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CEPOR
Centar za politiku razvoja malih i srednjih
poduzeća i poduzetništva
SMEs and Entrepreneurship Policy Center

Small and Medium Enterprises Report – Croatia 2014.

*including the results of
GEM – Global Entrepreneurship Monitor research
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Contents

List of tables	5
List of figures	6
Introduction	7
1. Macroeconomic environment in Croatia	9
2. Situation in the small and medium enterprise sector in Croatia	12
2.1. Criteria for definition of small and medium enterprises in Croatia	12
2.2. Importance of the small and medium enterprise sector in the Croatian economy	13
2.3. Dynamics of development of the small and medium enterprise sector	24
2.4. Regional aspect of the importance of the small and medium enterprise sector	25
3. Encouraging the development of women entrepreneurship	28
4. Environment of the small and medium enterprise sector in Croatia	34
4.1. Legislative and institutional framework	34
4.1.1. Distribution of competences for making and implementation of policy decisions	34
4.1.2. National and regional policies and programs	35
4.1.3. Regulatory environment	37
4.2. Obstacles to the development of small and medium enterprises through the prism of international research	40
5. Access to financing	43
5.1. Banks	45
5.2. Microfinance and credit unions	50
5.3. Venture capital funds	52
5.4. Business angels	54
5.5. Government incentive programs and subsidized credit lines	55
6. Education for entrepreneurship	63
7. Access to information and advisory services	68
8. Croatia as a member of the European Union	77
Conclusion	84
Literature	87

List of tables

Table 1	Croatia – basic macroeconomic indicators in the period from 2008 to 2013
Table 2	Real growth rate of GDP, unemployment and the share of exports in total exports of the EU in selected reference European Union member states in 2012 and 2013
Table 3	Criteria of classification of small business entities
Table 4	Enterprise structure with regard to enterprise size in 2001, 2012 and 2013
Table 5	Enterprise size and total income, employment and exports in 2012 and 2013
Table 6	Employee structure with regard to enterprise size in 2001, 2012 and 2013
Table 7	Employee structure in small enterprises in the period from 2008 to 2013
Table 8	Employee structure in medium enterprises in the period from 2008 to 2013
Table 9	Entrepreneurial activity in Croatia, measured by the TEA index
Table 10	Growing enterprises in Croatia, according to the new product development criterion
Table 11	Results of The Global Innovation Index for 2013 and 2014 – Croatia and reference countries
Table 12	Gross domestic expenditure on research and development – Croatia, 2010, 2011 and 2012 (in thousand HRK)
Table 13	Financial efficiency of enterprises in 2012 and 2013
Table 14	Change in the number of enterprises 2002–2013 / Enterprise survival rate
Table 15	Number of established enterprises in 2012 and 2013
Table 16	Regional differences in business venture start-up activity in 2011, 2012 and 2013
Table 17	GDP and unemployment rate in counties and regions
Table 18	Comparison of regional differences in attitudes towards entrepreneurship in 2012 and 2013, as a percentage (%) of surveyed population – GEM
Table 19	Difference in business venture start-up activity by women and men in Croatia in 2010, 2011, 2012 and 2013
Table 20	Perception of support for women in starting a business venture in 2010, 2011, 2012 and 2013
Table 21	Strategic objectives and measures of implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020
Table 22	Grants awarded to women entrepreneurs through Entrepreneurial Impulse, 2010 – 2013
Table 23	Loans approved under the HBOR's program "Women Entrepreneurs", 2011–2013
Table 24	Evaluation of government policies in 2012 and 2013
Table 25	Overview of selected indicators of quality of the regulatory environment according to the Doing Business study for 2014
Table 26	Taxes in Croatia

Table 27	Results of the Global Competitiveness Report 2014–2015 – Croatia and reference countries
Table 28	Perception of availability of non-traditional sources of financing in 2012 and 2013
Table 29	Overview of indicators of quality of the regulatory environment from the Doing Business study, related to the loan market for 2014
Table 30	Loan offer for small and medium enterprises – Erste&Steiermärkische Bank d.d., Zagrebačka banka d.d. and Privredna banka Zagreb d.d.
Table 31	Loans granted by credit unions – members of the Croatian Association of Credit Unions in 2011, 2012 and 2013 (HRK)
Table 32	CRANE Croatian Business Angels Network – investments from 2008 to 2013
Table 33	Grants approved from the Entrepreneurial Impulse 2013 program, Ministry of Entrepreneurship and Crafts
Table 34	Overview of loans granted to small and medium enterprises by HBOR in 2012 and 2013, by loan groups
Table 35	Statistics of guarantees issued by HAMAG INVEST and amount of investments covered by guarantees in 2011, 2012 and 2013
Table 36	Projects funded by BICRO programs in 2013
Table 37	Perception of quality of education for entrepreneurial activity in 2012 and 2013 (grades ranging from 1 to 5)
Table 38	List of universities in Croatia with entrepreneurship programs at undergraduate, graduate and / or postgraduate levels of study
Table 39	List of polytechnics in Croatia with entrepreneurship programs at undergraduate and / or graduate levels of study
Table 40	List of colleges in Croatia with entrepreneurship programs at undergraduate and / or graduate levels of study
Table 41	Perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in 2012 and 2013 – grades ranging from 1 to 5
Table 42	Financial allocation of available IPA funds by programs, for the period 2007–2013, in million EUR
Table 43	Financial overview of the IPA pre-accession program 2007–2013 for the Republic of Croatia
Table 44	Allocations for Croatia within the Cohesion Policy for the period of 2014–2020

List of figures

Figure 1	Total income by enterprise size in 2013
Figure 2	Employment by enterprise size in 2013
Figure 3	Exports by enterprise size in 2013

Introduction

Micro, small and medium enterprises (SME)¹ represent over 99% of all enterprises in the European Union. In 2013, 100,841 micro, small and medium enterprises (99.7% of the total number of registered enterprises) operated in Croatia, which achieved a share of 52.1% of total income, 68% of employment and 48.2% of Croatian exports². Based on the results of international research (Global Entrepreneurship Monitor, Doing Business, Global Competitiveness Report, Corruption Perceptions Index), in which Croatia has been involved for many years, the key development problems of the small and medium enterprise sector in Croatia have been identified: insufficient level of new business venture start-up activity, small share of growing enterprises, limiting administrative barriers to implementation of entrepreneurial activity, insufficient development of the financial market, and lack of education focused on the development of entrepreneurial knowledge and skills.

Annual **SME Report for Croatia 2014** provides insight into the role of the small and medium enterprise sector in Croatia through the following aspects: dynamism, significance for the economy and regional development, (un)availability of financial resources, educational programs, professional services, gender balance in entrepreneurial activity and possibilities for financing development through EU funds.

The publication is published by **CEPOR³ – SMEs and Entrepreneurship Policy Center** – the first policy think tank, which, since its establishment in 2001, contributes to the development of entrepreneurial culture and stimulating institutional and regulatory framework for entrepreneurial activity in order to achieve strong economic and social development. The Report presents data and analyses of the situation in the small and medium enterprise sector in 2013 and their comparison with indicators from previous years. Reference years used as the basis for comparison in relation to 2013 were selected depending on the availability of data and intensity of changes during the observed periods. Data on employment presented in the Report include total data on the number of employees in micro, small and medium enterprises and crafts. Other situation analyses exclusively show the small (micro enterprises are included in the category of small enterprises) and medium enterprise sector, excluding crafts.

Sources of data presented and analysed in the Report are public institutions – Ministry of Entrepreneurship and Crafts, Croatian Chamber of Economy, Croatian Bank for Reconstruction and Development, Croatian Agency for SMEs, Innovations and Investments, FINA, etc., and reports of international research projects (Global Entrepreneurship Monitor prepared by the Global Entrepreneurship Research Association (GERA) 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 micro, small and medium enterprises.

2 Calculated on the bases of data by FINA, Croatian Chamber of Economy and Croatian Exporters.

3 CEPOR was established by an agreement between the Government of the Republic of Croatia and Open Society Institute Croatia in 2001. Ten institutional founders of CEPOR are leaders in their areas of activity – from academic community to associations of entrepreneurs, development agencies and centers for entrepreneurship. CEPOR's mission is to influence the public and political environment, emphasizing the key role of entrepreneurship and small and medium enterprises in the development of Croatian economy (www.cepor.hr).

SME report for Croatia 2014 consists of eight parts. The first part describes the macroeconomic environment in Croatia. The second part talks about the situation and importance of the small and medium enterprise sector in Croatia. The third chapter presents the environment of the small and medium enterprise sector – institutional and legislative framework and obstacles to the development of small and medium enterprises through the prism of international research. The fourth part describes the issues of women entrepreneurship. The fifth part talks about the sources of financial support for the development of the small and medium enterprise sector in Croatia. In the sixth part the role and representation of entrepreneurial education at all levels of formal education in Croatia are shown, while access to and availability of information and advisory services, as important factors for the development of entrepreneurship are presented in the seventh part of the Report. The eighth chapter is about the impact of accession to the European Union on the small and medium enterprise sector in Croatia, utilization of European Union funds in the period from 2007 to 2013, as well as the opportunities for small and medium enterprises in the 2014 – 2020 financial period. The final part brings concluding considerations of thematic units presented in the Report.

The purpose of the SME Report for Croatia is to inform the competent institutions and the public about the issues of the small and medium enterprise sector and to develop a consistent information basis for decision-making (policies, programs and measures), which will result in improved conditions for entrepreneurial activity, facilitate the strengthening and promotion of entrepreneurial culture and the growth of small and medium enterprises for the purpose of increasing employment capacity, stronger contribution to total income and export potential of Croatia.

1. Macroeconomic environment in Croatia

The financial crisis that hit the US in 2008 rapidly spread to other parts of the world, including Croatia. The recorded negative trend of development of economic activity that started in 2008 has continued in 2013, and is reflected in the fall in economic activity by 1% in relation to 2012, fall of domestic consumption by 0.69%, as well as in unfavourable developments in the labour market, that is, an increase in the average number of registered unemployed persons by 6.4% compared to 2012 (Annual Report 2013, Croatian National Bank (CNB), 2014).

11.9% of real GDP has been lost in the period from 2008 to 2013, whereby in 2013, compared to the previous year, the largest real annual decline was recorded in exports of goods and services (-1%), followed by imports of goods and services (-1.7%), gross fixed capital formation (-1%) and household consumption (-1%), while, compared to 2012, government consumption had increased by 0.5%⁴. According to the Croatian National Bank⁵, labour market conditions have continued to deteriorate in 2013 under the impact of negative trends in economic activity, and the average number of employees at annual level decreased by 1.5%. Negative trends in the number of employees in almost all industries and the public sector have contributed to the overall decline in the number of employees in 2013, while at the same time the number of unemployed continued to increase, and the average unemployment rate in 2013 was 17.2%, or 1.3 percentage points more than in 2012, when it was 15.9% (Table 1).

Table 1: Croatia – basic macroeconomic indicators in the period from 2008 to 2013

	2008	2009	2010	2011	2012	2013
Real growth of GDP*	2.1	-6.9	-2.3	0	-2.0	-0.9
Unemployment rate*	8.4	9.1	11.8	13.5	15.9	17.2
Inflation rate**	6.1	2.4	1.1	2.3	3.3	2.2
Gross external debt, in million EUR**	40,590.0	45,244.3	46,483.4	45,737.7	44,935.4	45,631.40
Government debt, as a percentage of GDP***	29.2	35.1	41.3	45.7	53.6	67.1

Sources: *EUROSTAT, 2013; **"Economic Trends 2013", Croatian Chamber of Economy, 2013, ***"Bulletin 2014", Croatian National Bank, 2014

The annual consumer price inflation rate decreased significantly during 2013 – from 4.7% in 2012, to only 0.3% in 2013⁶. In addition to short-term factors, weak domestic demand was the main reason for the slowing of inflation. The trend of real decline of wages continued in 2013, and in the observed year the average gross wage has decreased by 1.4% on the year-on-year level, while the net wage decreased by 1.5%⁷.

Weak performance of the Croatian economy in the period from 2008 to 2013 (decline of the GDP, increase of the unemployment rate, and increase in external debt by 1.6% compared to 2012,

4 "Explanation of macroeconomic indicators in 2013", Croatian Parliament, Zagreb, 2014, p. 458

5 "Annual Report 2013", Croatian National Bank, Zagreb, 2014, p. 3

6 "Annual Report 2013", Croatian National Bank, Zagreb, 2014, p. 1

7 "Explanation of macroeconomic indicators in 2013", Croatian Parliament, Zagreb, 2014, p. 460

since at the end of 2013 external debt stood at 45.6 billion EUR and accounted for 105.3% of the GDP⁸ has partly been a consequence of accumulation of structural imbalances over the past years of the financial crisis, growing government deficit, high level of current account deficit at the beginning of the crisis and the growing debt of the government and private sector.

Economic activity in the European Union stagnated in 2013, and a decrease of economic activity by 0.5%⁹ was recorded at the eurozone level. Government consumption and net exports have had a positive, and personal consumption and gross investments a negative impact on the dynamics of real GDP. The unemployment rate in the eurozone further increased during 2013 and amounted to 10.8%, while in 2012 it amounted to 10.5% (Table 2).

