreneurship programs
- Development of additional programs and professional entrepreneurial competence content in formal and informal forms of education and teaching
- Development of entrepreneurial competences in all employees
- Increase of the number of successful small enterprises established due to observed business opportunity.

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50 Key Competences for Lifelong Learning – European Reference Framework, European Communities, 2007, [http://ec.europa.eu/dgs/education\\_culture/publ/pdf/il-learning/keycomp\\_en.pdf](http://ec.europa.eu/dgs/education_culture/publ/pdf/il-learning/keycomp_en.pdf) (downloaded on November 15, 2012)

51 “Entrepreneurial Impulse – Plan for Promotion of Entrepreneurship and Crafts for 2012”, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, March 2012, p.11.

52 National Strategy for Entrepreneurial Learning, Government of the Republic of Croatia, Ministry of Economy, Labour and Entrepreneurship, Zagreb, 2010

Within the framework of implementation of the National Strategy for Entrepreneurial Learning, the first International Conference on Entrepreneurial Learning – ICEL<sup>53</sup> was organised held June of 2011.

Results of the GEM research for 2011 indicate a decline of perception of quality of education for entrepreneurship at primary and secondary levels of education in relation to 2010 (from 2.11 in 2010, to 1.88 in 2011) and a lower grade of Croatia in relation to the average of countries involved in the GEM research (Croatia's grade in 2011 was 1.88, in relation to the GEM average – 2.03), while in 2010 Croatia was graded above the average of GEM countries (Croatia's grade in 2010 was 2.11 in relation to the average of GEM countries – 1.97).

Perception of the quality of education for entrepreneurship at the tertiary level is slightly lower than the average of GEM countries, with a declining trend (Table 28).

**Table 28:** Perception of quality of education supporting small and medium enterprise development in 2010 and 2011

	Grade 5 indicates:	2010.		2011.	
		Average	Croatia	Average	Croatia
<b>Education and training</b> (primary and secondary level of education)	Primary and secondary level of education encourages creativity, independence, proactivity; provides information on market principles and puts emphasis on entrepreneurship	1,97	<b>2,11</b>	2,03	<b>1,88</b>
<b>Education and training</b> (tertiary level of education)	There are enough university courses on entrepreneurship, business education is at the world level; vocational, professional and continuing education provides good preparation for self-employment	2,83	<b>2,76</b>	2,81	<b>2,73</b>

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2012 (2011)

In primary school education in Croatia entrepreneurship still isn't recognized as knowledge and skill for achieving competence of initiative and it is only sporadically mentioned in the curriculum and is promoted depending on teachers' and/or principals' preferences and knowledge.

Within the National Strategy for Entrepreneurial Learning, Children's Entrepreneurship Week project and pilot projects "Entrepreneurial Learning as a Key Competence in ISCED 2" in four primary schools (Zagreb, Sisak and Slavonski Brod) and "Entrepreneurial Learning as a Key Competence in ISCED 5/6" at two higher education institutions (Faculty of Mechanical Engineering

<sup>53</sup> The conference was organised by Ministry of Economy, Labour and Entrepreneurship, Ministry of Science, Education and Sports, Ministry of Regional Development, Forestry and Water Management, Ministry of Agriculture, Fisheries and Rural Development, Croatian Chamber of Economy, Croatian Chamber of Trades and Crafts, Croatian Employment Service, University College of Economics, Entrepreneurship and Management "Nikola Šubić Zrinski", Faculty of Technology in Novi Sad and Faculty of Economics and Engineering Management in Novi Sad.

