

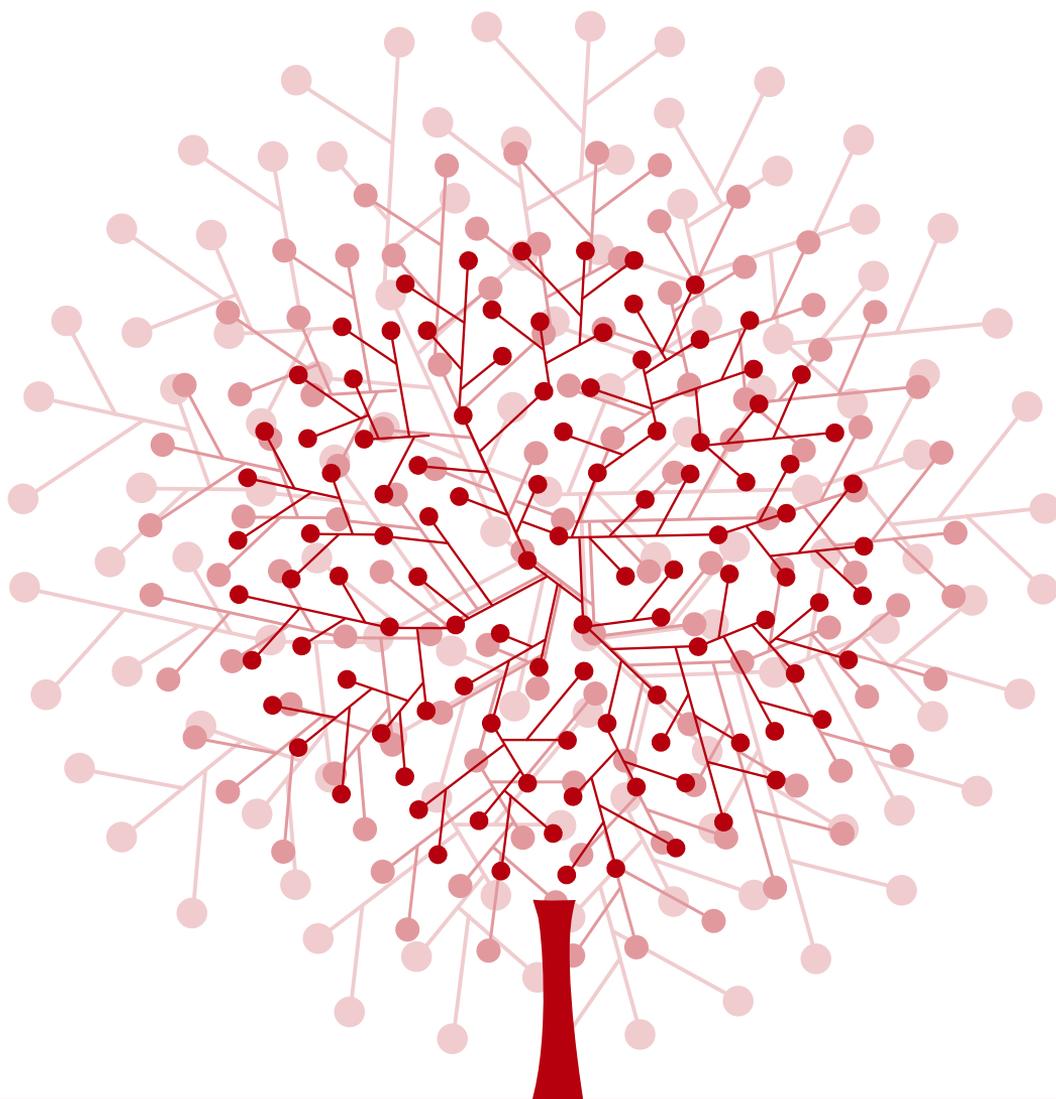
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SME Report for Croatia 2011



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Introduction

Small and medium enterprises (SMEs)¹ today represent, as always, an important part of the Croatian economy because of their contribution to employment, creation of national GDP, but also because of their contribution to country's export activities. In 2010 SMEs achieved a share of 51.6% of gross domestic product (GDP), 66.6% of employment and 41.4% of Croatian exports². The main characteristic of the SME sector is insufficiently intense activity in start-up of new business ventures³, small share of growing enterprises, exposure to strong administrative obstacles, underdevelopment of financial market (overdependence on traditional banking instruments), as well as lack of education focused on development of entrepreneurial knowledge and skills.

SME Report for Croatia 2011 gives a summary of all important aspects of the SME sector in Croatia. This publication is published by CEPOR⁴ - SMEs and Entrepreneurship Policy Center – independent policy center which has been dealing with entrepreneurship and SME sector issues in Croatia since 2001. Similar reviews of situation in SMEs are also published in other countries, e.g. United Kingdom, Hungary and Bulgaria.

Report presents data and analyses of the situation in the SME sector in 2010 as well as their comparison with previous years. Reference years used in comparison to basic 2010 year were selected in accordance with their availability and intensity of changes during the observed periods (change is analysed during a longer period, typically 10 years). Since crafts⁵ aren't included in legislative framework defined by the Small Business Development Promotion Act, but are regulated by the Crafts Act, in this report only data on employment include aggregated data on the number of employees in crafts, small and medium enterprises. All other analyses are focused exclusively on the SME sector, while crafts are excluded, and micro enterprises are included in the small enterprise category.

Sources of data presented and analysed in the report are state institutions (Ministry of Economy, Labour and Entrepreneurship – MELE, FINA, Croatian Chamber of Economy – HGK, Croatian Bank for Reconstruction and Development – HBOR, Croatian Agency for SMEs – HAMAG, etc.) and reports of international research projects (Global 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.).

1 Hereinafter, abbreviation SME will be used to denote small and medium enterprises.

2 Source: FINA

3 Measured by the TEA index (Total Entrepreneurship Index) through the GEM project – Global Entrepreneurship Monitor. TEA index shows the number of newly started business ventures, not older than 42 months per 100 adult inhabitants that are 18-64 years old.

4 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 activities – 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).

5 According to data of Croatian Chamber of Trades and Crafts, in Croatia, on December 31, 2010 there were 88,340 registered crafts in the Book of Craftsmen, who were employing 205,969 workers.

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 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.

Current situation in the SME sector

Although SMEs have always been an important part of the Croatian economy, they have just recently started to attract attention of creators of economic policies. Prolonged high levels of unemployment in Croatia and the importance that SMEs have in European Union's economic policy have prompted deeper strategic consideration of the situation and development perspectives of the SME sector in Croatia.

1.1. Criteria for definition of the SME sector in Croatia and European Union

Criteria for classification of subjects in the SME sector are defined by the Accounting Act⁶ and the Small Business Development Promotion Act⁷.

In accordance with the **Accounting Act**, entrepreneurs (enterprises) are classified as small, medium and large, depending on the following indicators:

- Value of total assets
- Value of revenues
- 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
- Revenues 65,000,000 HRK
- Average number of employees during business year: 50

Medium entrepreneurs are those that satisfy at least two out of three conditions for small entrepreneurs but don't satisfy two of the following conditions:

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

Large entrepreneurs are those that satisfy at least two conditions from medium entrepreneurs' definition.

According to the **Small Business Development Promotion Act**, SME 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.*

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

- Average number of employees during business year is less than 250;
- Independence in business (meaning that other physical or legal entities individually or jointly possess less than 25% of share in ownership and/or decision rights in small business subject)
- Total annual turnover up to 60,000,000 HRK or balance sum if they are profit tax payers, i.e. long-term assets if they are income tax payers up to 30,000,000 HRK

⁶ Official Gazette, NN 109/07

⁷ Official Gazette, NN 29/02; 63/07

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

- **Micro subjects** of small business are physical and legal entities that annually on average employ less than 10 employees and achieve total annual turnover up to 14,000,000 HRK, i.e. value of long-term assets is less than 7,000,000 HRK;
- **Small subjects** of small business are physical and legal entities that:
 - Annually on average employ less than 50 employees;
 - Achieve total annual turnover up to 54,000,000 HRK or have balance sum if they are profit tax payers, i.e. long-term assets if they are income tax payers up to 27,000,000 HRK;
- **Medium subjects** of small business are physical and legal entities that:
 - Annually on average employ more than 50 and less than 250 employees;
 - Achieve total annual turnover from 54,000,000 HRK up to 216,000,000 HRK or have balance sum if they are profit tax payers, i.e. long-term assets if they are income tax payers from 27,000,000 HRK up to 108,000,000 HRK.

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. Small Business Development Promotion Act is much more harmonized with the number of employees criteria applied by the European Union.