Table 2: Real growth rate of GDP, unemployment and the share of exports in total exports of the EU in selected reference European Union member states in 2012 and 2013

Country	2012			2013		
	Real growth rate of GDP (%)	Unemployment rate (%)	Share of exports in total exports of the EU (%)	Real growth rate of GDP (%)	Unemployment rate (%)	Share of exports in total exports of the EU (%)
European Union – 28 countries	-0.4	10.5	100.0	0.1	10.8	100.0
Croatia	-2.0	15.9	-	-0.9	17.2	0.2
Germany	0.7	5.5	16.1	0.4	5.3	27.1
Spain	-1.6	25.0	5.2	-1.2	26.1	5.1
Hungary	-1.7	10.9	0.8	1.1	10.2	1.0
Austria	0.9	4.3	1.9	0.3	4.9	2.3
Romania	0.7	7.0	0.3	3.5	7.3	0.9
Slovenia	-2.5	8.9	0.2	-1.1	10.1	0.4
Finland	-0.8	7.7	1.9	-1.4	8.2	1.4

Source: EUROSTAT, 2013, 2014

In 2013, in comparison with the previous year, small and medium enterprises in the European Union have generated an increase in value added of 1.1%. In the same period, the number of small and medium enterprises has decreased by 0.9%, and the employment provided by small and medium enterprises has also decreased by 0.5%¹⁰. European Union recognizes the key role that small and medium enterprises play in ensuring competitiveness and in the processes of economic recovery, by increasing productivity, and is creating a more favourable business environment for them through various policies aimed at this sector. Croatia should also focus on the small and medium enterprise sector, which, as the most resilient part of the economy, in a more favourable business environment, can ensure economic growth and new employment.

8 "Explanation of macroeconomic indicators in 2013", Croatian Parliament, Zagreb, 2014, p. 462

9 "Annual Report 2013", Croatian National Bank, Zagreb, 2014, p. 7

10 "Annual Report on European SMEs 2013/2014 - A Partial and Fragile Recovery", European Commission, 2014, p. 17

Analysis of professional qualification of employees in enterprises in Croatia¹¹

In the period from May 2013 to March 2014, Club of the Institute of Economics Zagreb conducted the study "How to Facilitate the Growth of Croatian Economy", which analysed the key weaknesses of the Croatian economy and the causes of their occurrence. The study focuses on three types of investments that contribute to creation of a dynamic economy with sustainable growth – human capital, innovations and technology.

Human capital is one of the most important determinants of long-term economic growth, and education the most significant factor in the formation of human capital. According to the results of the study, the majority of surveyed citizens are aware of the importance of education, 56.6% of them think that they need higher levels of education and further training in order to successfully compete in the labour market, but as many as 33.1% of respondents think that education is not important.

Analysis of professional qualification of employees in small and medium enterprises in Croatia indicates that enterprises, on average, show the greatest need for workforce with secondary education, followed by workforce with university education. Small and large enterprises show an equal need for secondary and university education, while medium enterprises need employees with secondary education the most. The share of enterprises that primarily need employees with primary education is very small. Furthermore, companies have the greatest need for employees with technical professions, followed by economic professions.

The study shows that only 6% of the surveyed small enterprises employ doctors of science, while the share of large enterprises that employ doctors of science is 30%.

Additional education programs are offered more to employees of medium and large enterprises, while small enterprises usually finance exclusively compulsory education programs, for which they allocate on average 5% of their income, compared with medium and large enterprises, which allocate only about 2-3% for such programs.

¹¹ "How to Facilitate the Growth of Croatian Economy?", Club of the Institute of Economics, Zagreb, 2014, www.eizg.hr

2. Situation in the small and medium enterprise sector in Croatia

Small and medium enterprises are the most important driver of the economy, and the important role of this sector is particularly evident through their share in employment, in total realized income and exports. Successful performance of the SME sector is more important than ever. Growing small and medium enterprises are an essential part of the solution to the problem of long-term high unemployment in Croatia. Survival and development of Croatian small and medium enterprises in the European Union's single market depends on their ability to compete successfully and adaptation to the demanding market and fierce competition.

2.1. Criteria for definition of small and medium enterprises in Croatia

Criteria for classification of entities in the small and medium enterprise sector in Croatia are defined by the Accounting Act¹² and the Small Business Development Promotion Act¹³.

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

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

- Total assets 32,500,000.00 HRK
- Revenue 65,000,000.00 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 do not satisfy two of the following conditions:

- Total assets 130,000,000.00 HRK
- Revenue 260,000,000.00 HRK
- Average number of employees during business year: 250.

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

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

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

- Average annual number of employees is less than 250
- Independence in business (meaning that other physical or legal entities individually or jointly possess no more than 25% of share in ownership or decision rights in the small business entity)
- Total annual revenue equivalent up to 50,000,000.00 EUR or balance sum if they are profit tax payers, i.e. long-term assets equivalent up to 43,000,000.00 EUR if they are income tax payers.

12 Official Gazette, NN 109/07, 54/13

13 Official Gazette, NN 29/02, 63/07, 53/12, 56/13

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

- Micro entities are physical and legal entities that annually on average employ less than 10 employees and achieve total annual revenue equivalent up to 2,000,000.00 EUR, i.e. have value of long-term assets equivalent up to 2,000,000.00 EUR.
- Small entities are physical and legal entities that:
 - Annually on average employ less than 50 employees
 - Achieve total annual revenue equivalent up to 10,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent up to 10,000,000.00 EUR if they are income tax payers.
- Medium entities are physical and legal entities that:
 - Annually on average employ between 50 and 249 employees
 - Achieve total annual revenue equivalent from 10,000,000.00 EUR to 50,000,000.00 EUR or have balance sum if they are profit tax payers, i.e., have long-term assets equivalent from 10,000,000.00 EUR to 43,000,000.00 EUR if they are income tax payers.

The Accounting Act and Small Business Development Promotion Act do not have a harmonized number of employees criterion for classification of small and medium enterprises in Croatia. Amendments to the Small Business Development Promotion Act from May 2012 have harmonized the categorization of size of entrepreneurs in this Act with the criteria applied by the European Union¹⁴ thus enabling higher quality analysis and comparison of the small and medium enterprise sector in Croatia and EU countries, as well as better use of support mechanisms intended for small and medium enterprises through EU programs (Table 3).

Table 3: Criteria of classification of small business entities

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

Sources: Small Business Development Promotion Act (NN 29/02; 63/07; 53/12; 56/13); http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

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

Characteristics of small and medium enterprises according to criteria of employment, total income and export intensity

In 2013 there was an increase in the number of business entities by 4% compared to 2012, but the structure of the economy with regard to enterprise size has undergone only minor changes. Increase in the number of enterprises in 2013 was recorded in the category of small enterprises (4.2%), and in the category of large enterprises (0.6%), while a decrease of 3.1% was recorded in the category of medium enterprises (Table 4).

¹⁴ In accordance with the European Commission Recommendation 2003/361/EC from May 6, 2003

Table 4: Enterprise structure with regard to enterprise size in 2001, 2012 and 2013

	2001		2012		2013	
	Number of entities	%	Number of entities	%	Number of entities	%
Small and medium enterprise sector	56,416	99	96,906	99.6	100,841	99.7
Small enterprises	54,213		95,597		99,573	
Medium enterprises	2,203		1,309		1,268	
Large enterprises	571	1	348	0.4	350	0.3
Total	56,987	100	97,254	100	101,191	100

Sources: "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;
 "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22

Small and medium enterprises also in 2013 have a significant share in total income (52.1%), representing an increase of 1.1 percentage point compared to 2012 (due to the increase of total income generated by small enterprises). In 2013, total income generated by exports of Croatian enterprises grew by 0.09% compared to 2012, mainly due to increase in exports of medium enterprises (increase of 3.3 percentage points compared to 2012). Picture of employment in 2013 differs from the situation in 2012 – employment growth is evident in the sector of small (1.9%) and medium enterprises (0.5%), while a decline in employment was recorded in large enterprises (2.7%) – Table 5. Figures 1, 2 and 3 show the structure of total income, employment and exports with regard to enterprise size.

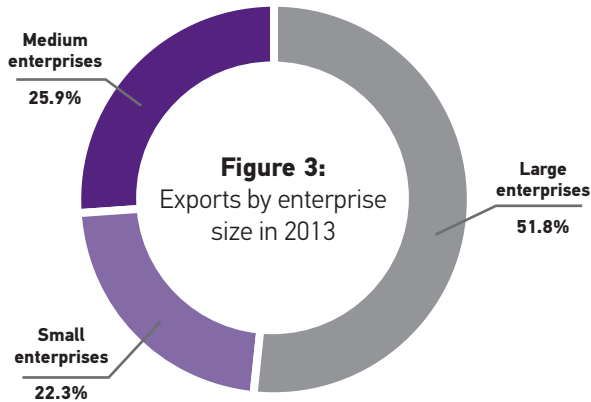
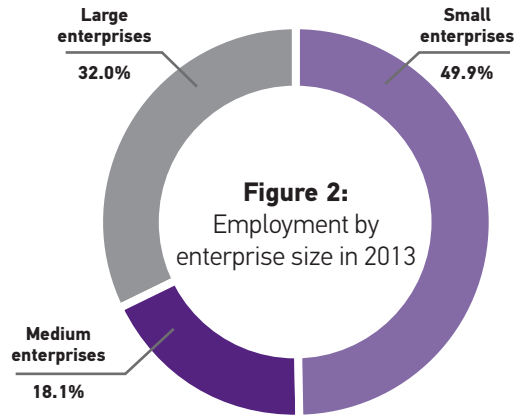
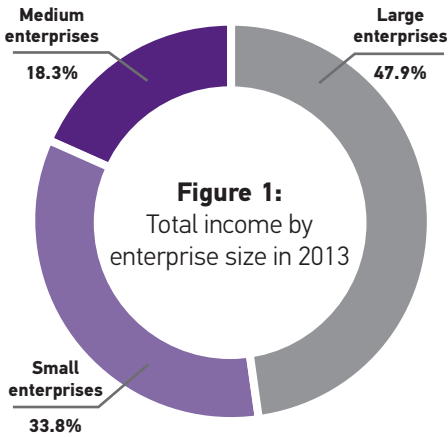
Table 5: Enterprise size and total income, employment and exports in 2012 and 2013

Economic criterion for sector evaluation	Enterprise size					
	Small		Medium		Large	
	2012	2013	2012	2013	2012	2013
Total income (million HRK)*	199,774	206,905	111,966	112,309	298,636	293,227
Total income (share)	32.7%	33.8%	18.3%	18.3%	48.9%	47.9%
Employment**	406,834	414,507	149,787	150,605	273,253	265,816
Employment (share)	49.0%	49.9%	18.04%	18.10%	32.9%	32.0%
Exports*** (thousand HRK)	20,420,000	21,696,060	21,961,000	25,131,925	54,701,000	50,338,417
Exports (share)	21.0%	22.3%	22.6%	25.9%	56.3%	51.8%

Sources: * "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;

** "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22;

*** Croatian Exporters, 2014



SBA Fact Sheet for Croatia, 2014 Internationalisation

After joining the European Union and leaving CEFTA (Central European Free Trade Agreement), Croatian enterprises recorded a 5.9% decrease of exports. According to the SBA Fact Sheet¹⁵ data for 2014, the main obstacles to exports are costs, time and number of documents required to export. Costs required for implementation of an export contract in Croatia have increased in 2014, and are 29% higher than average costs required in the European Union (Croatia 7,862 HRK, EU average 6,093 HRK); in Croatia it takes 6 more days to implement a contract than the European Union average (Croatia 18 days, European Union average 12 days); and 3 documents more are required than in the European Union (Croatia 7 documents, European Union average 4 documents). Also significant is the fact that in Croatia the time to implement an import contract is still shorter (15 days) than the time required for implementation of an export contract (18 days).

By monitoring changes in employment in 2001, 2012 and 2013, it can be observed that employment in small enterprises is continuously increasing, that employment in medium enterprises has slightly increased compared to 2012, while a continuous decline in employment is evident in the large enterprise sector (Table 6).

15 SBA Fact Sheet 2014 for Croatia, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/croatia_en.pdf, downloaded on October 14, 2014

Table 6: Employee structure with regard to enterprise size in 2001, 2012 and 2013

Type of enterprise	2001		2012		2013	
	Number of employees	%	Number of employees	%	Number of employees	%
Small	247,340	34.0	406,834	49.0	414,507	49.9
Medium	161,426	22.2	149,787	18.1	150,605	18.1
Large	318,467	43.8	273,253	32.9	265,816	32.0
Total	727,233	100.00	829,874	100.00	830,928	100.00

Sources: "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;
 "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22

Employment in the small and medium enterprise sector can also be analysed through comparison of the average number of employees in small and medium enterprises (Tables 7 and 8). Compared to 2012, a 3.8% increase in the average number of employees in medium enterprises was recorded in 2013 (from an average of 114.4 employees in 2012, to an average of 118.8 employees in 2013), while that number stagnates in small enterprises, which had an average of 4.2 employees in 2013. The average number of employees in small enterprises in the period from 2008 to 2013 fell by 17.6%, while in medium enterprises in the same period it fell by 2.5%, which should affect an increase in productivity (competitiveness) of those enterprises.

Table 7: Employee structure in small enterprises in the period from 2008 to 2013

Year	Number of small enterprises	Number of employees in small enterprises	Average – number of employees in small enterprises
2008	87,807	448,803	5.1
2010	95,004	415,320	4.4
2011	89,539	386,692	4.3
2012	95,597	406,834	4.2
2013	99,573	414,507	4.2

Sources: "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;
 "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22

Table 8: Employee structure in medium enterprises in the period from 2008 to 2013

Year	Number of medium enterprises	Number of employees in medium enterprises	Average – number of employees in medium enterprises
2008	1,396	170,038	121.8
2010	1,379	157,147	114.0
2011	1,292	159,616	123.5
2012	1,309	149,787	114.4
2013	1,268	150,605	118.8

Sources: "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;
 "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22

Situation in the small and medium enterprise sector in EU in 2013¹⁶

In 2013, 21.6 million small and medium enterprises (99.8% of all enterprises in the European Union) with 88.8 million employees (66.8% of the total number of employees in the European Union) in European Union member states (EU28) have generated 3,666 billion EUR in value added (57.9% of total value added in the European Union). In other words, 99 out of 100 enterprises are small and medium enterprises, 2 out of 3 employees work in the small and medium enterprise sector, and these same enterprises create 58 cents in every euro of value added. The level of value added generated in the small and medium enterprise sector in the European Union increased by 1.1% in 2013, while the total number of small and medium enterprises declined by 0.9% and employment by 0.5%.