and Naval Architecture in Zagreb and Faculty of Pedagogy in Zadar)<sup>54</sup> are implemented. In secondary school education entrepreneurship is recognized as a set of knowledge and skills only in vocational schools as a mandatory subject in the curriculum of economy schools. In 2003, Ministry of Science, Education and Sport began to systematically promote spreading the idea of training firm, by joining the ECO NET<sup>55</sup> project. The aim of the project is to strengthen and propagate the teaching concept of training firm in Croatia through professional development of teachers in 4 pilot schools.<sup>56</sup> Work in training firm in Croatia was spread within the subject Vocational practice and it generally represents an elective subject. In order for the business activities of training firms to reflect reality as accurately as possible, a coordinating body that connects all training firms was founded, which was later transformed to Central Office for Training Firms (SUVT). SUVT operates within the Agency for Vocational Education and Training and Adult Education ([www.aso.hr](http://www.aso.hr)) and it maintains the register of all the training firms in Croatia. Organised by the Agency for Vocational Education and Training and Adult Education, Economic and Administrative School in Osijek and the State Commission, the VI State festival/fair of training firms took place in Osijek in April 2012, with participation of 60 pupils, that is, 20 training firms under the guidance of 20 mentors from all vocational schools in the Republic of Croatia<sup>57</sup>. The first entrepreneurial programs at the tertiary level of education were started in 2000 at the J.J. Strossmayer University in Osijek, Faculty of Economics, at the postgraduate level<sup>58</sup> ([www.ices.hr](http://www.ices.hr)) and at the VERN Polytechnic in Zagreb ([www.vern.hr](http://www.vern.hr)). Table 29 gives an overview of entrepreneurial programs at undergraduate, graduate and postgraduate levels of education at Croatian universities, while Table 30 gives an overview of entrepreneurial programs at polytechnics and academies.

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54 "Entrepreneurial Impulse – Plan for Promotion of Entrepreneurship and Crafts for 2012", Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, March 2012, p.11.

55 Project ECO NET ([www.econet-see.com](http://www.econet-see.com)) is jointly implemented by the Government of the Republic of Croatia (through the Ministry of Science, Education and Sport, i.e. Agency for Vocational Education and Training and Adult Education) and the Government of the Republic of Austria. Government of the Republic of Austria is represented in this project by: Ministry for Education, Arts and Culture, association KulturKontakt Austria and Austrian Agency for International Cooperation – ADA.

56 The following schools were included in the pilot project: First Economy School Zagreb, Second Economy School Zagreb, Economy School Velika Gorica and Economy and Administration School Bjelovar. Besides teachers from these four pilot schools, the target group of various professional vocal conferences were teachers from twenty other schools in Croatia. Agency for Vocational Education and Training and Adult Education ensures further propagation of knowledge and experiences by organizing and implementing professional training of teachers working in economy and trade schools, which are introducing the subject Vocational practice (training firm is a part of their curriculum). Today, training firms exist in almost all European countries – there are about seven thousand of them in the world. Business contacts of Croatian training firms range from Austria, through Romania, all the way to the USA.

Source: "Training firm – door to the world of entrepreneurship (manual for teachers)", Agency for Vocational Education and Training and Adult Education, Zagreb, 2009, p.8.

57 Agency for Vocational Education and Training and Adult Education, <http://www.asoo.hr/suvt/default.aspx?id=1235>, downloaded on November 20, 2012

58 Graduate Program in Entrepreneurship was started in 2000 at the Faculty of Economics in Osijek with financial support of the Open Society Institute New York.

**Table 29:** Representation of entrepreneurship programs at Croatian universities, 2011

University/ Faculty	Undergraduate Study (professional/ scientific)	Graduate study	Postgraduate study	
			Specialist	Doctoral
<b>J.J. Strossmayer University in Osijek – Faculty of Economics in Osijek</b>	Entrepreneurship	Entrepreneurship	Entrepreneurship	Entrepreneurship and Innovativeness*
<b>University of Zagreb – Faculty of Economics</b>	Entrepreneurship (Bjelovar) - Economics of Entrepreneurship** (Varaždin)	-	Strategic Entrepreneurship - Entrepreneurship and Entrepreneurial Management	-
<b>University of Split*** - Faculty of Economics</b>	Small Enterprise Management	-	-	-
<b>University of Rijeka – Faculty of Economics</b>	-	Entrepreneurship	-	-
<b>Juraj Dobrila University of Pula – Department of Economics and Tourism „Dr. Mijo Mirković”</b>	Management and entrepreneurship	Management and entrepreneurship	-	-
<b>University of Zadar – Department of Economics</b>	-	-	-	-

Source: Web pages of universities in Croatia, November 2012

\* International interdisciplinary doctoral program Entrepreneurship and Innovativeness was started in 2010, as the first doctoral study in entrepreneurship. The program was created as the result of a Tempus project financed by the EU, and the following universities participate in its development and implementation beside the Osijek University: University of Turku from Finland, Univerza v Mariboru from Slovenia, Universitaet Klagenfurt from Austria and Durham University from Great Britain. Program is conducted in collaboration with the Faculty of Organization and Informatics in Varaždin, University of Zagreb.