Table 1: Comparison of small business subjects classification criteria

Subject type	Number of employees		Annual income in million EUR		Assets (active/long-term assets) in million EUR	
	EU	Croatia	EU	Croatia	EU	Croatia
Micro	0-9	0-9	2	1,92	2	0,96
Small	10-49	10-49	10	7,40	10	3,70
Medium	50-249	50-249	50	29,59	43	14,79

Sources: Small Business Development Promotion Act (Official gazette NN 29/02; 63/07); exchange rate 1 EUR = 7,3 HRK http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

1.2. Importance of the SME sector in the Croatian economy

The SME sector has a significant share in the Croatian economy, where small and medium enterprises represent 99.5% of the total number of registered business subjects (HGK, 2010). From 2001 to 2010, the number of small and medium enterprises in Croatia has increased by 71%, while the number of large enterprises decreased by 34%:

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

	2001.		2010.	
	Number of subjects	%	Number of subjects	%
SME sector	56.416	99	96.383	99.5
Small enterprises	54.213		95.004	
Medium enterprises	2.203		1.379	
Large enterprises	571	1	375	0,5
Ukupno	56.987	100	96.758	100

Source: "Small Business", Croatian Chamber of Economy, Small Business Sector, 2010

Density of small and medium enterprises is measured by the number of small and medium enterprises per 1,000 inhabitants. In the 2001 to 2010 period, density of small and medium enterprises in Croatia has increased from 12.71 in 2001 to 22.47 in 2010, as the result of an increase in the number of small and medium enterprises and a decrease of population.

Importance of the SME sector in the Croatian economy can be evaluated through application of three basic criteria: share in gross domestic product (GDP), share in employment and share in exports (Table 3).

Table 3: Enterprise size and GDP, employment and exports in 2009 and 2010

Economic criteria for sector evaluation	Veličina poduzeća					
	Small		Medium		Large	
	2009.	2010.	2009.	2010.	2009.	2010.
GDP (in 000 HRK)	206.332.590	199.298.818	118.050.260	109.530.751	285.764.487	289.357.850
GDP (share)	33,8%	33,3%	19,3%	18,3%	46,8%	48,4%
Employment	417.979	415.320	166.916	157.147	300.394	287.341
Employment (share)	47,2%	48,3%	18,9%	18,3%	33,9%	33,4%
Export (in 000 HRK)	15.275.328	18.073.129	17.517.021	18.953.987	48.039.137	53.132.700
Export (share)	18,9%	20,1%	21,7%	21,0%	59,4%	58,9%

Source: FINA

Small and medium enterprises have a significant share in GDP (51.6% in 2010), however, small enterprises have lower financial efficiency than medium and large enterprises (see Table 7).

In 2010 income that Croatian enterprises achieved through exports grew by 11.5% in comparison with 2009 (from 80,831,486,000 HRK in 2009 to 90,159,816,000 HRK in 2010). Small and medium enterprises participated in total exports in 2010 with 41% and large enterprises with 58.9%. In 2010 small enterprises achieved better export results in comparison with 2009 thanks to an 18.3% increase in exports and a 26% decrease in imports.

Employment in the SME sector can be analysed by comparison of the average number of employees in relation to the number of small and medium enterprises (Table 4 and 5).

Table 4: Employee structure in small enterprises in the 2003-2010 period

Year	Number of small enterprises	Number of employees in small enterprises	Average number of employees in small enterprises
2003.	64.698	262.844	4,1
2004.	65.327	268.389	4,1
2005.	67.760	262.797	3,9
2006.	76.588	388.275	5,1
2007.	81.467	410.103	5,0
2008.	87.807	448.803	5,1
2009.	89.438	422.720	4,7
2010.	95.004	415.320	4,4

Source: "Small Business", Croatian Chamber of Economy, Small Business Sector, 2010

Table 5: Employee structure in medium enterprises in the 2003-2010 period

Year	Number of medium enterprises	Number of employees in medium enterprises	Average number of employees in medium enterprises
2003.	2.597	158.971	61,2
2004.	2.692	156.407	58,1
2005.	2.969	159.746	53,8
2006.	1.480	172.345	116,5
2007.	1.590	181.214	114,0
2008.	1.396	170.038	121,8
2009.	1.446	164.515	113,8
2010.	1.379	157.147	114,0

Source: "Small Business", Croatian Chamber of Economy, Small Business Sector, 2010

Average number of employees in small enterprises in the 2003-2010 period varied between 4 and 5 employees while average number of employees in medium enterprises in the same period showed growth of 87% (from average of 61 employees in 2003 up to average of 114 employees in 2010).

International research project on entrepreneurship Global Entrepreneurship Monitor (GEM), in which Croatia is included since 2002, indicates a very low activity level in start-up of new business ventures that is measured by Total Entrepreneurial Activity index (TEA)⁸. With TEA index 3.62 in 2002, 3.73 in 2004, 8.58 in 2006, 7.59 in 2008 and 5.52 in 2010 Croatia is one of the countries with low activity level in new business venture start-up which, additionally hindered by high unemployment rate (17.4% in 2010), doesn't contribute to the resolution of the unemployment problem. In solving the unemployment problem, it is important to observe the role of entrepreneurial activity in new business venture start-up and the share of growing companies⁹ in the economy. In 2010 Croatian GEM research indicates a relatively small share of growing enterprises, which are growing according to new product development criterion: 9.46% of enterprises have products new to everyone, 15.25% of enterprises produce products that are new to some, while 75.29% of enterprises have products that aren't new to anyone.

Despite the small share of growing enterprises, small enterprises are the only segment of the economy that creates new jobs. In the 2001-2010 period employment in small enterprises increased by 68%, while the share of employees in large enterprises in the same period decreased by 21.6% (Table 6).

⁸ 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 and managers in enterprises younger than 42 months) per 100 examinees that are 18-64 years old.

⁹ According to GEM research, enterprises with growth potential are those using new technologies, developing new products, exposing themselves to competition and having new employment capacity.

Table 6: Employment structure regarding enterprise size in 2001 and 2010

Enterprise type	2001.		2010.	
	Number of employees	%	Number of employees	%
Small	247.340	34	415.320	48,3
Medium	161.426	22,2	157.147	18,3
Large	318.467	43,8	287.341	33,4
TOTAL	727.233	100,00	859.808	100,00

Source: Croatian Chamber of Economy, Small Business Sector, 2010

Financial efficiency of Croatian SMEs in 2010 is reduced in comparison with 2009 (Table 7). In 2010 large enterprises have achieved 4,847 billion HRK net profit, medium enterprises 4,025 billion HRK net loss and small enterprises 2,486 billion HRK net loss. Large enterprises have increased their net profit by 311%, and small and medium enterprises have achieved net loss in 2010 after net profit that was achieved in 2009.

Table 7: Financial efficiency of enterprises in 2009 and 2010

Enterprises	2009.		2010.	
	Million HRK	%	Million HRK	%
Small				
Profit	10.453	42.2	10.569	37.5
Loss	9.766	43.7	13.055	43.7
Consolidated result	687		-2.486	
Medium				
Profit	4.695	18.9	4.184	14.8
Loss	4.121	18.4	8.209	27.5
Consolidated result	574		-4.025	
Large				
Profit	9.640	38.9	13.450	47.7
Loss	8.462	37,9	8.603	28.8
Consolidated result	1.178		4.847	
TOTAL				
Profit	24.788	100	28.203	100
Loss	22.349	100	29.866	100
Consolidated result (Profit-Loss)	2.439		-1.663	

Source: FINA

The Croatian SME sector is characterized by big regional differences in activities of new business venture start-up. GEM data regarding the TEA index for 2003 and 2010 show that during that period the region with the lowest activity of new business venture start-up (Slavonia and Baranja 3.90 in 2010) failed to reach the level that region with the biggest activity had 8 years ago (Zagreb 4.30 in 2003).

Table 8: Regional differences in activities of new business venture start-up in 2003 and 2010

REGION*	2003.		2010.	
	TEA	Rank	TEA	Rank
Istria	3,05	2	6,00	2
Zagreb	4,30	1	7,10	1
Dalmatia	2,43	3	5,20	3
Northern Croatia	1,99	4	4,60	4
Lika and Banovina	1,78	5	6,00	2
Slavonia and Baranja	1,00	6	3,90	5

Source: GEM Croatia, 2003-2010; CEPOR – SMEs and Entrepreneurship Policy Center

* For the needs of GEM research Croatian counties were grouped in six regions by criteria of geographical-historical conception of Croatian regional structure:

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 and Sisak-Moslavina County;

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

When we compare regions with the lowest (Slavonia and Baranja) and the highest (Zagreb) activity level in new business venture start-up on the basis of GEM research in 2010, it is possible to notice differences in attitudes of examinees and their intentions of new business venture start-up (Table 9). Most of the examinees in regions Zagreb, Istria and Dalmatia showed intention towards new business venture start-up in the next three years (more than 10%) and they see an opportunity for new business venture start-up in the next six months (more than 20% of examinees).