It is important to point out that the six largest European Union member states (France, Germany, Italy, Poland, Spain and United Kingdom) account for 66% of all small and medium enterprises in the European Union, which have a share of 69% in total employment and generate 74% of value added.

The most important sectors in which small and medium enterprises operate are wholesale and retail trade, manufacturing, construction, professional, scientific and technical activities, and the accommodation and food service sector. Almost 80% of all small and medium enterprises in the European Union operate in these 5 sectors.

The level of recovery of small and medium enterprises in the European Union varies according to enterprise size. In comparison with 2008, the number of micro enterprises in 2013 increased by 0.8%, while the number of small enterprises and medium enterprises declined by 1.6%, and 2.5%, respectively. The increase in value added by 1.1% in 2013 was driven by the increase in value added generated by medium enterprises by 2.7% and micro enterprises by 0.5%, while small enterprises are lagging behind and their value added in 2013 is still below the level of value added in 2008. In the category of employment, both small and medium enterprises are still far below the level from 2008, while the largest deviation is recorded by micro enterprises, which have 4.2% less employees in 2013 compared to 2008.

Internationalisation of small and medium enterprises

Since the beginning of the crisis, exports have been a key driver of growth in EU member states. However, export activity of small and medium enterprises of EU member states remains limited – the share of exporters is below 30%, orientation towards exports increases with enterprise size, and small and medium enterprises mainly operate in sectors with low export intensity. Exports of small and medium enterprises have an indirect effect on the whole value chain – e.g. an increase of exports of 10% affects the increase in value added of the manufacturing sector by 2.7%, and of the construction sector by 0.2%.

According to 2013 data, 42% of small and medium enterprises in the EU have participated in some form of internationalisation, and only 25%, or one quarter of enterprises are exporting. Importing is actually often the first phase in the process of internationalisation of small and medium enterprises.

16 "Annual Report on European SMEs 2013/2014 - A Partial and Fragile Recovery", European Commission, 2014, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf, downloaded on November 15, 2014

Problems faced by small and medium enterprises

One of the most common problems faced by small and medium enterprises is competitiveness in acquiring customers, and the existence of demand is one of the key factors of success in operations of small and medium enterprises.

Access to finance is more of a constraint for micro enterprises than for small and medium enterprises, while small and medium enterprises have particularly highlighted the problem of availability of skilled staff and experienced managers. An additional problem that medium enterprises have pointed out as important is competition, i.e. pressures that enterprises face in relations with suppliers.

Small and medium enterprises performance forecast for 2014 and 2015

It is expected that the level of value added provided by small and medium enterprises at annual level will rise by 2.8% in 2014 and by 3.4% 2015. Also, it is expected that employment will rise by 0.1% in 2014 and by 0.7% in 2015, which is an increase of roughly 740,000 jobs in small and medium enterprises.

Specific measures for improving the quality of SMEs environment play an important role in increasing the productivity of small and medium enterprises as well as in ensuring sustainable macroeconomic growth. At the center of these measures is the continued improvement of major areas represented in the SBA Fact Sheet – responsive administration, access to finance, access to markets / internationalisation, entrepreneurship, and skills and innovation.

Starting business ventures and growing enterprises

International study of entrepreneurial activity Global Entrepreneurship Monitor (GEM)¹⁷ indicates a low level of activity in starting new business ventures in Croatia, measured by TEA – Total Entrepreneurial Activity index¹⁸ (Table 9). With TEA index of 7.32 in 2011 and 8.27 in 2012 and 2013, Croatia belongs to the group of countries with low level of activity in starting business ventures, compared to the average value of the TEA index of all the countries involved in GEM research.

Table 9: Entrepreneurial activity in Croatia, measured by the TEA index

	2002	2008	2011	2012	2013
TEA index, Croatia	3.62	7.59	7.32	8.27	8.27
TEA index, Croatia ¹⁹	7.99	10.49	11.39	13	13.18

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

In addition to newly established business ventures, growing enterprises are of great importance for solving the problem of unemployment, which are key generators of new jobs and an elitist

17 Croatia has been involved in GEM – Global Entrepreneurship Monitor study since 2002.

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

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

minority in all the economies. According to the results of GEM research for 2013, Croatia has very few such enterprises (slightly less than 4.8%, in contrast to highly developed countries, where the proportion of growing enterprises ranges from 6% to 9%)²⁰.

Growing enterprises are identified by a series of activities focused on strengthening the competitiveness, that is, development of the innovative capacity of the enterprise (investment in research and development, development of new products, technological modernisation).

The results of GEM research in Croatia in 2013 compared to the results from 2012 indicate a decline in the number of small and medium enterprises with new products, while the number of enterprises that have the same products as everyone else has stagnated and amounts to 70% (Table 10).

Table 10: Growing enterprises in Croatia, according to the new product development criterion

Criterion for categorization of growing enterprises	2011	2012	2013
Enterprises that have new products that are new to everyone (%)	12.63	9.0	8.05
Enterprises that have products that are new to some (%)	25.16	21.06	21.86
Enterprises that have products that are new to no one (%)	62.21	69.94	70.09

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

According to the results of The Global Innovation Index²¹ survey on the level of innovation of a country, in 2014 Croatia was positioned at the 42nd place out of 143 countries included in the study, which represents a decline of 5 places compared to the results from the previous year (Table 11). Indicators of innovation and investment in research and development do not relate only to small and medium enterprises, but to all enterprises, but they provide important insight into these two dimensions of development of competitiveness of Croatian enterprises, including small and medium enterprises. Switzerland is at the top of the list. Almost all European Union member states are ahead of Croatia (Finland 4, Germany 13, Czech Republic 26, Spain 27, Slovenia 28, Hungary 35, Slovakia 37). Compared to Croatia, countries of Southeast Europe have recorded worse innovation index (Montenegro 59, Macedonia 60, Serbia 67).

20 GEM criteria for identification of growing enterprises are intensity of share of new products in the total revenue of the enterprise, new employment, investment in new technologies and internationalisation of business

21 The Global Innovation Index (GII) is a global survey in which 143 countries are involved, which measures the level of innovation of a country. The level of innovation of an economy is determined according to five components that enable innovative activities: institutions, human capital and research, infrastructure, market sophistication and business sophistication, while the two components that determine the actual level of innovation are knowledge and technology, and creative results.

Table 11: Results of The Global Innovation Index for 2013 and 2014 – Croatia and reference countries

Country	Rank 2014	Rank 2013	Change	
Switzerland	1.	1.	→	0
Finland	4.	6.	↗	+2
Netherlands	5.	4.	↘	-1
Germany	13.	15.	↗	+2
Austria	20.	19.	↘	-1
Czech Republic	26.	28.	↗	+2
Spain	27.	26.	↘	-1
Slovenia	28.	30.	↗	+2
Italy	31.	29.	↘	-2
Hungary	35.	31.	↘	-4
Slovakia	37.	36.	↘	-1
Croatia	42.	37.	↘	-5
Poland	45.	49.	↗	+4
Greece	50.	55.	↗	+5
Romania	55.	48.	↘	-7
Montenegro	59.	44.	↘	-15
Macedonia	60.	51.	↘	-9
Serbia	67.	54.	↗	-13

Source: *The Global Innovation Index, 2014 (2013)*

Investment in research and development is one of the key components for increasing innovation and competitiveness of an economy. Croatian gross domestic expenditure for research and development decreased by 0.8% in 2012 compared to 2011, amounting to 2,482,157,000 HRK, while investments in 2011 were increased by 2.5% compared to 2010. Of total expenditures for research activities at national level, expenditures of the business sector for 2012 were 45.9% (1,137,971,000 HRK), which is an increase of 1.7% in relation to 2011. Expenditures of the government sector are 27.5% (682,141,000 HRK), which represents a decrease of 0.44% in relation to the previous year (Table 12).

Table 12: Gross domestic expenditure on research and development – Croatia, 2010, 2011 and 2012 (in thousand HRK)

	2010	%	2011	%	2012	%
Business sector	1,077,264	44.1	1,118,722	44.7	1,137,971	45.9
Government sector	672,444	27.5	685,170	27.4	682,141	27.5
Non-profit sector	3,650	0.2	3,768	0.1	3,471	0.1
Higher education	689,543	28.2	694,616	27.8	658,574	26.5
Total	2,442,901	100.00	2,502,276	100.00	2,482,157	100.00

Source: "Statistical Information 2014", Croatian Bureau of Statistics, 2014 (2013)

According to the results of the "Central Europe Corporate R&D Report 2014" conducted by Deloitte among 148 countries, Croatia ranked 76th in terms of collaboration between industry and university, which indicates that collaboration with universities and the academic community is not a significant factor in the transfer of knowledge to the business sector in Croatia.

Croatian enterprises among 50 technology companies with the fastest growth in Central Europe²²

Study of the consultancy firm Deloitte on 50 technology companies with the fastest growth in Central Europe recognizes and profiles fast growing technology companies in the region. This project is being implemented since 2000, and the results are based on data on revenue growth during a five year period²³ (2009–2013).

*In 2014, 4 companies from Croatia entered the ranking of 50 technology companies with the fastest growth in Central Europe – **Infinum, Nanobit, Europa Digital and Lemax-iTravel Software**, and only Infinum ranked among 10 companies with the fastest growth, taking the 9th position in the Deloitte ranking with average five-year growth of 1168%.*

The leading position in the ranking went to Hungarian company Szallas.hu, which conducts real estate business via the Internet, whose average revenue growth in the last five years was 2259%. The largest number of companies on the list comes from Poland (17), followed by companies from Hungary (10) and Romania (6), and the most common are companies that are engaged in software development and offer some type of Internet service.

22 "Technology Fast 50 – Powerful connections", Deloitte, 2014, http://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/CE_FAST50_2014.pdf, downloaded on October 21, 2014

23 The main criteria for selection of technology companies with the fastest growth are: annual operating revenues of at least 50,000 euros in each year between 2009 and 2013; headquarters in one of the countries of Central Europe; company must be involved in development or production of proprietary technology or must spend significant capital assets on research and development; ownership structure of a candidate must exclude majority-owned subsidiaries of foreign strategic entities.

Financial performance of small and medium enterprises

Small and medium enterprises have weaker financial performance compared to large enterprises, both in absolute and relative values (Table 13).

Table 13: Financial efficiency of enterprises in 2012 and 2013

Enterprises	2012		2013	
	Million HRK	%	Million HRK	%
Small				
Profit	11,191	32.9	13,057	43
Loss	12,251	42.1	12,891	48
Consolidated result	-1,060		166	
Medium				
Profit	4,382	12.9	4,970	16.4
Loss	5,241	18.0	5,049	18.8
Consolidated result	-859		-80	
Large				
Profit	18,480	54.3	12,365	40.7
Loss	11,620	39.9	8,921	33.2
Consolidated result	6,860		3,443	
Total				
Profit	34,053	100	30,392	100
Loss	29,112	100	26,862	100
Consolidated result (Profit – Loss)	4,941		3,529	

Sources: "Economic trends - 06/2014", Croatian Chamber of Economy, 2014, p. 49;
 "Analysis of financial results of entrepreneurs in Croatia in 2013", FINA, 2014, p. 21 and 22

In 2013, the performance of small and medium enterprises was better than in the previous year. Small enterprises recorded a net profit in 2013, in contrast to 2012, when small businesses made a net loss. Net profit of small enterprises was the result of an increase in profit of 16.7%, with an increase in loss of 5.2%. Increase in profit in medium enterprises in 2013 of 13.4%, with a concurrent decrease in loss of 3.7% contributed to the decrease in net loss in 2013. Financial efficiency of large enterprises was reduced in 2013 due to a significant decline in profit (by 33.1%) compared to the decrease in loss of 23.2%.

If the data in Table 13 is linked to the number of employees in small, medium and large enterprises, it is evident that in 2013 32% of employees in large enterprises achieved 3,443 million kuna of consolidated net profit, and 68% of employees in small in medium enterprises generated 86 billion kuna of consolidated net profit, which points to the persistent significant problem of business efficiency and competitiveness of small and medium enterprises in Croatia

Trades and crafts in Croatia - in numbers²⁴

Data of the Croatian Chamber of Trades and Crafts in the Book of Craftsmen²⁵ – members of the Croatian Chamber of Trades and Crafts from December of 2013 indicate that there are 80,407 registered crafts businesses, which represent 38.3% of the total number of registered business entities in Croatia (209,770)²⁶. A decline in the number of crafts businesses of 3.95% was recorded in 2013 compared to 2012, when there were 83,714 crafts businesses registered in the same period. In December of 2013, crafts businesses in Croatia had a total of 181,503 employees (including owners / partners of the craft and their employees), which represents 13.74% in relation to the total number of employees in legal persons in Croatia, which was 1,320,887²⁷ in December.

The most active crafts businesses are recorded in the City of Zagreb (13,207 or 16.4%), followed by Split-Dalmatia County (9,913 or 12.3%), Primorje-Gorski Kotar County (8,114 or 10.1%), Istria County (7,587 or 9.4%) and Zagreb County (5,326 or 6.6%). The least number of active crafts businesses is present in Požega-Slavonia (948 or 1.2%), Lika-Senj (1,156 or 1.4%) and Bjelovar-Bilogora County (1,186 or 1.5%).

Out of 80,407 crafts business recorded during 2013, 73,923 or 91.9% were active. There were 6,484 or 8.1% seasonal crafts businesses, which perform their activity for no longer than six months within a calendar year, in the Crafts Register. The number of privileged crafts businesses, which are those that can be performed only on the basis of the privilege certificate issued by the relevant ministry, depending on the type of craft was 2,115, or 2.6%. Other crafts businesses fall into the category of non-privileged crafts businesses. According to the guild structure²⁸, the highest share of active crafts businesses in Croatia belongs to service crafts businesses (35.2%), followed by hospitality and tourism (16.8%), retail (15.1%), manufacturing (10.9%), transport of people and goods (9.4%), guild that gathers hairdressers, beauticians, crafts businesses for body care and fitness (6.8%), and finally, fishing, aquaculture and agriculture (5.8%).