\*\* Program is conducted in collaboration with the Faculty of Organization and Informatics in Varaždin, University of Zagreb.

\*\*\* Within the lifelong education program, Faculty of Economics at University of Split organises the following seminars: Financial operations of entrepreneurs and craftsmen, Basics of Entrepreneurship, Development of entrepreneurship and Management of entrepreneurial projects using a computer.

**Table 30:** Representation of entrepreneurship programs at Croatian polytechnics and academies

<b>Polytechnic /Academy</b>	<b>Study</b>	<b>Location</b>
VERN Polytechnic	Undergraduate Study Entrepreneurial Economics *** Specialist Graduate Study Entrepreneurial Management	Zagreb
Polytechnic of Rijeka	Entrepreneurship	Rijeka Poreč Pazin Ogulin
Polytechnic of Split	Small Business	Zagreb
Nikola Tesla Polytechnic Gospić	Economics of Entrepreneurship	Gospić
Marko Marulić Polytechnic Knin	Trade Business and Entrepreneurship	Knin
University College Nikola Šubić Zrinski	Management of Entrepreneurship	Zagreb

Source: Web pages of polytechnics and academies, November 2012

There are numerous institutions outside the system of formal education that offer education for start-up entrepreneurs and/or already operational enterprises, such as centers for entrepreneurship, Croatian Chamber of Economy, Croatian Employers' Association and private enterprises active in the sector of adult education. Education for Entrepreneurship and Craftsmanship is one of the grant projects within which the Ministry of Economy, Labour and Entrepreneurship awarded 472 aids in the total amount of 11,231,899 HRK in 2011.

## 6. Conclusion

**SME Report for Croatia 2012** presents the situation in the small and medium enterprise sector in 2012. The need for such an annual report is argued by a multitude of fragmented information about small and medium enterprises, which hinders the integrity of insight into the issues and trends of development of this important sector of the economy. Similar representations of the situation in small and medium enterprises have been published in other countries, e.g. Great Britain, Hungary and Bulgaria. Amendments to the Small Business Development Promotion Act from May 2012 acknowledged the EU recommendation from 2003 and the categorization of size of entrepreneurs in this Act has been harmonized with the criteria applied by the EU. This enabled higher quality analysis and comparison of the small and medium enterprise sector in Croatia and EU countries, as well as better use of support mechanisms intended for small and medium enterprises through EU programs.

By analysing findings and recommendations of national and international studies, whose results are presented and commented in this Report, the following conclusions can be identified:

### **Situation of the small and medium enterprise sector in Croatia**

The role of small and medium enterprises in the Croatian economy is extremely significant: small and medium enterprises are the biggest employer in Croatia (65.5% of employment), they significantly contribute to the gross domestic product (50.2%) and to exports (42%). In relation to 2010, the number of small and medium enterprises decreased in 2011 (by 6.3% in the small enterprise category and by 5.7% in the medium enterprise category). Unlike large enterprises, in which employment is stagnating, employment in small enterprises decreased by 6.9% and slightly increased in medium enterprises in 2011. The share of small and medium enterprises in the total GDP in 2011 decreased, but the total revenue that small and medium enterprises achieved through exports (20.5%) increased significantly.

Regional differences in entrepreneurial activity in Croatia are still very clear and consistent with differences in unemployment and GDP per capita, which indicates a lack and/or inadequacy of government measures and policies aimed at reducing the gap in development of regions in Croatia.