Table 9: Comparison of regional differences in attitudes towards entrepreneurship in 2010

	Zagreb	Northern Croatia	Slavonia and Baranja	Lika and Banovina	Istria	Dalmatia
Intention of business venture start-up in the next 3 years	10,9%	8,5%	8,3%	2,9%	11,2%	10%
They see an opportunity for business venture start-up in the next 6 months	20,4%	18,6%	14,9%	8,2%	23,3%	25,6%
They have the needed knowledge, skills and experience needed for business venture start-up	51,2%	46,3%	47,3%	47%	53,4%	55,5%
Majority of people see entrepreneurship as a good career choice	60,3%	59%	63,8%	65,2%	59,8%	59,6%
Media have a positive influence on entrepreneurial culture development	34,5%	43,5%	42,5%	31,7%	38,2%	37,3%

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2010

Regional differences in activities of business venture start-up are consistent with differences in unemployment and gross domestic product per capita (Table 10).

Table 10: GDP and unemployment rate in counties and regions 2008 and 2010

Region	GDP per capita (EUR)	Unemployment rate	
	2008.*	2008.	2010.
Istria	12.893	11,24%	15,91%
Zagreb	15.470	7,99%	10,98%
Dalmatia	8.818	22,34%	26,18%
Northern Croatia	8.618	18,58%	24,46%
Lika and Banovina	8.622	27,24%	32,36%
Slavonia and Baranja	7.474	28,37%	34,53%

Source: CBS, Release, February 2011 and Statistical Information 2011

* Data regarding GDP per capita by counties for 2010 hasn't been published. The latest data regarding GDP by counties was published for the year 2008.

Regions with the highest activity level regarding new business venture start-up (Zagreb, Istria) also have the highest GDP per capita and the lowest unemployment rate; while the region with the highest unemployment rate and the lowest value of GDP per capita has the lowest level of activity regarding business venture start-up (Slavonia and Baranja).

1.3. Obstacles to the development of the SME sector in Croatia

Numerous worldwide studies in which Croatia is included¹⁰ identify the main 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 system
- Long ownership registration procedures
- Low focus on entrepreneurial education
- Bad perception of entrepreneurship as a desired career choice
- Underdevelopment of non-formal financing forms in business ventures start-up.

Global Entrepreneurship Monitor - GEM researches the connection between general macroeconomic¹¹ conditions and entrepreneurial¹² conditions framework. Based on results of GEM researches in Croatia 2002-2010 it is possible to identify the main areas within entrepreneurial conditions (out of 9 areas) where there is need for improvement of conditions for entrepreneurial activities, and those are: education, government policies and transfer of results of research and development activities to the small and medium enterprise sector.

GEM research results are confirmed by other international research projects that analyse different aspects of national economies. **Global Competitiveness Report 2011-2012**¹³, which is prepared by the World Economic Forum, positions Croatia, according to results for 2010, in 76th place¹⁴ out of 142 countries. As the most problematic factors for doing business in Croatia Global Competitiveness Report identifies: low efficiency of public administration, corruption, instability of policies, tax rates, restrictive labour legislation, access to financial resources, tax regulations and poor work ethics of national workforce. Research points to entrenchment of key problems that restrict improvement of Croatian competitiveness in the following areas: efficiency of labour and goods markets, macroeconomic stability and institution quality¹⁵.

Transparency International identifies corruption as a significant problem for normal functioning of Croatian economy in its research that measures **Corruption Perceptions Index**¹⁶. In 2010,

¹⁰ Global Entrepreneurship Monitor - GEM, Global Competitiveness Report, Corruption Perceptions Index

¹¹ 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.

¹² Entrepreneurial conditions framework includes availability of financial resources for business venture start-up, government policies and entrepreneurial ventures promotion programs, 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.

¹³ Results are based on perceptive data obtained by research of entrepreneurs' opinions and from publicly available statistical indicators in 2009 and 2010, which were published in 2011. 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.

¹⁴ Croatia is surrounded by Southeast Europe countries: Montenegro in 60th position, Macedonia in 79th position and Albania in 78th position. Croatia records a significant fall in macroeconomic stability (70th), innovativeness (76th) and efficiency of labour (116th) and goods (114th) markets. Improvement wasn't achieved in the area of institution quality (90th) where efficiency of public administration and judiciary has an especially significant place. Advantages on which Croatia bases its competitiveness are technological readiness (38th), infrastructure (39th), health and elementary education (48th) and higher education (56th).

¹⁵ "Croatian competitiveness stagnates", National Competitiveness Council (press release), Zagreb, 2011

¹⁶ Corruption Perceptions Index measures the level of corruption perception in the public sector and among officials in 178

countries worldwide. Research methodology is based on 13 different questionnaires and researches that are implemented by 10 independent institutions among experienced observers (businessmen, analysts and local experts). Out of 178 countries included in the research as much as ¾ have result lower than 5, which shows that corruption is a serious problem worldwide. Croatia is in 62nd place with corruption perceptions index value of 4.1. Slovenia (6.4) has the best result in the surrounding, and Bulgaria (3.6), Serbia (3.5) and Bosnia and Herzegovina (3.2) have lower levels of corruption perceptions index than Croatia. Croatia has been involved in this research since 2009 and the best result was achieved in 2008 with index value of 4.4; www.transparency.hr

Issue of empowerment of women for business venture start-up has special importance for small business development. In Croatia, GEM research in 2010 indicated 1.8 times higher activity in male population than in female population (TEA index for women was 3.91 and 7.15 for men). GEM index indicates lower level of support to female entrepreneurs in Croatia (2.83) compared with the research average (3.13). These differences suggest the existence of obstacles to the development of female entrepreneurship and the need for policy¹⁷ regulations that will remove these obstacles and allow entry of more women into entrepreneurship. Strategy for Development of Women Entrepreneurship (2010) 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 women's entrepreneurial venture capital fund and 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 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.

¹⁷ 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. 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, academy institutions, media and others. The Strategy was adopted by the Croatian Government in 2010.

2. Legislative and institutional framework

Legislative and institutional framework defines:

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

2.1. Distribution of competences for making and implementation of policy decisions¹⁸

In 2010, according to their missions, institutions responsible for the SME sector in Croatia were:

- **Ministry of Economy, Labour and Entrepreneurship** (www.mingorp.hr) which is, through its Small Business Directorate, responsible for policy making, but practice also indicates Ministry's involvement in operational programs;
- **Croatian Bank for Reconstruction and Development - HBOR** (www.hbor.hr) is involved in lending, export insurance against political and commercial risks, issuance of guarantees and business counselling;
- **Croatian Agency for SMEs – HAMAG** (www.hamag.hr) implements Government's policies and approves guarantees for return of loans given by banks to small and medium entrepreneurs;
- **Business Innovation Center of Croatia – BICRO** d.o.o. (www.bicro.hr) – established based on the decision of the Government of the Republic of Croatia as the central institution for development and improvement of innovation and technological system. Its objectives include start-up of new enterprises based on knowledge and advanced technologies, strengthening of competitiveness and growth of innovative enterprises;
- **Croatian Employers' Association** (www.hup.hr) – non-governmental non-profit organisation of employers (enterprises and crafts) organized on voluntary basis. HUP represents an independent voice of employers and entrepreneurs with more than 5,000 members that employ 500,000 employees and generate two thirds of GDP. With regional offices in Rijeka, Osijek and Split, it represents a network of entrepreneurs that covers all the counties of the Republic of Croatia. Through its Small and Medium Entrepreneurs' Association HUP represents the interests of employers and owners in the SME sector;
- **Croatian Chamber of Economy** (www.hgk.hr) – non-profit non-governmental association of all legal entities involved in business activities. Membership in HGK is mandatory and it is comprised of 68,005 business entities, of which 95% are small, 4% medium and just 1% large enterprises. HGK is organized in 20 county chambers and 16 sectors, of which Sector for Industry gives special attention to the development of small and medium entrepreneurship through the work of Small Business Community;

¹⁸ Awareness of the importance of creation of formal institutional and legislative framework in Croatia started to develop in mid-90s. In 1996, within the Ministry of Economy a small office focused on SMEs was founded, goal of which was analysis of issues in operation of SMEs and formulation of policy decisions related to the sector. To identify issues that burdens the SME sector and to promote entrepreneurship and its role in Croatian economy, the first entrepreneurship conference "National Small Enterprise Conference" was organized in 1998 in Pula, which gathered numerous representatives of state and local administration (such as centers for entrepreneurship, business incubators), financial institutions and universities. Government elected in 2000 founded the Ministry for Small and Medium Enterprises. In June 2002, HAMAG was established, which took over the Croatian Guarantee Agency (founded in 1994). Government elected at the end of 2003 assigned jurisdiction for SME sector policies to the MELE, while HAMAG, in accordance with the Small Business Development Promotion Act, implements Government's policies.