According to the data of the Ministry of Entrepreneurship and Crafts²⁹, based on projects within the SME Promotion Operational Plan for 2013, craftsmen were granted 1,306 aids in the total amount of 5,179,223 HRK. Of this amount 1,273 aids or 3,122,817 HRK were granted within the Lifelong Learning for Trades and Crafts project, while 33 aids in the total amount of 2,056,406.22 HRK were awarded for Preservation of Traditional Arts and Crafts projects.

7,365 students were enrolled in craft occupation programs in the 2013/2014 school year. The most attractive craft occupations were: hairdresser, cook, car mechanic, waiter, heating and air condition installer and carpenter, while interest in occupations such as toolmaker, ship mechanic, chimney sweeper, stonemason, dry cleaner, glazier, precision mechanic, watchmaker, goldsmith and agricultural machinery mechanic was the lowest.

24 Source: Trades and Crafts in Numbers 2014, Croatian Chamber of Trades and Crafts, Tomić, S. (ed.), March 2014

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

26 According to the data of the Croatian Bureau of Statistics, First Release 11.1.1/4., February 14, 2014

27 According to the data of the Croatian Bureau of Statistics, First Release 9.2.1/12., January 31, 2014, including the number of employed in the police and defence services.

28 Guild – class association of craftsmen based on their trade.

29 Entrepreneurial Impulse – Plan for Promotion of Entrepreneurship and Crafts for 2013, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014

2.3. Dynamics of development of the small and medium enterprise sector

Dynamics of the small and medium enterprise sector is monitored based on data on the establishment of new and closing of existing enterprises, whose reason for closing is voluntary decision (sale, retirement) or forced decision prompted by bankruptcy proceedings or court decision. The analysis of the dynamics of the small and medium enterprise sector provides useful information about the changes that are taking place in the sector, with information on closure of enterprises being of special importance because they indicate difficulty in finding adequate responses to environmental pressures.

In the period from 2002 to 2013, the survival rate of enterprises was 69.02%. According to data of enterprises that have filed financial statements to FINA, survival rate was the highest in small enterprises (70.20%); survival rate of medium enterprises was the lowest, amounting to 42.91%, while survival rate of large enterprises was 51.19% (Table 14).

Table 14: Change in the number of enterprises 2002–2013 / Enterprise survival rate

	2002	2013	Closed enterprises	% of closed	% of survived
Small enterprises	58,493	41,080	17,413	29.80	70.20
Medium enterprises	2,221	953	1,268	57.09	42.91
Total SME	60,714	42,033	18,681	30.77	69.23
Large enterprises	717	367	350	48.81	51.19
Total	61,431	42,400	19,031	30.98	69.02

Source: *The Croatian SME Observatory Report, 2013; Fina, 2013*

The total number of newly established enterprises in 2013 increased by 56.5% compared to 2012, due to the increase of newly established trading companies of 77.7% (Table 15).

Table 15: Number of established enterprises in 2012 and 2013

	2012	2013	Difference in the number of newly established enterprises
Trading companies	7,980	14,177	+77.7%
Other	3,181	3,286	+3.3%
Total	11,161	17,463	+56.5%

Source: *Number and structure of business entities, December 2013, First Release, Croatian Bureau of Statistics, 2013, 2014*

2.4. Regional aspect of the importance of the small and medium enterprise sector

The results of GEM research in 2013 indicate an increase in business venture start-up activity, measured by the TEA index, in regions Zagreb and surroundings, Lika and Banovina, and Slavonia and Baranja³⁰, while regions Istria, Primorje and Gorski Kotar, Dalmatia and Northern Croatia recorded a decrease of the TEA index. Lika and Banovina is the region with the greatest intensity of business venture start-up activities in 2013, with the increase of TEA index of 115%, compared to 2012. Dalmatia is positioned in the first place in both 2012 and 2013, although the TEA index decreased by 15% in 2013. In 2013, compared to 2012, region Istria, Primorje and Gorski Kotar and region Zagreb and surroundings have swapped places in the ranking of regions, so now Zagreb and surroundings is in the second place with an increase of TEA index of 9% compared to the previous year, and the region encompassing Istria, Primorje and Gorski Kotar is in the third place with an increase of TEA index of 22% (Table 16).

Table 16: Regional differences in business venture start-up activity in 2011, 2012 and 2013

Region	2011		2012		2013	
	TEA	Rank	TEA	Rank	TEA	Rank
Istria, Primorje and Gorski Kotar	8.68	2	12.23	2	9.58	3
Zagreb and surroundings	9.14	1	9.15	3	9.99	2
Dalmatia	8.57	3	12.64	1	10.71	1
Northern Croatia	5.17	5	5.23	4	3.83	6
Lika and Banovina	7.16	4	3.48	6	7.47	4
Slavonia and Baranja	4.74	6	5.19	5	6.77	5

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

Increase in business venture start-up activity is also evident in regions that have been at the bottom of the ranking of regions for many years according to this criterion (in Slavonia by 30%, Lika and Banovina by 114%). However, this increase was not accompanied by a reduction of the unemployment, which is 34% in Slavonia and 30% in Lika and Banovina (Table 17). Istria and Zagreb as regions with high levels of business venture start-up activity continue to have the highest GDP per capita and the lowest unemployment rate.

30 For the purposes of the GEM research since 2003, Croatian counties are grouped in six regions by criteria of geographical-historical conception of the regional structure of Croatia:

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

Zagreb and surroundings – City of Zagreb and Zagreb County

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

Northern Croatia – Bjelovar-Bilogora County, Krapina-Zagorje County, Koprivnica-Križevci County, Međimurje

County, Varaždin County and Virovitica – Podravina County

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

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

Table 17: GDP and unemployment rate in counties and regions

	GDP per capita (EUR)	GDP per capita (EUR)	GDP per capita (EUR)	GDP per capita (EUR)	Unemployment rate (%)				
	2008	2010	2011	2012	2008	2010	2011	2012	2013
Istria, Primorje and Gorski Kotar	12,893	12,573	12,507	12,931	11.24	15.91	13.98	13.68	15.19
Zagreb and surroundings	15,470	15,276	15,284	15,438	7.99	10.98	10.94	11.08	12.66
Dalmatia	8,818	8,409	7,955	8,217	22.34	26.18	22.62	23.75	25.53
Northern Croatia	8,618	7,255	7,407	7,621	18.58	24.46	20.57	21.70	23.25
Lika and Banovina	8,622	7,992	8,173	7,899	27.24	32.36	27.54	28.72	29.97
Slavonia and Baranja	7,474	6,378	6,664	6,865	28.37	34.53	30.26	31.08	33.82

Source: First Release. 12.1.6., 2015, Statistical Information 2014, First Release 12.1.2., 2014, First Release 7.1.4., 2013, Croatian Bureau of Statistics; Monthly Statistics Bulletin, Croatian Employment Service, 2013

GEM research monitors the differences in respondents' attitudes on entrepreneurship and intentions to start a business venture among regions (Table 18). The research results in 2013 show that the largest number of respondents (around or more than 25%) who have expressed intention to start a business venture in the next three years come from Zagreb and surroundings, Dalmatia and Istria, Primorje and Gorski Kotar. Opportunity to start a business venture in the next 6 months is recognized the most in Istria, followed by Primorje and Gorski Kotar, Dalmatia, and Zagreb and surroundings.

Table 18: Comparison of regional differences in attitudes towards entrepreneurship in 2012 and 2013, as a percentage (%) of surveyed population – GEM

	Intention to start a business venture in the next 3 years		See an opportunity to start a business venture in the next 6 months		Have the knowledge, skills and experience needed for business venture start-up		Majority of people see entrepreneurship as a good career choice		Media have a positive influence on entrepreneurial culture development	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Istria, Primorje and Gorski Kotar	25.1	24.9	25.6	31.1	52.6	52.9	66.4	67.2	38.2	41.0
Zagreb and surroundings	25.1	28.3	18.4	18.6	45.9	49.7	59.7	55.7	37.2	41.7
Dalmatia	27.7	26.3	19.4	19.1	47.4	50.4	66.3	60.0	43.0	37.9
Northern Croatia	18.3	17.4	13.3	14.0	40.7	36.4	65.2	65.2	41.4	43.8
Lika and Banovina	20.5	23.7	15.5	12.1	41.8	41.2	59.4	64.8	39.3	45.5
Slavonia and Baranja	23.0	21.7	12.2	11.5	36.6	49.2	68.2	62.1	38.3	43.8

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

Comparing the results of GEM research on regional attitudes towards entrepreneurship in 2012 and 2013, it can be seen that in 2013 the number of respondents who intend to start a business venture in the next 3 years increased only in regions Zagreb and surroundings and Lika and Banovina. In the same observed period, the number of respondents who see an opportunity to start a business venture in the next 6 months increased the most in the Istria, Primorje and Gorski Kotar region and decreased the most in the Lika and Banovina region. Furthermore, the number of respondents who think that they have the knowledge, skills and experience needed for business venture start-up increased in all the regions except in Northern Croatia and Lika and Banovina, while in all the regions 55% and more respondents believe that majority of people see entrepreneurship as a good career choice.

3. Encouraging the development of women entrepreneurship

Strengthening the capacity of women to start a business venture has a particular significance for the development of the small and medium enterprise sector. The gap between entrepreneurial activity of women and men in Croatia has been slightly reduced in 2013: GEM research for 2013 indicates 2.24 times higher activity of male population in relation to female population in business venture start-up activities (TEA index for women is 5.11, and 11.47 for men), compared to 2012 when men were 2.43 times more active in starting business ventures than women (TEA index for women was 4.85, and 11.77 for men; Table 19).

Table 19: Difference in business venture start-up activity by women and men in Croatia in 2010, 2011, 2012 and 2013

	2010.		2011.		2012.		2013.	
	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia
TEA women	9.65	3.91	8.67	4.71	10.64	4.85	10.99	5.11
TEA men	13.71	7.15	10.01	10.01	15.39	11.77	15.41	11.47

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

However, since 2010, this gap has increased in Croatia from 1.83 to 2.43 in 2012 and 2.24 in 2013. Moreover, in all these years the gap between entrepreneurially active women and men in Croatia is significantly higher than the gap in all countries covered by the GEM research (e.g. in 2013 in all countries covered by the GEM research there were 1.4 times more entrepreneurially active men than women, while in Croatia this number was 2.24).

The Global Gender Gap Report³¹

The global report on gender equality conducted by the World Economic Forum in 142 countries of the world is based on methodology that records the size of the gap of inequality between men and women in 4 key areas: economy, politics, education and health.

According to the report, Croatia was in the 55th place in 2014 and its position has been on a continuous decline since 2007 when it was positioned in the high 16th place. The leading positions in the ranking are occupied by Nordic countries – Iceland (1), Finland (2), Norway (3) and Sweden (4), and of the countries in the region, Bulgaria (22), Slovenia (23) and Serbia (54) are better positioned than Croatia, whereas Poland (57), Romania (72), Montenegro (74), Albania (83), Slovakia (90), Hungary (93) and Czech Republic (96) are ranked lower on the scale.

31 "The Global Gender Gap Report 2014", World Economic Forum, 2014 <http://reports.weforum.org/global-gender-gap-report-2014/>, downloaded on November 15, 2014

In terms of gender equality Croatia has the best standing in the field of health (37th position), slightly lower in the field of political empowerment (56), education (65) economy (66), while it is the worst in the field of a wage equality for same or similar work (107).

The course of change within countries since 2006, when measurements were performed for the first time, has been largely positive to date. Of 111 countries, which have been continuously included in the research, during the last nine years 105 countries have reduced gender differences, while an increase in the gap between men and women was reported in six countries – Sri Lanka, Mali, Croatia, Macedonia, Jordan and Tunisia

Although the grade³² of support for women entrepreneurs in Croatia has increased compared to 2012 (grade is 2.95 in 2013, and in 2012 it was 2.68), GEM research still indicates a lower level of grade of support in Croatia in relation to the average of countries involved in GEM research – the average grade of GEM countries is 3.26 (Table 20).

Table 20: Perception of support for women in starting a business venture in 2010, 2011, 2012 and 2013

	2010.		2011.		2012.		2013.	
	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia	Average of GEM countries involved in the research	Croatia
Support for women entrepreneurs	3.13	2.83	3.2	2.71	3.24	2.68	3.26	2.95

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

These indicators point to existence of significant obstacles (and / or ineffectiveness of applied programs and measures) to the development of women entrepreneurship and the need for a wider spectrum of policy instruments and programs that will enable entry of more women in entrepreneurial activity.

From the analysis of the strategic women entrepreneurship development documents (Assessment of Women's Economic and Entrepreneurial Activity in the Republic of Croatia and the Report on Implementation of the Strategy 2010–2013) the key issues of women entrepreneurship have been identified³³:

- Underrepresentation in entrepreneurial activities and employment
- Lower salaries for performing similar jobs
- Significant predomination in unemployment
- Significant underrepresentation in management and underrepresentation in ownership structure
- Incoherence of activities for strengthening women entrepreneurship, and

32 In each country involved in the GEM research, experts use grades from 1 to 5 to evaluate the quality of various components of the entrepreneurial ecosystem, with grade 5 denoting a high level of support, i.e., high level of quality of individual components of the entrepreneurial ecosystem, and grade 1 denoting a completely unsatisfactory level of quality.

33 Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014

- Insufficient coordination and cooperation between competent authorities of public policies, programs and initiatives that contribute to woman entrepreneurship development, which prevents the efficiency of implemented activities and invested monetary funds.

The main structural obstacles that hamper solving problem in strengthening women entrepreneurship are stereotypes about women in science and technology, traditional views on the role of women in society, and absence of support for women with two jobs (family and profession). Economic obstacles are difficult access to financing and non-networking, which makes it difficult to access sources of financing, while the major “soft” obstacles are lack of advice, mentorship, access to networks of entrepreneurs (male or female), training and educational programs and schooling for technology intensive ventures, and the lack of self-confidence and capacity of women for risk-taking.