### **Institutional and legislative framework**

Regulatory environment in Croatia cannot be rated as favourable for the development of small and medium enterprises. International reports identify the same obstacles from year to year, pointing out complexity of regulatory procedures as the main obstacle in start-up and implementation of business activities, which results in obstacles for entrepreneurs and expensive state infrastructure. The identified obstacles reflect negatively also in the level of corrupt behaviour, which has remained virtually unchanged over the past several years. The Government should, in accordance with the Think Small First principle adopted by the EU, implement regular evaluation of the effects of regulatory framework on the environment in which small and medium enterprises operate, especially during implementation of new legislation,

High involvement of the Ministry of Economy, Labour and Entrepreneurship in operational programs is still evident in 2011 although those activities should be transferred to implementation agencies and institutions. There are several organisations in Croatia whose role in the development of policies

related to the small and medium enterprise sector should be more visible and more pronounced: CEA, CCE, CCTC and CEPOR.

### **Access to financing**

Small and medium enterprises' access to financing is limited with regard to the type of money required for different phases of entrepreneurial venture development. The financial market is dominated by bank loans, while there is a lack of financial sources for financing the riskier phases of entrepreneurial venture (such as start-up phase and rapid growth phase). Venture capital funds and business angels are still not recognized in Croatia as an important source of financing of small and medium enterprises.

Inclusion of Government in providing access to financing for small and medium enterprises in Croatia is characterized by: (1) inability to evaluate the efficiency of financing programs because there is no detailed feedback on contribution of current crediting programs to employment, retention of jobs or start-up of new business ventures; (2) nontransparency of the effectiveness of financing programs intended for small and medium enterprises that are implemented by individual ministries; (3) operational involvement of the Ministry of Economy, Labour and Entrepreneurship in implementation of financing programs, which represents a distraction from the Ministry's primary role – focusing on policy and regulatory aspects of the small and medium enterprise sector.

### **Access to information and advisory services**

Access to information and advisory services for small and medium enterprises is enabled through a network of business support institutions – regional development agencies, centers for entrepreneurship, business incubators and business zones. In order to improve access information and advisory services, and better formulate Government's support, it is necessary to make a detailed analysis of the effects of implemented programs and the needs of the small and medium enterprise sector. In doing so, it is useful to take into account the recommendations and best practices of countries that have made significant efforts to improve systems of support for the small and medium enterprise sector (e.g. Finland).

### **Education for entrepreneurship**

Entrepreneurial education is insufficiently represented at all levels of formal education. At the primary level, it still isn't recognized as knowledge and skill needed for developing entrepreneurial competencies, with minimal representation in the curriculum. In high school education, entrepreneurship is recognized as a set of knowledge and skills only in vocational schools, and it was introduced as a compulsory subject in curriculums of economic high schools. At university level, entrepreneurship is present in at least one study level at six out of seven Croatian universities, but at two universities is present only at one level. At polytechnics and colleges in Croatia entrepreneurship is present as a study program.

Informal education for entrepreneurship is implemented primarily by business support institutions and it is mainly focused on topics suggested and co-financed by the Ministry of Economy, Labour and Entrepreneurship through its project Education for Entrepreneurship.

The results of national and international studies indicate a high level of consensus on problems, causes and recommendations connected with the situation in the small and medium enterprise sector in Croatia. In order to eliminate obstacles and develop a vibrant small and medium enterprise sector, political will and coordinated activity of all the relevant actors in Croatia are required.

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**CEPOR – SMEs and Entrepreneurship Policy**

**Center** is an independent policy center which is dealing with issues of the small and medium enterprise sector in Croatia. CEPOR was established in 2001, based on an agreement between the Government of the Republic of Croatia and Open Society Institute Croatia.

Institutional founders of CEPOR are: Institute of Economics Zagreb, Josip Juraj Strossmayer University of Osijek – Faculty of Economics in Osijek, Institute for International Relations Zagreb, Croatian Chamber of Economy, Croatian Chamber of Crafts and Trades, REDEA Development Agency Međimurje – Čakovec, IDA Istrian Development Agency – Pula, Center for Entrepreneurship Osijek, Open Society Institute Croatia and UHIP, Croatian Institutions for Promotion of Entrepreneurship Association.

CEPOR's mission is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy. CEPOR wants to contribute to the shaping of entrepreneurial culture and to creation of stimulating institutional and regulatory framework for entrepreneurial activity.

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