- **Croatian Chamber of Crafts** (www.hok.hr) – non-governmental non-profit association of all craftsmen in Croatia. Membership in HOK is mandatory and it has 92,965 members. HOK operates through 20 district chambers, 116 craftsmen associations and 18 sections and guilds;
- **SMEs and Entrepreneurship Policy Center – CEPOR** (www.cepor.hr) non-governmental non-profit association – think tank, represents the only institution in Croatia whose goal is to influence the public-political surrounding by emphasizing the role of entrepreneurship and SMEs in the development of Croatian economy. CEPOR's focus is on creation of stimulating institutional and regulatory framework for entrepreneurial activities.

2.2 National and regional policies and programs

Following is the list of policies and programs relevant for the SME sector in Croatia:

- **Program of measures for simplification of business of small business entities**, from 2010
- Program goals are protection of the market from unfair competition and import of goods of unknown origin, fight against grey economy and improvement of e-business;
- **Strategy for entrepreneurial learning 2010-2014**, from 2010;
- **Strategy for development of women entrepreneurship in Croatia 2010-2013**, from 2010;
- **Guidelines for short-term development of crafts 2011-2012**, from 2010;
- **Guidelines for assistance to entrepreneurs in difficulties**¹⁹ that were adopted by the Government in 2010 as an appendix to its anti-recession plan and the measures for recovery and development of the economy;
- **Program for encouraging Croatia's international competitiveness and internationalisation of economy 2009-2010**, from 2009, whose goal is strengthening of export capacities of Croatian enterprises when they enter international markets, promotion of Croatian economy in international markets and strengthening of cooperation and connection of enterprises with the purpose of joint appearance in foreign markets;
- **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;
- Annual **SME Promotion Operational Plan**, which includes projects, beneficiaries, measures and available incentive funds on the annual level with the aim of implementation of the SME Promotion Programme 2008 – 2012.

¹⁹ The objective of measures is to facilitate and accelerate preparation of quality restructuring plans, as well as approvals and allocations of state aids to entrepreneurs in difficulties in compliance with the provisions of the State Aid Act and Regulation on State Aid. Entrepreneurs in difficulties are awarded state aid in the form of: write off and partial write off of debt towards the state; conversion of state claims into capital shares – recapitalization, or allocation of horizontal support (e.g. for research, development and innovations, professional development, environmental protection and energy saving, promotion of venture capital investments, etc.) if it is proven that they are necessary for implementation of restructuring. Source: "Guidelines for assistance to entrepreneurs in difficulties", Ministry of Finance, Zagreb, 2010, <http://www.mingorp.hr/UserDocImages/smjernice%20gospodarstvo.pdf> (downloaded on November 11, 2011)

Croatian programs and policies must be aligned with the **Small Business Act for Europe** defined by EU in 2008, which reflects the political will of the European Union for recognition of the central role of small and medium enterprises in the EU economy. SBA Fact Sheet²⁰ for Croatia in 2010/2011 shows that Croatia reaches the European Union in two of six areas (for which data were available out of ten in total), and these are *Responsive Administration* and *Skills and innovation*. In eight of ten areas Government of the Republic of Croatia is implementing changes in regulatory framework in order to harmonize it with principles of the *Small Business Act*. In comparison with previous periods Croatian progress in the process of harmonization is visible in almost all policy areas in which Croatia lagged in comparison with the European Union. However, there are areas where progress was minimal, which necessarily demand greater intensity of changes: *Second chance* (speed and cost of bankruptcy), *Think Small First* (pressure of regulatory framework on enterprises) and *Internationalisation* (bureaucracy as obstacle for exporters)²¹.

In 2010 the GEM project identified lack of consistent Government policies focused on issues of small and medium enterprises as one of the biggest weaknesses of the SME sector during all years of implementation of GEM research in Croatia. Lower grade of Government policies (1.96 in 2010) than the grade given to Government programs (2.49 in 2010), as well as in all previous years, only confirms the need for urgent reaction and development of consistent policies focused on the SME sector. Low grades indicate the need for a deeper analysis of efficiency of Government's programs when making decisions on new programs.

²⁰ SBA Fact Sheet represents European Union's annual report that analyses changes in trends in the environment and regulatory framework on the national level for the small and medium enterprise sector. Areas of analysis 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.

²¹ SBA Fact Sheet Croatia 2010/2011, European Commission Enterprise and Industry, 2011

2.3. Regulatory environment

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

- Small Business Development Promotion Act (Official Gazette, NN 29/02, 63/07)
- 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)
- 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)
- Investment Promotion Act (Official Gazette, NN 73/00, 138/06)
- 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)
- Trade Act (Official Gazette, NN 87/08, 96/08, 116/08, 76/09)
- Court Register Act (Official Gazette, NN 1/95, 57/96, 1/98, 30/99, 45/99, 54/05, 40/07, 91/10)
- Act on the National Classification of Economic Activities (Official Gazette, NN 98/94, 58/07)
- Act on Services (Official Gazette, NN 80/11)

Relevant laws regarding investment and business are:

- Free Zones Act (Official Gazette, NN 50A/91, 44/96, 92/05, 85/08)
- Act on Public Private Partnerships (Official Gazette, NN 129/08)
- 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)
- Labour Act (Official Gazette, NN 149/09)
- Consumer Protection Act (Official Gazette, NN 79/07, 125/07, 79/09, 89/09, 133/09)
- Bankruptcy Act (Official Gazette, NN 44/96, 29/99, 129/00, 123/03, 82/06, 116/10)
- Enforcement Act (Official Gazette, NN 139/10)
- Act on Deadlines for Settlement of Financial Obligations (Official Gazette, NN 125/11)

The tax system is governed by the following laws:

- 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)
- 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, 76707, 87/09, 94/09)
- 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)

Main laws governing 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)

International studies (Global Entrepreneurship Monitor, Global Competitiveness Report, Doing Business) identify length and complexity of regulatory proceedings as the main obstacle in business activity start-up. These obstacles are not isolated in their influence because they encourage a domino effect in various spheres of business activities (e.g. growth of corruption). Complex regulatory framework also demands expensive state infrastructure.

World's Bank **Doing Business** research for 2010 provides detailed insight into quality of regulatory environment in 183 countries included in the research, using information on basic activities and transactions in business of start-up entrepreneurs and already established small and medium enterprises. To provide better insight into main regulatory obstacles connected with start-up and implementation of entrepreneurial activity in Croatia, below is an overview of regulatory framework quality indicators (according to World Bank research) that other international researches also evaluate with low grades: regulations for enterprise start-up, payment of taxes, execution of contracts and enterprise termination (bankruptcy, exit from business activity).

Table 11: Overview of selected regulatory framework quality indicators according to Doing Business research for 2010

Regulatory area	Indicator		
	Croatia	Best indicator (country)	EU (average)
Regulations for enterprise start-up			
Number of procedures	6	New Zealand 1	6
Time (days)	7	1	14
Cost (% of income per capita)	8.6	0.4	5.1
Minimum capital (% of income per capita)	13.8	0.0	15.9
Payment of taxes			
Number of payments (per year)	17	Maldives 3	17
Time (hours per year)	196	0	208
Profit tax (% of gross profit)	11,5	0	-
Income tax and contributions (%)	19,4	0	-
Other taxes (%)	1,5	9,3	-
Total tax burden (% of profit)	32,3	9,3	43,4
Execution of contracts			
Number of procedures	38	Luxembourg 26	32
Time (days)	561	321	556
Cost (% of debt)	13.8	9.7	20.6
Bankruptcy			
Time of insolvency (years)	3.1	Japan 0.6	2.0
Cost of insolvency (% of assets)	15.0	4	10
Recovery rate (cents per 1 USD)	29.7	92.7	60.6

Source: Doing Business in 2011, Croatia – Country Profile, International Bank for Reconstruction and Development / World Bank

Doing Business research for 2010 positions Croatia in 57th place regarding the complexity of regulatory framework for enterprise start-up measured by the following criteria: 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 contrast to Croatia, where the registration process lasts 7 days and requires 6 procedures, in Macedonia, which is positioned in 5th place, 3 days and 3 procedures are required for the same thing.

Major tax burdens for businesses in Croatia are: value added tax, income tax, profit tax and surtax (Table 12).