A series of proposals for removing obstacles and improving various aspects of women’s participation in economic activities, and the analysis of the implemented activities of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2010–2013 through the Report on Implementation of the Strategy were the basis for preparation of the **Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020**.³⁴ The expected result of the implementation of this strategic document is in reducing the gap between entrepreneurial activities of women and men to the value of the TEA index in the EU, which is 1.86, through the implementation of 4 strategic objectives and 12 measures (Table 21).

Table 21: Strategic objectives and measures of implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020.

	Strategic objective 1	Strategic objective 2	Strategic objective 3	Strategic objective 4
	Improvement in coherence and public policies networking	Improving systematic support to women entrepreneurship	Introduction of women entrepreneurship to the overall institutional infrastructure	Promotion of women entrepreneurship
Measure	M1: Inter-ministerial working group and coordination M2: Statistics base and linking sources of information M3: Creating a favourable environment	M4: Support for women entrepreneurship M5: Business networking M6: Education and training M7: Favourable financing	M8: Consultancy and mentorship at regional level M9: Women entrepreneurship support through infrastructure support M10: providing expert support to women entrepreneurial projects	M11: Communication activities and promotion of the Strategy M12: Promotion of networks and development of women entrepreneurship

Source: Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014

The following programs and projects aimed at encouraging the development of women entrepreneurship were implemented in Croatia in 2013:

³⁴ Study for the preparation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020 was prepared by CEPOR

Ministry of Entrepreneurship and Crafts – Entrepreneurial Impulse 2013

According to the Ministry of Entrepreneurship and Crafts, a total of 694 grants in the total amount of 22,517,790 HRK were awarded to women entrepreneurs through Entrepreneurial Impulse in 2013, which is 39.3% of total grants awarded (Table 22).

Table 22: Grants awarded to women entrepreneurs through Entrepreneurial Impulse, 2010 – 2013

	Total number of awarded grants	Number of grants awarded to women entrepreneurs	Share of women %	Total amount of awarded grants HRK	Amount of grants awarded to women entrepreneurs HRK	Share of women %
2010	5,036	1,973	39.2	249,427,818.08	39,431,856.02	15.8
2011	5,537	2,549	46.0	199,723,565.72	42,992,785.22	21.5
2012	2,437	851	34.9	165,510,589.97	40,818,913.71	24.6
2013	1,765	694	39.3	136,595,800.06	22,517,730.87	16.5
Total	14,775	6,607	41.1	751,257,773.83	145,791,285.82	19.4

Source: Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014, p. 15

Croatian Bank for Reconstruction and Development – program for crediting women entrepreneurship “Women Entrepreneurs”

In 2011 HBOR started with implementation of a program for crediting women entrepreneurs, in accordance with the Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2010-2013, with the aim of encouraging founding and development of business activities of small and medium enterprises majority-owned by women, and 2013 was the last year in which this program was implemented. Since the introduction of the program until the end of 2013, 223 loans have been approved, totalling 106,312,438 HRK. The total number of approved loans has been increasing every year, with 169% more loans approved in 2012 compared to 2011 and 22% more loans approved in 2013 compared to 2012, while the average approved loan amount remained the same for the entire duration of the program (Table 23).

Table 23: Loans approved under the HBOR’s program “Women Entrepreneurs”, 2011–2013

	Total number of approved loans	Amount of approved loans, HRK	Average approved loan amount, HRK
2011.	32	15,269,215.94	477,162.99
2012.	86	40,694,803.11	473,195.39
2013.	105	50,348,419.52	479,508.76
Total	223	106,312,438.57	476,737.39

Source: Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014, p. 16

European Bank for Reconstruction and Development (EBRD) – “Women in Entrepreneurship” program

The “Women in Entrepreneurship” program was conducted by the European Bank for Reconstruction and Development from 2011 until March 2013, with the aim of promoting women entrepreneurship through providing support for women who are owners or managers of businesses, as well as through providing support to enterprises in which the majority of employees are women.

The support program consisted of the following components:

- Implementation of advisory projects, which were from 75% to 90% co-financed by the EBRD, with grants limited to a maximum of 10,000 EUR per enterprise;
- Connecting women entrepreneurs with EBRD’s financial institutions in order to facilitate access to financial resources;
- Implementation of training programs, providing mentoring opportunities and networking with local interest groups;
- Promotion of examples of best practices and success stories of women entrepreneurs.

SEECEL and Gender Task Force – “Women Entrepreneurship – A Job Creation Engine for South Eastern Europe” project

The objective of this project, implementation of which includes nine countries³⁵, is the promotion of women entrepreneurship in South Eastern Europe through combined public and private sector, promotion of the best policy practices in women entrepreneurship, and capacity building of national and regional women entrepreneurs’ networks and associations. The project is implemented by the South East European Centre for Entrepreneurial Learning (SEECEL) together with the Initiative for Sustainable Growth – Gender Task Force (GTF), in the period from 2012 to 2015.

The key areas of this project focused on developing support for women entrepreneurs in South Eastern Europe are:

- Developing the 2nd generation of indicators arising from the Small Business Act (SBA) for women entrepreneurship;
- Creating the WETNAS (Women Entrepreneurship Training Needs Analysis) at the regional level;
- Developing training modules and training of trainers based on the results of WETNAS;
- Promotion of the best policy practices for women entrepreneurship, and building capacities of national and regional women entrepreneurs’ networks and associations
- Initiating and advancing policy support frameworks for women entrepreneurship, based on best practices.

The project activities are divided into two main phases. Through Phase 1, which lasted until December 2013, the second generation of indicators for women entrepreneurship was developed, a system for analysing the needs for training by women entrepreneurs was developed, and the so-called Community of Practice (CoP) was developed, which serves as a non-formal learning tool and a platform for exchange of knowledge. One of the key activities in this phase of the

35 Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Kosovo, Montenegro, Serbia, Moldavia and Turkey, <http://www.seecl.hr/UserDocImages/zene-poduzetnice-12557>, downloaded on October 01, 2014

project is the **Study of the needs for education and training of women entrepreneurs**³⁶ which was conducted in all nine countries participating in the project, and in Croatia this research was conducted by the Croatian Chamber of Economy. Results of the research are based on 282 surveys that were filled in by women owners or managers of enterprises / crafts, and they show that the main reason for education and training is to increase the quality of services and products and the sustainability of the business, while the main source of financing for education and training is the enterprise itself. The most important educational topics for women owners / managers of enterprises are state grants and legislation, development of products and services, management, strategic planning and organisation, marketing and sales, human resources, while the least important topics are internationalisation of business, innovation and energy efficiency. The most important areas of education for other employees in the enterprise are development of products and services, information and telecommunications technology and quality and standards management, while the least important areas are financial management and accounting, management and innovation.

The Phase 2 of the project is implemented during 2014, and it is focused on development of training modules as well as on definition of the criteria for the good practice examples, which will serve as a non-formal learning tool for women entrepreneurs and those who are planning to start their own business.

Embassy of the United States Zagreb and Zagreb School of Economics and Management (ZSEM) – “Invest for the Future” project

The “Invest for the Future” project of the Embassy of the United States Zagreb in Croatia is implemented by the Zagreb School of Economics and Management with the aim of providing support for female entrepreneurs throughout South Eastern Europe and Eurasia through learning, networking and providing opportunities for earning. By participating in this project, women entrepreneurs were given the opportunity to acquire new knowledge, use mentoring services, and become familiar with sources of financing that match the strategic needs of small and medium enterprises in the region. Project activities included the organisation regional conferences aimed at networking of women from South Eastern Europe and Eurasia: 2011 in Zagreb and Istanbul, 2012 in Warsaw, 2013 in Struga, and 2014 in Zagreb.

Development of women entrepreneurship in Split-Dalmatia County

The aim of the “Development of women entrepreneurship in Split-Dalmatia County” project is to strengthen women entrepreneurship and encourage self-employment of women in the Split-Dalmatia County by providing grant aids. The initiator of the project is the Croatian Association of Business Women Krug – Split branch, and the project is implemented in cooperation with the City of Split, Split-Dalmatia County and CCE County Chamber Split.

³⁶ Study of the needs for education and training of women entrepreneurs, Croatian Chamber of Economy, 2013

4. Environment of the small and medium enterprise sector in Croatia

4.1. Legislative and institutional framework

Legislative and institutional framework defines:

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

4.1.1. Distribution of competences for making and implementation of policy decisions

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

- **Ministry of Entrepreneurship and Crafts** (www.minpo.hr) is responsible for the creation of policies aimed at the development of small and medium enterprises and creation of a favourable environment for entrepreneurship;
- **Croatian Bank for Reconstruction and Development – HBOR** (www.hbor.hr) is the development and export state bank whose main task is to stimulate the economy through providing loans, insuring exports from political and commercial risks, issuing guarantees and business consulting;
- **Croatian Agency for SMEs, Innovations and Investments – HAMAG BICRO** (www.hamagbicro.hr) was created in 2014 by merging the Croatian Agency for SMEs and Investments (HAMAG INVEST) and the Business Innovation Center of Croatia (BICRO) with the aim to create a unique system that will provide support to entrepreneurs through all the stages of business development. The agency is involved in activities related to encouraging the establishment and development of small and medium enterprises and its activities fall under the jurisdiction of the Ministry of Entrepreneurship and Crafts;
- **Croatian Employers' Association** (www.hup.hr) – voluntary, non-profit and independent organisation of employers that protects and promotes the rights of its members. Associations' activities are in the fields of labour-social legislation, industrial relations, protection of private property, promotion of development and regulation of market conditions, strengthening competitiveness and favourable entrepreneurial climate;
- **Croatian Chamber of Economy** (www.hgk.hr) – non-profit, non-governmental association of all active legal entities (membership in CCE is obligatory), which consists of 98.06% of small enterprises, 1.52% medium and 0.42% large enterprises. In the second half of 2014 CCE has been reorganised into 20 county chambers and ten departments, one of which is the **Industry and Technology Department**, within which the **Centre for Entrepreneurship, Innovations and Technological Development** operates;
- **Croatian Chamber of Trades and Crafts** (www.hok.hr) – independent professional and business organisation of craftsmen founded to promote, harmonize and represent the common interests of craftsmanship. Membership in CCTC is obligatory, and it operates through 20 district chambers, 116 craftsmen associations and 18 sections and guilds;

- **European Bank for Reconstruction and Development** (www.ebrd.com) – organisation which, through its “Small Business Support team”, provides information and advisory services to small and medium enterprises aimed at achieving growth, improvement of export potential and new employment opportunities;
- **SMEs and Entrepreneurship Policy Center – CEPOR** (www.cepor.hr) – independent policy center that deals with the issues of small and medium enterprises in Croatia, whose aim is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy. CEPOR is focused on creating stimulating institutional and regulatory framework for entrepreneurial activity. Since 2014, **Center for Family Businesses and Business Transfer – CEPRA** operates within CEPOR, whose goal is to provide support to family and other small and medium enterprises in the field of business transfer and other specific challenges related to the management of family businesses.

4.1.2. National and regional policies and programs

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

- **Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020**, from 2013, whose aim is to increase the competitiveness of small businesses in Croatia by improving economic performance, improving access to finance, promoting entrepreneurship, improving entrepreneurial skills and improving the business environment;
- **National Strategy for Entrepreneurial Learning 2010–2014**, from 2010, whose aim is to sensitize the public about entrepreneurship and develop a positive attitude towards lifelong learning, and to introduce learning and training for entrepreneurship as a key competence to all forms, types and levels of formal, non-formal and informal education and learning;
- **Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020**, from 2014, whose aim is to improve the coherence and interconnectedness of public policies, to improve systemic support for women entrepreneurship, introduce women entrepreneurship in the overall institutional structure, and to promote women entrepreneurship;
- **Action Plan for Implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020**, from 2014
- **Cluster Development Strategy in the Republic of Croatia 2011–2020**, from 2011, whose aim is to improve the management of Croatian cluster policy, strengthen clusters and cluster associations, to promote innovation and transfer of new technologies, conquer new markets and internationalisation of clusters, and strengthen the knowledge and skills for cluster development;
- **Strategic Plan of the Ministry of Entrepreneurship and Crafts 2012–2014**, from 2012, whose aim is to strengthen the competitiveness of the Croatian economy through more efficient use of EU funds and development of activities of HAMAG INVEST (HAMAG BICRO since 2014);
- **Strategic Plan of the Ministry of Entrepreneurship and Crafts 2013–2015**, from 2013, through which incentive measures will be specifically focused on strengthening the competitiveness of small and medium enterprises and crafts in the EU single market and the use of EU funds;
- **Program to Encourage Entrepreneurship and Crafts – Entrepreneurial Impulse 2014**, from January 2014..

Programs and policies relevant to the small and medium enterprise sector in Croatia need to be harmonized with the **Small Business Act of Europe**³⁷ from 2008, with which the European Union provided guidelines for the recognition of the central role of small and medium enterprises in the economy of the European Union. Croatia can monitor deviations from expectations defined in the *Small Business Act of Europe* through two evaluations: SBA Fact Sheet and SME Policy Index.

SBA Fact Sheet 2014³⁸ for Croatia – annual report of the EU that analyses changes in trends in the environment and regulatory framework at national level for the sector of small and medium enterprises. Despite the progress that has been achieved in the last six years, Croatia still significantly lags behind the EU member states in the quality of entrepreneurial environment. The only area in which Croatia has recorded better results in comparison with the EU is *Environment*, as a result of greater availability of state aids in the field of environmental protection and energy efficiency to small and medium enterprises in Croatia. Croatia reached the EU average in two areas of the SBA Fact Sheet report – *Access to finance* and *Skills and innovation*. In relation to the 2013, progress has been made in the areas of *Responsive administration and Skills and Innovation*, while deterioration was recorded in the areas of *Entrepreneurship, Second chance, Access to finance and Internationalisation*.

SME Policy Index monitors the implementation of the Small Business Act for Europe through 108 indicators which provide a framework for evaluation of national policies for small and medium enterprises, and are based on the principles of the Small Business Act. Report for eight countries of South Eastern Europe³⁹, was published in October 2012, and it relates to evaluation of changes of policies in the period from 2009 to 2011.