Table 12: Taxes in Croatia

Tax	Tax payer	Tax base	Tax rate
VALUE ADDED TAX	Physical and legal entity (entrepreneur) that delivers goods or performs services	Fee for goods delivered or services performed	0% 10% 23%
INCOME TAX	Physical entity that realizes taxable income	Total income realized by local tax payers in Croatia and abroad and by foreign tax payers in Croatia	12% 25% 40%
PROFIT TAX	Enterprises and other legal and physical entities that are performing activities with the aim of making profit	Profit (difference between income and expenses)	20 %
SURTAX	Tax on income of tax payers	Income tax	Municipality: up to 10% Town with less than 30,000 inhabitants: up to 12% Town with more than 30,000 inhabitants: up to 15% City of Zagreb: up to 30%

Source: General Tax Act and regulations with comments, legal practice, examples and annexes, Institute of Public Finance, 2009

Doing Business research ranks Croatia in 30th place in 2010 in category Paying taxes in which grade of an individual countries is based on the following indicators: number of tax payments per year, time needed for preparation and payment of taxes (measured by number of hours per year), amount of profit tax, income tax and contributions and other taxes, as well as total tax burden. The best grade among European countries in this category was given to Ireland (5th place), with total tax burden of 26.3% and 76 hours needed for tax preparation and payment. Total tax burden of entrepreneurs in Croatia is 32.3%, while the time needed for preparation and payment of taxes is 196 hours per year.

3. Access to financing

The main sources of financial support to the development of small and medium enterprises in Croatia are:

- Banking sector
- Credit unions
- Venture capital funds
- Informal forms of financing (business angels)
- Government incentive programs and subsidized credit lines.

3.1. Banks

Almost all banks offer loans to small and medium enterprises in a wide range of products/services (loans for tourism services, young people, women, new technologies, Croatian war veterans, export, investments, working capital, start-ups...). Based on a review²² and analysis of the offer of financial products designed for small and medium enterprises, in 2010 banks in Croatia offer the following financing conditions:

Long-term loans

Amount: up to 250,000 EUR

Repayment period: up to 25 years (depending on the purpose)

Grace period: up to 24 months

Interest: consensual; 6 - 8.85%

Insurance: 1:1 - 1:1.3

Short-term loans

Amount: from 2,500 EUR

Repayment period: up to 12 months

Interest: consensual

Insurance: guarantors, deposit, life insurance policy

According to the Croatian National Bank's Annual Report,²³ the banking sector has disbursed 274,954.2 million HRK in 2010, out of which 109.234.6 million HRK, or 39.7% of the total amount, was disbursed to companies²⁴. The largest part of total disbursement of loans was directed towards the population (46.2%), while 9.6% of total loans were directed towards state units. Majority of loans given to companies were used for financing working capital and maintaining liquidity.

²² Analysis of the offer of financial products for SMEs was conducted on the basis of offer posted on web pages of the following banks: Zagrebačka banka d.d., Privredna banka Zagreb d.d., Erste&Steiermarkische Bank d.d., Hypo Alpe-Adria-Bank d.d. in December 2011

²³ "Annual report 2010", Croatian National Bank (HNB), Zagreb, 2011, page 70-71.

²⁴ HNB's Annual Report provides information on the total number/value of loans approved to companies, without special display of disbursements according to company size.

3.2. Microfinance and credit unions

Organized by HBOR and CEPOR, the Microfinance Workshop was held in 2010. Analysis of attitudes of workshop's participants collected by a survey²⁵ indicated the following problems of microfinance in Croatia:

- 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%).

Comparison of the model of microfinancing in Croatia with the best international practice developed in the last 3 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. 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.

²⁵ During the Microfinance Workshop (2010) a survey was carried out among participants. Goal of the survey was to gather opinions regarding current application 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.

Table 13: Comparison of microfinance in Croatia and examples of solutions of best international practice in the field of microfinance

	Croatia	Best international practice
Regulation and Supervision	Repressive and conservative, doesn't correspond to the level of risk relative to financial stability and system risk	Proportional and progressive regulation and supervision relative to risks and system risks which are implemented and represented by microfinance institutions
Institutional framework	Limited number of institutions, mostly banks and credit unions with a very limited business range for micro and small enterprises	Activities are permitted to a wide range of institutions to achieve their deep infiltration in financial sector and based on variety of their competitive advantages
Role of microfinance	Marginal, degraded to special and subsidized programs or entirely localized initiatives	Significant in the „cheap” market, they supplement banks and other providers of mainstream financial services
Loan size	More than 200% of GDP per capita	Less than 50% of GDP per capita
Targeted beneficiaries	Small enterprises and to some extent self-employed and micro entrepreneurs	Micro entrepreneurs, self-employed, ambitious entrepreneurs with low income, unemployed
Presence in the market	Neglected	About 3-5% of credit market
Networking (connection with international networks)	Initial contacts with international organizations and donors are lost	Tight cooperation with international networks, investors, implementers and associations with best practices

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

Providers of microfinance services in Croatia are credit unions, which, in accordance with the Credit Unions Act²⁶ have replaced savings and loan cooperatives as a new organisational form. Numerous restrictions have been introduced, which have ultimately resulted in a significant reduction of 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 Report²⁷ only 23 credit unions operated in 2010, with 532.2 million HRK in assets. In 2010, 9 credit unions were in the process of liquidation and one was undergoing bankruptcy proceedings.

²⁶ Official Gazette, NN 141/2006; 25/2009; 090/2011

²⁷ "Annual Report 2010", Croatian National Bank (HNB), Zagreb, 2011, page 93.

According to data of the Croatian Association of Credit Unions (www.hukreditneunije.hr), in 2009 members of the Union²⁸ have approved 4,143 loans in total amount of 88,663,341 HRK, and 4,065 loans in total amount of 82,939,717 HRK in 2010 (Table 14). In 2010 credit unions have approved a smaller number of loans and the total value of loans was 6.5% lower. Average amount of a loan approved by credit unions in Croatia was 21,400 HRK in 2009, and 20,403 HRK in 2010, which confirms the orientation of credit unions towards financing of micro enterprises with loan amounts in which the traditional banking sector is not interested.

Table 14: Loans granted in credit unions – members of the Croatian Association of Credit Unions in 2009 and 2010

Name of credit union	2009.			2010.		
	Number of loans	Loan amount in HRK	Average loan amount in HRK	Number of loans	Loan amount in HRK	Average loan amount in HRK
ABC CU Sisak	694	14.202.039	20.464	636	11.357.000	17.857
CU Apoen Valpovo	678	6.575.000	9.698	755	6.960.968	9.220
CU Deponent Zagreb	319	11.412.445	35.776	245	8.944.287	36.507
CU Dukat Viškovo	197	2.955.000	15.000	215	3.225.000	15.000
GAMA CU Zagreb	894	11.042.000	12.351	929	7.928.000	8.534
CU Kod Sata Sisak	288	2.448.000	8.500	315	2.677.500	8.500
CU Libertina Čakovec	338	8.101.343	23.969	329	9.772.441	29.704
CU NOA Osijek	154	6.569.315	42.658	131	4.988.513	38.080
Zagorska CU Zabok	581	25.358.199	43.646	510	27.086.008	53.110
Total	4.143	88.663.341	21.401	4.065	82.939.717	20.403

Source: Croatian Association of Credit Unions

28 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

3.3. Venture capital funds²⁹

Venture capital funds have invested 13 million EUR³⁰ in Croatia in 2010, which is, measured by share in GDP, one third of the European average. In 2010, Croatian Private Equity and Venture Capital Association³¹ – CVCA (www.cvca.hr) organized the second Private Equity Conference in Southeast Europe “VentureXchange” under patronage of the Government of the Republic of Croatia, European Bank for Reconstruction and Development (EBRD), European Investment Fund (EIF) and other partners. On Government’s initiative, establishment of Funds for Economic Cooperation was announced during the conference, through which the Government commits to invest 1 billion HRK in Croatian economy during the next 5 years, and private partners, founders of venture capital funds an additional 1 billion HRK. By establishing Funds for Economic Cooperation, state plans to recapitalize investments of private investors with amounts between 75 and 300 million HRK per fund. This type of financing is not oriented towards small enterprises because of several reasons³²:

- 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 to a maximum of 10 projects.

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), Alternative Private Equity d.o.o. (www.alternative-pe.hr), Nexus Private Equity Partners d.o.o. (www.nexus-pe.hr), Prosperus-Invest d.o.o. (www.prosperus-invest.hr), Honestas Private Equity Partners (www.honestas-pe.hr).

29 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 corporative managing and investment of private capital with satisfactory financial returns. Fund’s development component was derived from the structure of investors: USAID, Norwegian and Finish 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.

30 Source: Croatian Private Equity and Venture Capital Association

31 Croatian Private Equity and Venture Capital Association – HVCA operates since 2005 and since 2008 is an honorary member of the European Private Equity and Venture Capital Association (EVCA).

32 www.cvca.hr

3.4. Business angels

CRANE (CRoatian Angel Network) - Croatian Association of Business Angels (www.crane.hr) is a non-profit association, which connects entrepreneurs that need capital for their business ventures (mostly start-ups) and business angels³³ - 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 15), which indicates poor development of this type of financing of business ventures in Croatia.