In this group of countries, Croatia, together with Serbia and Turkey, is considered the leader in changes of policies related to the small and medium enterprise sector. The report also identifies areas that demand significant changes, such as further improvement of regulatory framework within which entrepreneurial activity takes place, support to development of non-traditional sources of financing (venture capital funds, business angels, etc.) of small and medium enterprises, and support to the development of innovative and knowledge-based businesses.

GEM research also monitors changes in the quality of business environment. In all the years of Croatia's involvement in the GEM research, lack of consistent government policies related to the issues of the small and medium enterprises has been identified as one of the biggest obstacles to the development of the small and medium enterprise sector (Table 24).

Table 24: Evaluation of government policies in 2012 and 2013

	2012		2013	
	Average	Croatia	Average	Croatia
Policies supporting entrepreneurial activity	2.60	1.96	2.58	2.19
Policies towards regulatory framework	2.43	1.74	2.35	1.83

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

37 Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF>, downloaded in October 02, 2014

38 Areas of analysis of the SBA Fact Sheet reports are: Entrepreneurship, Second chance, Think small first, Responsive administration, State aid and public procurement, Access to finance, Single market, Skills and innovation, Environment and Internationalisation.

39 Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Serbia, Croatia and Turkey

Government policies for 2013, observed through policies supporting entrepreneurial activity (2.19) and policies aimed at simplifying regulatory framework (1.83) are graded lower than the average of countries participating in the GEM research, which indicates the need for faster and more intensive response in the development of consistent policies aimed at the small and medium enterprise sector.

4.1.3. Regulatory environment

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

- Act on Improving Entrepreneurial Infrastructure (Official Gazette, NN 93/13, 114/13, 41/14)
- Small Business Development Promotion Act (Official Gazette, NN 29/02, 63/07, 53/12, 56/13)
- State Aid Act (Official Gazette, NN 47/14)
- Companies Act (Official Gazette, NN 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13)
- 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, 143/12)
- Act on Investment Promotion and Development of Investment Climate (Official Gazette, NN 111/12, 28/13)
- Small Business Development Promotion Act (Official Gazette, NN 29/02, 63/07, 53/12, 56/13)
- Foreign Exchange Act (Official Gazette, NN 96/03, 140/05, 132/06, 150/08, 92/09, 133/09, 153/09, 145/10, 76/13)
- National Payment System Act (Official Gazette, NN 133/09, 136/12)
- Concessions Act (Official Gazette, NN 143/12)
- Capital Market Act (Official Gazette, NN 88/08, 146/08, 74/09, 54/13, 159/13)
- Crafts Act (Official Gazette, NN 143/13)
- Trade Act (Official Gazette, NN 87/08, 96/08, 116/08, 76/09, 114/11, 68/13, 30/14)
- Court Register Act (Official Gazette, NN 1/95, 57/96, 1/98, 30/99, 45/99, 54/05, 40/07, 91/10, 90/11, 148/13, 93/14)
- Act on Services (Official Gazette, NN 80/11)
- Act on Public-Private Partnership (Official Gazette, NN 78/12)
- Accounting Act (Official Gazette, NN 109/07, 54/13)
- Audit Act (Official Gazette, NN 146/05, 139/08, 144/12)
- Competition Act (Official Gazette, NN 79/09, 80/13)
- Public Procurement Act (Official Gazette, NN 90/11, 83/13, 143/13, 13/14)
- Environmental Protection Act (Official Gazette, NN 80/13, 153/13)
- Physical Planning and Building Act (Official Gazette, NN 76/07, 38/09, 55/11, 90/11, 50/12, 55/12, 80/13)
- Labour Act (Official Gazette, NN 93/14)
- Consumer Protection Act (Official Gazette, NN 41/14)
- Bankruptcy Act (Official Gazette, NN 44/96, 29/99, 129/00, 123/03, 82/06, 116/10, 25/12, 133/12)
- Enforcement Act (Official Gazette, NN 112/12, 25/13, 93/14)

Tax system legislation consists of the following acts:

- General Tax Act (Official Gazette, NN 147/08, 18/11, 78/12, 136/12, 73/13)
- Contributions Act (Official Gazette, NN 84/08, 152/08, 94/09, 18/11, 22/12, 144/12, 148/13, 41/14)
- Profit Tax Act (Official Gazette, NN 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13)
- Income Tax Act (Official Gazette, NN 177/04, 73/08, 80/10, 114/11, 22/12, 144/12, 43/13, 120/13, 125/13, 148/13, 83/14)

- Value Added Tax (Official Gazette, NN 73/13, 99/13, 148/13, 153/13)
- Real Estate Transfer Tax Act (Official Gazette, NN 69/97, 26/00, 127/00, 153/02, 22/11)
- Excise Duties Act (Official Gazette, NN 22/13, 32/13, 81/13)

The principal act of the customs system is:

- Act on Implementing Customs Regulations of the European Union (Official Gazette, NN 54/13)

World Banks' Doing Business study for 2014 shows that the negative trend in the quality of regulatory environment in Croatia has been stopped (out of 189 countries included in the survey, Croatia took the 65th place in 2014, while in 2013 it was in the 89th place). The negative trend was stopped in the following indicators: access to electricity, protection of investors, exports, registering property and resolving insolvency, while deterioration was observed in regulations for enterprise start-up, obtaining construction permits, getting credit, paying taxes and enforcing contracts.

Table 25 provides an overview of indicators of regulatory environment for Croatia, according to the Doing Business study, in relation to the best ranked countries and neighbouring Slovenia.

Table 25: Overview of selected indicators of quality of the regulatory environment according to the Doing Business study for 2014

Regulatory area	Indicator			
	Croatia	Best indicator (country)	EU (av.)	Slovenia
Regulations for enterprise start-up				
Number of procedures	7	New Zealand 1	5	2
Time (days)	150	0.5	12.1	6
Cost (% of income per capita)	3.5	0.3	5.3	0.0
Minimum capital (% of income per capita)	26.6	0.0	5.8	44.1
Paying taxes				
Number of payments per year	19	United Arab Emirates 4	20.5	11
Time (hours per year)	208	12	234.3	260
Profit tax (% of gross profit)	0.0	0.0	10.4	12.5
Income tax and contributions (%)	17.1	14.1	21.4	18.2
Other taxes (%)	1.6	0.7	3.1	1.4
Total tax burden (% of profit)	18.8	14.8	34.9	32.0
Enforcing contracts				
Number of procedures	38	Singapore 21	37	32
Time (days)	572	150	448.1	1,270
Cost (% of debt)	13.8	25.8	25.2	12.7
Bankruptcy				
Time of insolvency (years)	3.1	Finland 0.9	2.3	2.0
Cost of insolvency (% of assets)	14.5	3.5	13.3	4
Recovery rate (cents on 1 USD)	30.5	90.2	37.7	50.1

Source: *Doing Business 2015, Croatia – Country Profile, The International Bank for Reconstruction and Development / The World Bank*

In 2014, the Doing Business study positions Croatia lower than in the previous year according to the criterion of complexity of regulatory environment for enterprise start-up (in 2014 Croatia was

positioned in the 88th place, while in 2013 it was in the 80th place). The criterion of complexity of regulatory environment for enterprise start-up is measured by the number of procedures required for enterprise registration, number of days required for enterprise registration, required minimal capital for enterprise start-up (from 0% 2013, to 26.6% in 2014) and registration costs, which is the only category in which a positive shift has been recorded (from 9.3% in 2013, to 3.5% in 2014). The main reason for the deterioration of position in this area is an increase in the number of procedures required to start-up an enterprise and in the number of days required for enterprise registration compared to 2013, while the other surveyed countries, including those in the region, have decreased the number of procedures and time required to start-up and register an enterprise. Thus, for example, it takes four and a half days and four procedures to register a company in Albania, while in Hungary it takes five days and four procedures, and five days and five procedures in Italy.

In the Paying taxes category, Croatia has the same number of annual taxes compared to 2013 (19 taxes per year), while the time for preparing and paying taxes has increased (from 196 hours a year in 2013 to 208 hours a year in 2014). According to this indicator, United Arab Emirates have the best score in 2014, where four taxes are paid per year and it takes 12 hours to prepare and pay taxes (measured by the number of hours per year). Among the European examples of good practice, Norway, which has only four taxes per year and it takes just 83 hours to prepare and pay taxes, should be pointed out, as well as Ireland, which has nine taxes per year and it takes 80 hours to prepare and pay taxes.

The total tax burden of entrepreneurs in Croatia in 2014 is 18.8%, which is a decrease of one percentage point in relation to 2013 when the total tax burden of entrepreneurs was 19.8%, while it takes 208 hours to prepare and pay taxes, which is 12 hours more than in 2013.

The major tax burdens for businesses in Croatia are value added tax, income tax, profit tax and income of local communities (municipalities and towns) – surtax (Table 26).

Table 26: Taxes in Croatia

Type of tax	Tax payer	Tax base	Tax rate
VALUE ADDED TAX	Physical and legal entity (entrepreneur) that deliver goods or performs services	Fee for goods delivered or services performed	5% 13% 25%
INCOME TAX	Physical entity that earns taxable income	Total income earned by local tax payers in Croatia and abroad and by foreign tax payers in Croatia	12% 25% 40%
PROFIT TAX	Enterprises and other legal and physical entities that perform activity with the aim of making profit	Profit (difference between income and expenses)	20 % 15% on withholding tax 12 % on dividends and profit shares
SURTAX	Tax on income of tax payers	Income tax	Municipality: up to 10% Town with population less than 30,000: up to 12% Town with population above 30,000: up to 15% City of Zagreb: up to 30%

Source: Tax system of the Republic of Croatia, www.porezna-uprava.hr, 2014

4.2. Obstacles to the development of small and medium enterprises through the prism of international research

For many years, numerous worldwide studies in which Croatia is included identify in their annual reports the same key obstacles to the development of the small and medium enterprise sector in Croatia:

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

Global Entrepreneurship Monitor – GEM researches the connection between general macroeconomic conditions⁴⁰ and entrepreneurial conditions framework⁴¹. The results of GEM research in Croatia from 2002 to 2013 identify the weakest components of the entrepreneurial ecosystem:

- Government policies towards regulatory framework,
- Entrepreneurial education, and
- Transfer of results of research and development to the small and medium enterprise sector.

The above components had the lowest grades in all the years of implementation of the GEM research in Croatia, and represent obstacles to entrepreneurial activity due to their (lack of) quality.

Other international research projects that analyse various aspects of national economies also confirm the results of GEM research on the main obstacles to entrepreneurial activity.

Global Competitiveness Report 2014–2015⁴², which is implemented by the World Economic Forum, positions Croatia in 77th place out of 144 countries involved in the research which represents a drop of two places in relation to results from 2013. Since 2002, when it was first included in this research, Croatia's results in the competitiveness rankings have been oscillating until 2005, followed by a period of improvement (2005–2007), and a continuous decline after that (2008–2012). Results for 2013 have shown an improvement, while a drop was recorded again in 2014.

Croatia's position in the competitiveness ranking in 2014 is the result of a significant drop in the quality of macroeconomic environment (from 67th place in 2013 to 91st place in 2014) and innovation (from 79th place in 2013 to 93rd place in 2014), and only minimal improvement in the

40 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.

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

42 Results are based on perceptive data obtained by research of entrepreneurs' opinions and from publicly available statistical indicators in 2013 and 2014, which were published in 2014. 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 and training, labour market efficiency, goods market efficiency, technological readiness, business sophistication, innovativeness, market size and financial market.

area of institutions (from 93rd place in 2013 to 87th place in 2014), health and primary education (from 66th place in 2013 to 60th place in 2014), business sophistication (from 88th place in 2013 to 83rd place in 2014), and in financial market development (from 78th place in 2013 to 74th place in 2014)⁴³.

In 2014, according to the Report, the most problematic factors for doing business in Croatia are still low efficiency of public administration, instability of policies, corruption, tax rates, tax policy, access to financial resources, restrictive labour legislation and poor work ethic of the national workforce.

According to quality of factors that influence competitiveness, Croatia is surrounded by the following countries of South Eastern Europe (Table 27) – Slovakia (75th), Slovenia (70th) and Montenegro (67th).

Table 27: Results of the Global Competitiveness Report 2014–2015 – Croatia and reference countries

Country	Rank 2014	Rank 2013	Change	
Poland	43.	42.	↘	-1
Czech Republic	37.	46.	↗	+9
Bulgaria	54.	57.	↗	+3
Slovenia	70.	62.	↘	-8
Hungary	60.	63.	↗	+3
Montenegro	67.	67.	→	0
Macedonia	63.	73.	↗	+10
Croatia	77.	75.	↘	-2
Romania	59.	76.	↗	+17
Slovakia	75.	78.	↗	+3
Bosnia and Herzegovina	-	87.	-	-
Albania	97.	95.	↘	-2
Serbia	94.	101.	↗	+7

Source: *Global Competitiveness Report 2014–2015*, World Economic Forum / National Competitiveness Council, 2014

In addition to the main obstacles to the functioning and development of the economy (administrative barriers, inefficiency of the judiciary, lengthy ownership registration procedures, low focus on entrepreneurial education, underdevelopment of non-formal forms of financing start-up of business ventures), corruption is also present in Croatia, which is monitored by the Corruption Perceptions Index research.