Table 15: CRANE – Croatian Association of Business Angels – investments in the 2008-2010 period

	Number of projects/ investments	Amount (HRK)	Average (HRK)
2008.	1	1.800 000	1.800.000
2009.	3	1.029 000	343.000
2010.	2	1.131 500	565.750
TOTAL	6	3.960.500	660.083

Source: CRANE, 2011

3.5. Government incentive programs and subsidized credit lines

Government of the Republic of Croatia implements numerous measures – indirectly³⁴ through promotion of investments and directly through loan programs, purpose of which is promotion of small business development. Government's measures are part of the **SME Promotion Programme 2008-2012**, 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. Annual operational plans for promotion of small business development are implementing acts of the SME Promotion Programme 2008-2012. Based on the **SME Promotion Operational Plan** for 2010, Ministry of Economy, Labour and Entrepreneurship has approved aids in total amount of 253,564,217 HRK. Aids were awarded within the following projects: Strengthening (international) competitiveness; Innovation; Women entrepreneurship; Gazelles; Entrepreneurship of young people, start-ups and disabled people; Entrepreneurship in culture; Cooperative entrepreneurship; Clusters; Construction of entrepreneurial zones; Entrepreneurial support institutions; Education for entrepreneurship; Additional training and retraining in crafts; Development of traditional and art crafts; Promotion of entrepreneurship;

³³ 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.

³⁴ Investment Promotion Act has been in force since the start of 2007 and it regulates promotion of investments by domestic and foreign legal and physical entities that perform economic activities and participate in trade of goods and services. Incentive measures and benefits can be used by companies for investments in minimum amount of 300,000 EUR for start-up of a new company, expansion of an existing company or start of an activity which marks a fundamental change in product or production process. Export and Investment Promotion Agency (APIU) operated based on the Investment Promotion Act, but it was terminated in 2010.

Croatian export offensive and Internationalisation of Croatian economy.

Table 16: Realization of projects through implementation of MELE aid projects in 2010

	Number of awarded aids	Amount of awarded aids (HRK)
COMPETITIVENESS AND INNOVATION		
Strengthening small business competitiveness	720	61.601.000
Competitiveness through innovation	144	7.000.000
Gazelles	50	18.200.000
Women entrepreneurship	1.001	10.540.000
Entrepreneurship of young people, start-ups and disabled people	497	4.994.000
Entrepreneurship in culture	136	4.000.000
Clusters	54	4.900.000
Cooperative entrepreneurship	42	3.500.000
ENTREPRENEURIAL INFRASTRUCTURE		
Construction of entrepreneurial zones	138	80.997.487
Entrepreneurial support institutions	42	4.603.000
EDUCATION FOR ENTREPRENEURSHIP		
Education for entrepreneurship	154	4.422.800
CRAFTSMANSHIP		
Education in crafts	364	8.008.007
Additional training and retraining in crafts	1.295	2.513.795
Development of crafts	238	5.738.000
PROMOTION OF ENTREPRENEURSHIP		
Promotion of entrepreneurship	46	1.656.300
PROMOTION OF INTERNATIONAL COMPETITIVENESS AND INTERNATIONALIZATION		
Croatian export offensive	0	0
Internationalization of Croatian economy	53	3.847.400
Strengthening international competitiveness	115	26.753.429
TOTAL:	5.089	253.564.217

Source: MELE, Register of State Aids, 2011

Ministry of Economy, Labour and Entrepreneurship has developed the **Program for encouraging international competitiveness and internationalisation of economy of the Republic of Croatia 2009–2010** with the objective of strengthening export capacities of Croatian enterprises, increasing employment, strengthening competitive abilities of Croatian enterprises when entering the international market, stronger promotion of Croatian economy in international markets and strengthening of mutual cooperation and enterprise connections with the purpose of joint appearance in foreign markets. Through this Program in 2009 and 2010 export-oriented enterprises were able to use measures that co-financed activities connected with easier entry to foreign markets (marketing activities, development of new products for new markets and preparation of production for export). Based on the Program, 70.87 million HRK from the state budget was given to business entities in 2009 and 2010, and those funds were used by more than one thousand enterprises for their activities in processes of strengthening international competitiveness and internationalization of their business.

In 2010 Ministry of Economy, Labour and Entrepreneurship, through the **“Local projects for small business development”** credit line, has disbursed 24.5% of the available funds by counties (1,407,000,000.00 HRK), i.e. it awarded 241 aids in the total amount of 344,258,106.75 HRK. The average aid amount was 142,845.68 HRK. Through the **“Local development projects – microcrediting”** credit line, from the planned 89,500,000 HRK, 10.1% were disbursed by counties, i.e. 71 loan with the total value of 9,011,949.13 HRK. The average value of loan disbursed through the “Local development projects – microcrediting” credit line was 126,928.86 HRK.

Besides the already mentioned MELE projects, small and medium enterprises have the possibility to apply for projects financed by other ministries (Table 17). Financing programs of individual ministries are focused on encouraging the development of entrepreneurship, closely connected with individual scope of work of each individual ministry.

Table 17: Realization of Government projects of SME financing by ministries in 2010

Ministry	Project name	Number of projects	Average aid value (HRK)	Total value of aids (HRK)
Ministry of Science, Education and Sport	RAZUM, TECHCRO, IRCRO, EUREKA (BICRO)	52	3.424.629,19	178.083.993,65
Ministry of Regional Development, Forestry and Water Management	Encouraging the development and sustainability of Croatian wood processing industry and furniture production; Project of social and economic recovery (PSGO) of areas of special state care	382	473.774,48	180.981.851,23
Ministry of Family, Veterans' Affairs and Intergenerational Solidarity	Measures of professional training, self-employment, aids for expansion of existing business, encouraging establishment and development of veterans' cooperatives and small business crediting	714	29.561,68	21.107.035,96
Ministry of Tourism	Rural tourism development; Croatian souvenir; Green groove; Restoration, protection and inclusion of heritage in tourism; Manifestations and promotional activities; Tourism without obstacles; Blue groove; Hotel and hospitality industry, Incentive for success and Meet Croatia	758	72.171,92	54.706.313,00
Ministry of the Sea, Transport and Infrastructure	De minimis state aid to employers on islands for preservation of workplaces	183	36.778,87	6.730.534,08

Source: web pages of Ministry of Science, Education and Sport; Ministry of Regional Development, Forestry and Water Management; Ministry of Family, Veterans' Affairs and Intergenerational Solidarity; Ministry of Tourism and Ministry of the Sea, Transport and Infrastructure

Croatian Bank for Reconstruction and Development (HBOR)

Financing of SMEs is also conducted with subsidised credit lines given by the Croatian Bank for Reconstruction and Development (HBOR). HBOR approves loans for small and medium entrepreneurs for the following programs: loans for SMEs in special state care areas, on islands and for agriculture; loans for SMEs for start-up and development of entrepreneurship; loans for SMEs for tourism; loans for SMEs for financial restructuring; loans for SMEs for export and loans for SMEs for working capital. Table 18 gives an overview of the number and the total value of loans granted in 2009 and 2010 by

individual programs. In 2009 the average amount of granted loans was 3,007,196 HRK, while in 2010 it was 2,334,186 HRK, which is a significant difference in comparison with the average amount of loans granted to small enterprises by credit unions (21,400 HRK in 2009 and 20,403 HRK in 2010).

Table 18: Overview of loans granted to SMEs through HBOR crediting programs in 2009 and 2010

HBOR crediting programs	2009.			2010.		
	Number of loans granted	Total value (HRK)	Average value (HRK)	Number of loans granted	Total value (HRK)	Average value (HRK)
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
Loans for SMEs for start-up and development of entrepreneurship	126	537.815.327	4.268.376	207	352.549.304	1.703.137
Loans for SMEs for tourism	42	251.185.055	5.980.597	45	183.461.314	4.076.918
Loans for SMEs for financial restructuring	5	52.305.885	10.461.177	13	132.644.514	10.203.424
Loans for SMEs for export	314	1.249.085.253	3.977.979	288	1.251.293.623	4.344.770
Loans for SMEs for working capital	345	514.338.216	1.490.835	660	909.371.207	1.377.835
TOTAL	977	2.938.030.147	3.007.196	1.343	3.134.811.715	2.334.186

Source: HBOR – Croatian Bank for Reconstruction and Development, 2011

In September 2010 HBOR has concluded framework loan agreements with seven business banks³⁵ that will participate in the implementation of Loan programme for the development of SMEs with support of the EU. The basis for conclusion of these contracts is the Loan Agreement in the amount of 20 million EUR that HBOR has concluded with German development bank Kreditanstalt für Wiederaufbau (KfW).