43 "Global Competitiveness Report 2014–2015: Position of Croatia", National Competitiveness Council, Zagreb, 2014

Corruption Perceptions Index⁴⁴ is the result of research carried out by Transparency International, and measures the degree of perception of corruption in the public sector and among officials and defines a ranking list of countries according to the assessment of the extent of corruption in them. Values of the index indicate that corruption is a significant problem in the functioning of the Croatian economy. According to the Corruption Perception Index, on a scale from 0 (complete corruption) to 100 (no corruption), Croatia scored 48 points in 2014, which positions it in 61th place, compared to 175 countries participating in the research. With 58 points (39th place in the ranking), Slovenia has the best result of the neighbouring countries, while countries with less favourable corruption perceptions index levels than Croatia are Macedonia (45 points, 64th place), Bosnia and Herzegovina (39 points, 80th place), Montenegro (42 points, 76th place) and Serbia (41 points, 78th place). In comparison to the previous year, Croatia has dropped four places, and it belongs to the group of five most corrupted countries in the area of Western and Central Europe. The fact that Croatia has been in the group of countries with a significant level of corruption (under 50 points) for years, indicates that the manner in which this problem is being dealt with is not sufficiently effective.⁴⁵

44 Corruption Perceptions Index measures the level of perception of corruption in the public sector and among officials in 175 countries worldwide. The results of the Corruption Perceptions Index in 2014 have been prepared on the basis of surveys conducted by 12 independent institutions, with the respondents being businessmen and analysts. Corruption Perceptions Index evaluates all levels of work of public authorities. Most studies assess to what extent legal framework in a country prevents corruption, and some take into account how clear and transparent the processes of issuing documents by public authorities are. Within the research, respondents were asked, among others, questions such as: are there clear procedures and a system of supervision when it comes to the allocation and use of public funds; do officials misuse public funds for private or party purposes; does the government directly appoint a large number of officials. *Source: <http://www.transparency.hr/>, downloaded on December 03, 2014*

45 Countries that are considered "very clean", i.e., countries with between 90 and 100 points, are traditionally Denmark with 92 points and New Zealand with 91 points, followed by Finland (89 points), Sweden (87 points), and Norway and Switzerland (86 points).

5. Access to financing

One of the important factors for the development of the small and medium enterprise sector is the access to financing. The main sources of financing of the small and medium enterprise sector in Croatia are: banking sector, credit unions and government incentive programs and subsidized credit lines. Venture capital funds and informal sources of financing (business angels⁴⁶) are still very poorly represented and poorly used as sources for financing development and growth of small and medium enterprises in Croatia.

The results of GEM research in Croatia from 2002 to 2013 show that the availability of financial resources in all the years is more of an obstacle than an incentive for the development of entrepreneurial ventures (grade of that component of entrepreneurial environment is below 3, on a scale from 1 to 5). Small and medium enterprises are more significantly focused on traditional sources of financing (bank loans). A lesser focus on non-traditional sources of financing (venture capital funds and business angels) is the result of the limited supply of such sources in the Croatian financial market, as well as insufficient knowledge of such financial products. The perception of the availability of non-traditional sources of financing in the period from 2011 to 2013 in Croatia has been graded below the average of countries involved in the GEM research. However, the perception has improved in 2013 (2.29 in 2013 compared to 2.12 in 2012). The average grade of availability of non-traditional sources of financing for all countries involved in the GEM research has been continuously growing in the period since 2010 (from 2.39 in 2010 to 2.55 in 2013), but in Croatia, after the fall to 2.26 in 2011 (from 2.44 in 2010 – when Croatia was even above the GEM average), it oscillates at a level below the GEM average (Table 28).

Table 28: Perception of availability of non-traditional sources of financing in 2012 and 2013

	Grade 5 indicates:	2012		2013	
		Average	Croatia	Average	Croatia
Financial support	There are enough equity funds, debt financing, government subsidies, private investors, venture capital funds; availability of initial public offering (IPO)	2.48	2.12	2.55	2.29

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

In addition to the above information on the availability of financial resources provided by the GEM research, insight into information about the credit market, protecting investors and registering property is provided by the World Bank's Doing Business study (Table 29) and the research of the European Commission through the SBA Fact Sheet.

⁴⁶ In developed countries, successful managers and entrepreneurs with significant experience at the end of their business careers decide to invest the capital earned in entrepreneurial ventures in the early stages of growth, for which they receive tax relief (e.g. in Germany or Spain).

Table 29: Overview of indicators of quality of the regulatory environment from the Doing Business study, related to the loan market for 2014

Regulatory area	Indicator			
	Croatia	Best indicator (country)	EU (average)	Slovenia
Credit market				
Strength of legal rights index (0-10)	5	New Zealand 12	6	3
Depth of credit information index (0-6)	6	8	6	4
Public registry coverage (% of adults)	0	0	19.3	3.2
Private bureau coverage (% of adults)	100	100	33.7	100
Registering property				
Number of procedures	5	Georgia 1	5.4	5
Time (days)	72	1	23.1	109.5
Cost (% of property value)	5	0.1	2.7	2
Protecting investors				
Extent of disclosure index ⁴⁷ (0-10)	3	New Zealand 10	6.4	5

Source: *Doing Business 2015, Croatia – Country Profile, International Bank for Reconstruction and Development /World Bank*

Doing Business study analyses *Credit market* through the following criteria: strength of legal rights index, depth of credit information index and public registry coverage. According to these criteria, *Doing Business* study for 2014 positions Croatia in the 61st place out of 189 countries that have participated in the research, which is a significant deterioration compared to 2013 when Croatia was positioned in the 34th place out of 189 countries that have participated in the research. On a scale from 0 to 10, protection of interests of creditors and debtors through regulatory framework in Croatia is graded 5, which is a grade lower than the average EU countries, but higher than 3, which is how protection of interests of creditors and debtors through regulatory framework in Slovenia is graded. Depth of credit information is graded 6, on a scale from 0 to 6, which is the same as the average of EU countries, but higher than 4, which is the grade for depth of credit information in Slovenia. In New Zealand, which is ranked 1st in the segment of *Credit market*, the interests of creditors and debtors are fully protected by quality legal framework (grade 12), with a high transparency of credit information (grade 8).

Complexity of registering property is determined by evaluating the number of procedures needed for registering property, required time and cost of registration (in percentage compared to the value of the property). Compared to the EU average, Croatia has a slightly smaller number of procedures (5), almost double the cost of registration, while the time needed to register property is significantly longer (72 days in Croatia, compared with 23.1 days, which is the EU average).

⁴⁷ Extent of disclosure index ranges from 0 to 10, where the highest value indicates a high level of transparency of corporate governance and encompasses 5 aspects of transparency of corporate governance.

According to the SBA Fact Sheet data for Croatia, 21.6% of small and medium enterprises indicate a deterioration in access to finance in 2013 (EU average is 17.3%), and 21% of small and medium enterprises were denied loans by banks (EU average is 24.6%). The time required for debt collection in Croatia is 52 days, and 51 days in the EU, but operating loss due to bad debt in Croatia amounts to 9.9%, (3.83% in the EU). In the category strength of legal rights, Croatia records the same performance as the EU, with the grade 7.

5.1. Banks

Banks in Croatia have recognized the importance of the small and medium enterprise sector and the market of bank loans intended for SMEs is highly developed. Almost all banks offer to small and medium enterprises: loans for financing exports, for working capital, investment loans, construction loans, loans for tourism services, mortgage loans, loans for specific (green) activities (development of olive growing, development of viticulture and winemaking), loans for the financing solar systems for the production of electricity and heat, loans for beginners, loans for suppliers, loans for women entrepreneurs, etc.

Also, in addition to offering of their own products, almost all major banks provide additional lines of financing to entrepreneurs, which are manifested through various forms of business cooperation with ministries, HBOR, HAMAG BICRO, local government units, cities, counties, and international financial institutions (EBRD – European Bank for Reconstruction and Development, EIB – European Investment Bank, CEB – Council of Europe Development Bank, EFSE – European Fund for Southeast Europe, EIF – European Investment Fund, etc.).

Analysis of the offer of financial products intended for small and medium enterprises indicates that the Croatian credit market is dominated by the following financing terms:

Long-term loans

Amount:	up to 5 million HRK (depending on creditworthiness and purpose)
Duration:	up to 15 years
Interest:	consensual
Insurance:	1:1 -1:1,5; promissory notes, debentures, deposits

Short-term loans

Amount:	from 10,000.00 HRK to 150,000.00 HRK, depending on client's creditworthiness
Duration:	up to 12 months
Interest:	consensual
Insurance:	deposit, pledge of commission disbursements, pledge of securities, promissory notes, debentures

Table 30 shows the terms and conditions for approval of long-term and short-term loans to small and medium enterprises according to the offer of banks in Croatia that have submitted their offers at the request of CEPOR.

Table 30: Loan offer for small and medium enterprises – Erste&Steiermärkische Bank d.d., Zagrebačka banka d.d. and Privredna banka Zagreb d.d.

Bank name	Type of loan	Loan purpose	Maximum amount	Interest rate	Repayment period
Erste&Steiermärkische Bank d.d.					
Short-term financing	Credit line	Financing occasional needs for additional working capital, and periodic maintenance of liquidity.	The amount is determined in the amount of up to one average monthly income of the enterprise, or up to a maximum of average monthly revenue for crafts and independent professionals.	Contractual interest is paid only on the amount of funds (overdraft) in use.	Up to 12 months
	Revolving loan		Depending on creditworthiness.	No data	Do 12 mjeseci
	Loan for financing exports	Financing the preparation and implementation of export transactions, enabling exporters to maintain a balanced cash flow and increase business efficiency.	Up to 100% of the Single Administrative Document or the export contract or foreign currency income	No data	Up to 12 months / Up to 150 days
	Working capital loan	Financing of working capital (procurement of inventory, payment of obligations to suppliers, etc.), i.e., increasing turnover and revenue with a stable cash flow.	Depending on the creditworthiness, the amount of the investment and own participation.	No data	Up to 12 months
	Loans covered by cash deposit or pledge	Financing short-term liabilities with pledge of 100% of cash deposit / commission disbursements placed with bank guarantee / securities guaranteed by the bank or securities issued or guaranteed by the Republic of Croatia.	95% of the offered deposit, 95% of the nominal value, i.e., up to 95% of the market value.	No data	Up to 12 months
	Short-term limit	Approval of short-term limit within which all types of the bank's short-term products, customs guarantees with a validity period of up to 1 year and additional time limit after due date of 3, that is, 6 months, and long-term performance guarantees with a validity period of up to 3 years.	Depending on the creditworthiness of the borrower.	No data	Up to 12 months
Long-term financing	Investment loan	Mid-term and long-term financing of investment projects or programs.	Depending on creditworthiness, the amount of the investment and own participation	No data	Up to 10 years
	Loans for permanent working capital	Financing permanent working capital required for quality everyday operations.		No data	Up to 7 years

Long-term financing		Zagrebačka banka d.d.		Short-term financing	
Construction loans	Financing residential and commercial construction projects intended especially for sale in the market.	Depending on creditworthiness, the amount of the investment and own participation	No data	Up to 3 years	
Tourism loans	Purchase or construction of new, adaptation, extension or reconstruction of existing tourism facilities for the purpose of conducting tourism activities.	No data	No data	Up to 15 years	
Loans covered by cash deposit or pledge	Financing short-term liabilities with pledge of 100% of cash deposit / commission disbursements placed with bank guarantee / securities guaranteed by the bank or securities issued or guaranteed by the Republic of Croatia.	95% of the offered deposit, 95% of the nominal value, i.e., up to 95% of the market value.	No data	Up to 10 years	
Microfinancing	Supporting and financing entrepreneurs with quality entrepreneurial ideas, from production of ecological food products, souvenirs, intellectual services, tourism, construction services, agriculture, trade, etc. All entrepreneurs undergo mandatory training in the basics of entrepreneurship and business planning, skills for successful negotiations and marketing presentations of operations.	10,000.00 – 15,000.00 EUR	No data	Up to 5 years	
Loan for the development of tourism activities	Financing the preparation of the tourist season of the current year, and investments in tourism.	Minimum 5,000.00 EUR, and the maximum amount depends on the creditworthiness of the borrower.		Up to 6 months	
Loan for the development of olive growing	Financing contracts for the delivery of olive oil, purchase of olives and refinancing loans in other banks.	Maximum amount of up to 5 million HRK / Depending on the creditworthiness of the borrower.		Up to 12 months	
Loan for the development of viticulture and winemaking	Financing contracts for the delivery of goods and refinancing loans in other banks.	Depending on the creditworthiness of the borrower.	Variable		
Loan for business financing	Financing seasonal jobs and refinancing loans for the same purpose.	Depending on the creditworthiness of the borrower.			
Loans in cooperation with EBRD	Working capital, short-term needs of the borrower.	5,000.00 EUR to 1,500,000.00 EUR		Up to 12 months	
Loans in cooperation with EBRD	General purpose.	Maximum of 150,000.00 HRK			

Bank name	Type of loan	Loan purpose	Maximum amount	Interest rate	Repayment period
Zagrebačka banka d.d.					
Long-term financing	Loan for investments	Purchase, construction, reconstruction or improvement of land or building.	Depending on the creditworthiness of the borrower.	Variable	5 – 10 years
	Loan for the development of tourism activities	Purchase, improvement or adaptation of tourism facilities.			Up to 15 years
	Green loans	Financing solar systems for the production of electricity and heat.	Up to 10 years		
	Loan for the development of viticulture and winemaking	Purchase of land in order to expand activities, procurement of equipment, permanent working capital.	Up to 12 years		
	Loan from the "Beginner" program	Purchase of land, procurement of equipment, procurement of vehicles.	Up to 25 years		
	Loan from the "Senior" program	Purchase of land and development of infrastructure, procurement of equipment, vehicles, refinancing long-term loans and reimbursement of investments in long-term assets.	5,000.00 to 250,000.00 EUR		
	Loan for the development of olive growing	Purchase of land and equipment for the purpose of planting olive trees or expansion of activities.	Minimum 5,000.00 EUR, and the maximum amount depends on the creditworthiness of the borrower.		
	Loans in cooperation with EBRD	Purchase of land for commercial purposes, purchase, construction, reconstruction or expansion of buildings; procurement of equipment, permanent working capital.	Maximum amount of up to 5 million HRK		
	Loans in cooperation with EBRD	General purpose.	5,000.00 EUR to 1,500,000.00 EUR		
					Maximum of 150,000.00 HRK
Privredna banka Zagreb d.d.					
Short-term financing	Tourism loan	Preparation of the tourist season.	Up to 120,000.00 HRK	No data	Up to 12 months
	Agricultural loan	One-year production of agricultural crops.	From 10,000.00 HRK to 150,000.00 HRK	6.5% annual, fixed	Up to 3 years
	Consumer loans	Purchase of consumer goods and services.	From 500.00 EUR to 10,000.00 EUR	13.38% annual, variable	From 24 months to 60 months
	Short-term loans	Financing current needs and maintaining short-term liquidity in production, trade, transport, for exports, payment for services, seasonal needs, investment in working capital.	Loan amount is set depending on the creditworthiness of the borrower.	No data	Up to 12 months