This credit line is implemented by HBOR with the aim of financing micro, small and medium entrepreneurs for the purpose of self-employment, establishment of crafts and companies, modernization and expansion of already existing business and increasing the number of jobs. The

³⁵ Banco Popolare Croatia, Centar banka, Hrvatska poštanska banka, Hypo Alpe-Adria Bank, Istarska kreditna banka Umag, OTP banka Hrvatska and Partner banka

program is intended for financing of fixed and/or current assets and two types of loans are approved within the program. Micro credits are approved in value of up to 30,000 EUR, which can be entirely used for investments in fixed and/or current assets. The grace period is up to 1 year and the repayment period up to 7 years, including the grace period. The second type of loan is investment loan, which is approved in value of up to 250,000 EUR and it is used for financing of fixed assets. Current assets in this case can be approved in the amount of up to 30% of the total value of investment in fixed assets financed by this loan. The grace period is 2 years and the repayment period up to 10 years, including the grace period. Interest rate for the final beneficiary is determined by the business bank depending on client's quality and offered insurance instruments.

Croatian Agency for SMEs (HAMAG)

Croatian Agency for SMEs (HAMAG) issues guarantees for repayment of loans that banks approve to small and medium entrepreneurs. Depending on the program, the maximum amount can be up to 80% of the loan principal and the maximum amount of a loan that HAMAG will guarantee for is 15,000,000.00 HRK. Table 19 shows the number of guarantees issued by HAMAG in the 2008-2010 period, the value of issued guarantees and the value of total investments:

Table 19: Statistics of guarantees issued by HAMAG and value of investments covered by guarantees from 2008 to 2010

	2008.	2009.	2010.
Number of guarantees issued	180	106	133
Value of issued guarantees (HRK)	198.182.356,00	137.433.395,00	178.157.658,00
Value of total investments (HRK)	714.020.883,00	621.726.306,00	638.421.410,00

Source: HAMAG – Croatian Agency for SMEs, 2011

According to GEM research (from 2002 to 2010), availability of credit lines was not identified as a significant obstacle to the development of entrepreneurship. Noticed were small and medium enterprises' focus on traditional financing sources (bank loans) and low focus on and limited offer of non-traditional financing sources (e.g. venture capital funds and business angels).

Table 20: Perception of availability of non-traditional financing sources in 2010

	Grade 5 shows:	Average	Croatia
Financijska podrška	There are enough equity funds, debt financing, government subsidies, private investors, venture capital funds; availability of IPO	2,39	2,42 (u 2008.g.: 2,78)

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2010 (2008)

It is important to notice that perception of availability of non-traditional financing sources exceeds the average of countries included in the GEM research (2.42 in Croatia in relation to average of GEM countries – 2.39). However, such a high grade is not the consequence of activity of venture capital funds, business angels or IPO availability as support to the development of small and medium enterprises in Croatia.

Results of both GEM and Global Competitiveness Report outline the problem of difficult access to financing sources, lack of adequate guarantee schemes and the inefficiency of the judicial system. The World Bank also confirms this, using the following indicators (Table 21):

- Credit market: legal rights and credit information
- Registering property: ownership transfer regulation
- Protecting investors: corporate management.

Table 21: Overview of regulatory environment quality indicators related to credits market according to Doing Business research 2010

Regulatory area	Indicator		
	Croatia	Best indicator (country)	EU (average)
Credit market			
Strength of legal rights index (0-10)	6	United Kingdom 10	7
Depth of credit information index (0-6)	5	6	4
Public registry coverage (% of adults)	0	0	16.8
		Malaysia South African Republic	50
Registering property			
Number of procedures	5	Saudi Arabia ²	5
Time (days)	104	2	32
Cost (% of property value)	5.0	0.0	4.8
		Georgia	
Protecting investors			
Extent of disclosure index (0-10)	1	New Zealand 10	6

The index moves in the range of 0-10 where the highest value indicates a high level of corporate management transparency, and it includes 5 aspects of corporate management transparency.

Source: Doing Business 2011, Croatia – Country Profile, International Bank for Reconstruction and Development /World Bank

The credit market in Doing Business research is analysed using the following criteria: strength of legal rights index, depth of credit information index and public registry coverage. According to this criterion, World Bank in 2010 research positioned Croatia in 64th place. In the range from 0 to 10, grade 6 was given for creditors and debtors interests protection through legislative framework and grade 5 was given (in the range 0-6) for credit information depth. In the UK, which is ranked 1st in the areas of credit market, creditors and debtors interests are completely protected with quality legislative framework (grade 10), with a high level of transparency of credit information (grade 6).

4. Access to information and advisory services

Access to information and advisory services is one of the prerequisites for entrepreneurship development. GEM research in Croatia indicates somewhat better perception of quality of professional infrastructure support for the small and medium enterprise sector development in 2010 compared to 2008. However, in relation with the average grade of commercial and professional infrastructure in other GEM countries, Croatia has a somewhat lower grade.

Table 22: Perception of commercial and professional infrastructure for support of the small and medium enterprise sector development in 2010

	Grade 5 shows:	Average	Croatia
Commercial and professional infrastructure	Consultant, professional legal and accounting services exist; enterprises can afford it, they are on the high quality level	2,95	2.83 (u 2008.g.: 2.74)

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2010 (2008)

This change in perception can be explained as the result of Government's intense efforts to improve access to information and advisory services by establishing and co-financing activities of business support institutions (regional development centers, centers for entrepreneurship, business incubators and business zones). 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 cooperate³⁶. 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.

The most important institutions focused on SME development support in Croatia are:

Croatian Chamber of Economy (HGK)

HGK 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.

Croatian Chamber of Crafts (HOK)

HOK'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 HOK's statute.

³⁶ 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

Croatian Employers' Association (HUP)

HUP 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 different needs of entrepreneurs for expert knowledge and skills are satisfied: promotion of entrepreneurs, provision of information about possibilities of enterprise start-up and incentive measures, provision of advice on the conduct of business, help in preparation of business plans, provision of consultant services, organization of seminars and other forms of additional education for entrepreneurs, referring entrepreneurs to other specialised forms of assistance, cooperation with local and regional administration, managing part of professional activities of local administration in implementation of development programs, networking of entrepreneurs and other professional and advisory services. Centers for entrepreneurship operate as part of county/city administration, as independent enterprises or as associations i.e., nongovernmental organisations. Centers are financed from local budgets, donations of international organisations, European Union projects, MELE aids and own sources of financing. Over the years of work some of the centers for entrepreneurship have developed into regional development agencies, such as Regional Development Agency (REDEA) which emerged from the Center for Entrepreneurship Čakovec. Currently, there are over 50 centers for entrepreneurship in Croatia³⁷.

Business incubators

Business incubators gather entrepreneurs who 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 based on innovation and entrepreneurial projects, increasing the number of enterprises that survive in the market, reduction of the probability of start-up failure for enterprises, provision of business, technical, educational and other services to incubator's clients and SMEs and promotion of commercialization of scientific research. There are about 30 active incubators³⁸ in Croatia. Incubators, same as centers for entrepreneurship, are funded from local budgets, donations of international organisations, European Union projects, MELE funds and own sources of financing.

37 CEPOR, Map of institutional support of entrepreneurship development – Centers for entrepreneurship, www.cepor.hr

38 CEPOR, Map of institutional support of entrepreneurship development – Business incubators, www.cepor.hr

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 and Business Park Zagreb.

Technology Parks connect experts and entrepreneurs who want to achieve their business goals based on new technologies. Technology park is, by definition, systematically organized, equipped with infrastructure and provides various benefits and services within an environmentally regulated area. 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 mainly in the vicinity of higher education institutions and research centers, i.e. important economical – technological systems, and they attract both top experts and young talents. Technology park is also a kind of incubator, in which concentration of knowledge, high technology, education and connection with national and international education institutions is ensured. Technology Parks³⁹ in Croatia are: Technology Park Čakovec, Technology Park Varaždin, Technology Park Zagreb, CTT – Center for Technology Transfer Zagreb and Technology Park Kutina.

Entrepreneurial zones

Entrepreneurial zones promote development of SMEs 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 zones⁴⁰ in Croatia.

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. The purpose of development agencies is to promote and develop economic activities, especially technological development, increase of competitiveness, that is, activities for improvement of adaptation of enterprises to international markets and increase of exports, promotion of foreign investments etc., in accordance with adopted plans and strategies. There are 20 development agencies⁴¹ in Croatia, some of which are regional agencies, such as Regional Development Agency REDEA from Čakovec, Istrian Development Agency – IDA, Agency North – DAN, Regional Development Agency of Slavonia and Baranja, etc.

39 CEPOR, Map of institutional support of entrepreneurship development – Technology parks, www.cepor.hr

40 CEPOR, Map of institutional support of entrepreneurship development – Entrepreneurial zones, www.cepor.hr

41 CEPOR, Map of institutional support of entrepreneurship development – Development agencies, www.cepor.hr

European Enterprise Network (EEN)

The goal of European Enterprise Network (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: EU27, Norway, Iceland, candidate countries (Croatia, Turkey, Macedonia), Switzerland, third countries (Armenia, Chile, Russia), and connects over 4,000 experts in the field of entrepreneurship, innovation and technology transfer with the purpose of promotion of competitiveness and innovation on local and European level, and further.

5. Education for entrepreneurship

European Union defines 8 crucial lifelong competences⁴² which are an important precondition for personal fulfilment and individual development, role of active citizen in society, social inclusion and employability: ability to communicate in the mother tongue, ability to communicate in foreign languages, understanding and utilisation of knowledge in mathematics, science and technology, ability to use digital technology, ability to learn, social and civic skills in multicultural environment, **entrepreneurship** and 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, which 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 the 2010-2014 period implies implementation of following measures⁴³:

- 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.

In contrast to 2002 when Croatia was first included in GEM research, when it was rated below the GEM average (1.63 compared with 2.06 as the average value of GEM countries) in the field of education and training (for entrepreneurship) at primary and secondary education level, according to 2010 results, Croatia has above-average values (2.11) in relation to other GEM countries (1.97). However, at the tertiary education level Croatia had below-average results both in 2002 and 2010 (Table 23).

⁴² Key Competences for Lifelong Learning – European Reference Framework, European Communities, 2007, http://ec.europa.eu/dgs/education_culture/publ/pdf/ll-learning/keycomp_en.pdf (downloaded on 6.11.2011)

⁴³ National Strategy for Entrepreneurial Learning, Government of the Republic of Croatia, MELE, Zagreb, 2010

Table 23: Perception of quality of education supporting SME development in 2010

	Rate 5 shows:	Average	Croatia
Education and training – (primary and secondary education level)	Primary and secondary education level encourages creativity, independence and proactivity; it gives information about market principles and puts emphasis on entrepreneurship	1.97	2.11 (2.17 in 2008)
Education and training – (tertiary education level)	There are enough university courses about entrepreneurship; business education is at the global level; vocational, professional and continuous education give a good basis for self-employment	2.83	2.76 (2.79 in 2008)

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2010 (2008)

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

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 schools⁴⁴. In 2003, Ministry of Science, Education and Sport began to systematically promote spreading the idea of training firm, by joining the ECO NET⁴⁵ 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 schools⁴⁶. 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) and it maintains the register of all training firms in Croatia. The first entrepreneurial programs at the tertiary level of education were started in 2000 at the J.J. Strossmayer University of Osijek, Faculty of Economics, at the

⁴⁴ From 2000 to 2006 Norwegian non-profit organisation Business Innovation Program (BIP) in cooperation with the Center for Entrepreneurship in Osijek conducted the tender for the best business plan among pupils of 5 high schools. The program was funded by the Norwegian Development Agency (NORAD).

⁴⁵ Project ECO NET (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.

⁴⁶ The following secondary schools were included in the pilot project: 1st Economy School Zagreb, 2nd Economy School Zagreb, Economy School Velika Gorica and Economy and Administration School Bjelovar. Besides teachers from the 4 pilot schools, the target group of various professional vocal conferences were teachers from 20 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, page 8

postgraduate level⁴⁷ (www.pspefos.hr) and at the Vern Polytechnic in Zagreb (www.vern.hr). Table 24 gives an overview of entrepreneurial programs at undergraduate, graduate and postgraduate levels of education at Croatian universities while Table 25 gives an overview of entrepreneurial programs at polytechnics and academies.

Table 24: Representation of entrepreneurial programs at Croatian Universities

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

Source: Web pages of universities in Croatia, December, 2011

⁴⁷ 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 25: Representation of entrepreneurial programs at Croatian polytechnics and academies

Polytechnics/Academy	Study	Location
VERN Polytechnics	Undergraduate Study Entrepreneurial Economics *** Specialist Graduate Study Entrepreneurial Management	Zagreb
Polytechnic of Rijeka	Entrepreneurship	Rijeka Pula Pazin
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	Entrepreneurial Economics	Zagreb

Source: Web pages of polytechnics and academies in Croatia, November, 2011

There are numerous institutions outside the system of formal education that offer education for entrepreneur beginners and/or already operational enterprises, such as centers for entrepreneurship, Croatian Chamber of Economy, Croatian Bank for Reconstruction and Development, Croatian Employers' Association and private enterprises which are active in the sector of adult education. Education for Entrepreneurship is one of the projects in MELE grant scheme⁴⁸ and in 2010 they awarded 154 aids in total value of 4,422,800 HRK.

⁴⁸ Within the Education for Entrepreneurship project, aids are awarded for following project activities:

Project activity 1: Education of entrepreneurs beginners, growing and developing entrepreneurs, craftsmen and entrepreneurs in cooperatives;

Project activity 2: Education for entrepreneurship in preschool institutions, primary and secondary schools;

Project activity 3: Academic entrepreneurship – knowledge for the economy with the aim of promotion of entrepreneurial education at higher education institutions by co-financing specialist graduate professional studies and postgraduate specialist studies, doctoral dissertations of special importance for the SME sector, interdisciplinary projects in function of entrepreneurship, as well as student business incubators;

Project activity 4: Implementation of project activity "Student cooperative and student enterprise" with the purpose of co-financing student cooperatives and student enterprises in primary and secondary schools, which introduce pupils to entrepreneurship with their specialized programs, coordination activities for establishment of the information system of SUVT (Central Office for Training Firms);

Project activity 5: Promotion of youth entrepreneurship, entrepreneurship against poverty in creation of existence in sparsely populated areas.

6. Conclusion

SME Report for Croatia 2011 shows the situation in the SME sector in 2010 with a special emphasis on institutional and legislative framework; access to financing; access to information and advisory services, and education for entrepreneurship. The need for this kind of annual report is confirmed by a multitude of fragmented information on small and medium enterprises, which hinder the completeness of insight into problems development tendencies of this important sector of the economy.

Since there is a high level of consensus on problems, causes and recommendations connected with the situation in the small and medium enterprise sector in Croatia, which arises from information and various international studies, political will and coordinated activity of all the relevant actors in Croatia is required to eliminate obstacles as soon as possible and to create a vibrant sector which will be the leading strength in the development of innovation, creation of employment and increase of national prosperity.

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:

Current situation in the SME sector

The role of SMEs in the Croatian economy is undisputed: SMEs are the biggest employer in Croatia (66.6% of total employment), they significantly contribute to the GDP (51.6%) and to exports (41.1%). In the 10-year period, 2001-2010, the number of SMEs in Croatia has increased by 71%, while in the same period the number of large enterprises has decreased by 34%. Nevertheless, there is significant potential for bigger contribution of the SME sector to exports, creation of new values, and significant potential to increase the productivity of the sector. Regional differences in entrepreneurial activity in Croatia are very clear and consistent with differences in unemployment and GDP per capita.

Legislative and institutional framework

Regulatory environment in Croatia cannot be rated as favourable for the development of small and medium enterprises. International reports identify complexity of regulatory procedures as the main obstacle in start-up and implementation of business activities. Complex regulatory framework also demands expensive state infrastructure. Identified obstacles are not isolated in their influence; they reflect negatively in various spheres of business activities (e.g. growth of corruption). Government should implement regular evaluation of the effects of regulatory framework on the environment in which small and medium enterprises operate, using the cost-benefit analysis, especially during implementation of new legislation, in accordance with the Think Small First principle, adopted by the EU.

High involvement of the Ministry of Economy, Labour and Entrepreneurship in operational programs is evident, although those activities should be transferred to implementation agencies and institutions. There is a strong network of institutions in Croatia, but the effects are not recognizable because programs are not evaluated. There are several organizations in Croatia whose role in the development of policies related to the SME sector should be more visible and more pronounced: HUP, HGK, HOK and CEPOR.

Access to financing

SMEs' access to financing is limited, which is not only a consequence of the financial crisis, but of systematic problem of the financial sector in Croatia, which is almost exclusively based on traditional, banking products. Venture capital funds and business angels are still not recognized as important sources of financing for small and medium enterprises in Croatia. Inclusion of Government in providing access to financing for SMEs in Croatia is characterized by: (1) insufficient coordination between SME crediting programs of state institutions and HBOR; (2) 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; (3) operational involvement of MELE in implementation of financing programs represents a distraction from the Ministry's primary role – focusing on policy and regulatory aspects of the SME sector.

Access to information and advisory services

Access to information and advisory services for SMEs is enabled through a network of numerous business support institutions (regional development agencies, centers for entrepreneurship, business incubators, and business zones). The criteria for awarding grants direct entrepreneurial support institutions towards implementation of the same programs, which affects the unified offer of education and advisory services for SMEs. In order to further improve access to 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.

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 MELE through its project Education for Entrepreneurship.

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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 Medimurje – Čakovec, IDA Istrian Development Agency – Pula, Center for Entrepreneurship Osijek, Open Society Institute Croatia and UHIPPP 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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