Bank name	Type of loan	Loan purpose	Maximum amount	Interest rate	Re-payment period
Privredna banka Zagreb d.d.					
Long-term financing	Tourism investment loan	Construction of new buildings, adaptation and furnishing, wellness programs and environment, procurement of mobile houses.	From 35,000.00 EUR to 200,000.00 EUR	No data	From 5 to 15 years
	Loans for the development of economic activities (in cooperation with HBOR)	Investments in fixed and permanent working capital.	Not limited, depends on the specific investment program and creditworthiness of the borrower.	2%–6%, annual, fixed	Up to 10 years
	Loans to encourage the development of small and medium entrepreneurship (in cooperation with HBOR)	Investments in fixed assets, purchase of construction land, machinery, equipment, vehicles, etc.	Up to 75% of the value of the investment, maximum amount up to 8,000,000.00 HRK per project.	2%–6%, annual, fixed	Up to 10 years
	Loans for the preparation of goods for export and loans for export of goods (in cooperation with HBOR)	Financing the preparation of export of goods.	Not limited, depends on the creditworthiness of the borrower.	4%, annual, fixed	Up to 3 years
	Loans for the development of islands (in cooperation with HBOR)	Investment in fixed and working assets, establishment of a farm, establishment of a small business, development of crafts and small entrepreneurship.	Up to 400,000.00 HRK, exceptionally up to 1,500,000.00 HRK	2%–4%, annual, fixed	Up to 12 years
	Loans for reconstruction and development of municipal infrastructure (in cooperation with HBOR)	Long-term financing of municipal infrastructure projects.	Not limited, up to 80% of estimated investment value is credited.	6% or EURIBOR 2%, variable	Up to 15 years
	Loans to support the tourism sector (in cooperation with HBOR)	Investment in fixed and working assets (campgrounds, hotels, boarding houses)	Not limited, depends on the creditworthiness of the borrower.	2%–6%, annual, fixed	Up to 10 years
	Products developed in cooperation with MINPO for the following projects: Entrepreneur, Social services, Veterans, Female entrepreneurship, Youth entrepreneurship and New technologies	Purchase, construction, reconstruction or expansion of business and production buildings, procurement of equipment, financing working capital as a function of investment up to the 50% of the loan.	Minimum 5,000.00 EUR, and the maximum amount is not limited, depends on the specific investment program and creditworthiness of the borrower.	Subsidized interest, 2%–4% annually	Up to 10 years
	EU Sinergo loans (in cooperation with EIF and CIP)	Financing the needs for working capital and investment projects.	Up to 25,000.00 EUR	No data	From 3 to 6 years
	EU financing programs (in cooperation with EIB and CEB)	Financing the construction, purchase and adaptation of production capacities and business buildings, expansion and modernization of production capacities, procurement of equipment, machinery and vehicles, research and development, protection of health and education, and financing of investments that contribute to maintaining jobs and creating new ones.	From 40,000.00 EUR to 1,000,000.00 EUR	No data	From 4 to 7 years

Source: Erste&Steiermärkische Bank d.d., 2014, Zagrebačka banka d.d., 2014 and Privredna banka Zagreb d.d., 2014

In 2012 and 2013 a stagnation of credit activity of banks in Croatia was evident⁴⁸. In 2013, the banking sector has disbursed 286,871.4 million kuna, which is 1% more compared to 2012⁴⁹ when the total disbursement was 283,905.6 million kuna. Total disbursement of banks to companies in 2013 was unchanged compared to 2012 (in 2013 there were 107,993.3 million kuna of such disbursements, or 37.6% of total disbursement of all loans, while in 2012 there were 107,990.4 million kuna, or 38% of total disbursement). The largest part of total disbursement of loans in 2013 was aimed at the population (43.1%), while 15.1% was disbursed to government units. In 2013, by activity, loans for investments, construction and financing of exports have decreased the most, while an increase was recorded in loans for professional, scientific and technical activities, accommodation and food service activities, and transport and storage activities.

5.2. Microfinance and credit unions

One of the main objectives of the Strategy for Development of Entrepreneurship 2013–2020 is to facilitate access to sources of financing for small and medium enterprises, with an expected increase in funding of 40% by 2020.

Microfinancing, in contrast to the standard models of financing, entails lending and the provision of basic financial services with terms and provisions that allow clients to overcome the shortcomings of traditional guarantees, as well as training and mentoring. Microfinance services are aimed at micro enterprises, self-employed and unemployed people, for whom limited access to financing represents a high barrier to the implementation of a business venture. In such cases, approval or disapproval of a loan in the amount of e.g. 20,000 kuna could mean new employment, on the one hand, or closure of a business entity, on the other.

Providers of microfinance services are credit unions, which operate in more than 100 countries worldwide, where they provide various financial services, primarily credit and deposit services. Comparison of the microfinance model in Croatia with best international practice developed over the last three decades indicates underdevelopment of microfinance in Croatia⁵⁰ in relation to developed financial markets in which a wide range of such institutions operates⁵¹.

Based on the **Credit Unions Act**⁵² from 2011, savings and loan cooperatives in Croatia have been replaced by credit unions. The restrictive provisions of the Act, primarily defining of the territorial principle and the reduced number of activities, have prevented a large number of financial institutions to adjust to new legislation. Also, in terms of personnel, technical and financial capacity, a certain number of cooperatives was incapable of transformation and the new way of working as a credit union. A series of restrictions brought by the 2011 Act led to a significant reduction in the

48 CNB's Annual Report presents data on total disbursement of loans to companies, without a special overview of disbursement with regard to company size. Source: "Annual Report 2013", Croatian National Bank, Zagreb, 2014, p. 67.

49 "Annual Report 2013", Croatian National Bank, Zagreb, 2014

50 In 2010, CEPOR – SMEs and Entrepreneurship Policy Center and Croatian Bank for Reconstruction and Development – HBOR conducted a survey among the participants of the Microfinance Workshop with the aim to collect opinions on application and possibilities of microfinancing in Croatia. Korynski, P: "Microfinance in Croatia: Research results", CEPOR, 2010. The survey indicated the following problems: lack of guarantees for loans (60%); inadequate offer of banking products and services (53%); demanding loan documentation (46%); too high interest rate (34%); lack of information among users regarding financial products (26%).

51 Overview of the Microcredit Sector in the European Union 2010–2011, European Microfinance Network, 2012

52 Official Gazette, NN 141/06, 25/09, 90/11

number of savings and loan cooperatives that were transformed into credit unions⁵³.

According to the Croatian National Bank's Annual Report, 26 credit unions operated in 2013, the same as in 2012, while there were 22 credit unions in 2011. The value of total assets of credit unions in 2013 was 660 million kuna, which is an increase of 58 million kuna, or 9.6%, compared to 2012⁵⁴.

According to the data of the Croatian Association of Credit Unions (HUKU), Association's⁵⁵ members have disbursed 10,252 loans in total amount of 347,519,082 HRK in 2013, which represents an increase of disbursement of 4.2% in relation to 2012, when a 9,837 loans with total values of 292,885,205 HRK were disbursed (Table 31). The average loan amount disbursed by credit unions in Croatia in 2012 was 29,774 HRK, and 33,898 HRK in 2013, which indicates the important role of credit unions in financing the development of **micro** enterprises.

Table 31: Loans granted by credit unions – members of the Croatian Association of Credit Unions in 2011, 2012 and 2013 (HRK)

Name of credit union	2012			2013		
	Number of loans	Amount of loans	Average loan amount	Number of loans	Amount of loans	Average loan amount
ABC CU Sisak	542	11,495,000	21,208	542	12,641,480.50	23,324
CU Apoen Valpovo	710	8,516,200	11,995	738	11,255,000	15,251
CU Deponent Zagreb	215	9,679,000	45,019	106	7,647,020.60	72,142
CU Dukat Viškovo	717	12,403,000	17,298	931	16,050,000	17,240
GAMA CU Zagreb	445	16,212,000	36,431	372	25,974,000	69,823
CU Kod Sata Sisak	430	3,408,844	7,928	378	3,602,839	9,531
CU Libertina Čakovec	246	10,527,100	42,793	290	12,299,500	42,412
CU NOA Osijek	241	7,492,327.74	31,088	254	7,926,839.78	31,208
Zagorska CU Zabok	433	26,314,153.12	60,772	440	26,909,003.63	61,157

53 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.

54 Annual Report 2013³, Croatian National Bank, Zagreb, 2014, p. 28

55 Members of the Croatian Association of Credit Unions in 2013: 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, Credit Union Jamstvo Županja, Credit Union Jamstvo Zagreb, Credit Union Konavle Dubrovnik, Credit Union Krajcar Županja, Credit Union Marjan Split, Credit Union Bra-Ma Split, Credit Union Sindikalna Zagreb.

Name of credit union	2012			2013		
	Number of loans	Amount of loans	Average loan amount	Number of loans	Amount of loans	Average loan amount
CU Jamstvo Županja	-	-	-	1.805	76,911,314	42,610
CU Jamstvo Zagreb	1,366	47,838,757	35,021	-	-	-
CU Konavle Dubrovnik	476	32,580,353.14	68,446	504	35,493,185.14	70,423
CU Krajcar Županja	447	24,810,529.56	55,505	514	28,076,000	54,623
CU Marjan Split	1,640	51,137,650	31,181	1.478	51,672,000	34,961
CU Bra-Ma Split	97	9,863,000	101,680	126	12,210,899.11	96,912
CU Sindikalna Zagreb	1,832	20,607,290	11,249	1.774	18,850,000	10,626
Total	9,837	292,885,204.56	29,774	10.252	347,519,081.76	33,898

Source: Croatian Association of Credit Unions, 2014 (2013)

In May of 2013, HUKU signed the Agreement on Cooperation with HAMAG BICRO, which enabled the Association's members to participate in the guarantee program "New entrepreneurs" / "EU beginner", through which HAMAG BICRO grants guarantees to secure the repayment of a portion of the principal of loans that credit unions approve to small businesses. By participating in this agreement, credit unions take part in improving the business climate in Croatia, creating new jobs and stimulating regional development in the Republic of Croatia.

5.3. Venture capital funds⁵⁶

Venture capital is a type of investment by financial investors in the share capital of companies that are not listed on the stock exchange and have the potential to achieve high growth rates over a period of 3–7 years.

Economic co-operation funds (ECF) are open-ended venture capital investment funds with private offering, which started operating in 2011 as a public-private partnership between the Government of the Republic of Croatia and the private sector, which consists of large institutional investors such as pension funds, banks, insurance companies and large Croatian companies. Five ECFs that have complied with all the prescribed conditions and received a work permit from

⁵⁶ The term "venture capital" was mentioned in legislation for the first time in 2006, in the Investment Funds Act. The first venture capital funds have appeared in Croatia at the end of the 1990s. One of the first was SEAF – Croatia, which has, through a combination of development and commercial elements, attempted to introduce patterns of corporate governance and investment of private capital with satisfactory financial returns. SEAF's development component was derived from the mission of the involved investors: USAID, Norwegian and Finish Government funds, etc. The first Croatian venture capital fund Quaestus Private Equity Capital, established in 2003, has realized 10 investments in the period from 2004 to 2014 (Hospitalija Trade, Metronim, Akronim, Vulić&Vulić, Fragaria, Textile Factory Trgovišće, Spačva, Tele 2, Hlad and GFG Gustus), 3 of which have achieved an exit (Tele 2, Hlad and GFG Gustus). Source: "How to Finance Business with Venture Capital Funds?", Croatian Private Equity and Venture Capital Association, Marović, M. (ed), Zagreb, 2011, downloaded on October 13, 2011; www.quaestus.hr, downloaded on October 17, 2014

the Croatian Financial Services Supervisory Agency (HANFA) were founded: Quaestus Private Equity d.o.o. (www.quaestus.hr), Alternative Private Equity d.o.o. (<http://www.alternative-pe.hr/>), Nexus Private Equity Partneri d.o.o. (<http://www.nexus-pe.hr/>), Prosperus-invest d.o.o. (www.prosperus-invest.hr), Honestas Private Equity Partneri (www.honestas-pe.hr).

The purpose of their establishment is to influence a positive investment climate, share the risk with the “private” sector that has proved successful in the creation of new value, develop the venture capital funds industry as a driver of new industries, and encourage the development of entrepreneurship and risk-taking with expert corporate governance and control.

The first investment by an ECF took place at the end of 2011, when Nexus ECF invested 40 million kuna in a data centre construction project (IT sector).

Until July 2013, ECFs have operated in accordance with the Investment Funds Act⁵⁷. In July of 2013, a new Act on Alternative Investment Funds⁵⁸ entered into force, which regulates the operations of ECFs, and lays down the conditions for the establishment and operation of alternative investment funds (AIF) and alternative investment fund managers (AIFM), and regulates the method of issue and redemption of units of AIFs, delegation of duties to third parties and supervision of the operation and management of AIFMs, AIFs, depositaries and persons offering units in AIFs.

HBOR, as a qualified investor appointed by the Government of the Republic of Croatia, participates in the activities of ECFs together with private investors.

The area of investment of ECFs are companies with headquarters in Croatia, which exclusively or predominantly operate within the territory of Croatia, and the estimated duration of the investment is 10 + 2 years. An investment of the “private” sector from a minimum of 75 to a maximum of 300 million kuna was the precondition for participation of the Government of the Republic of Croatia in an individual fund, to which the Government invested the same amount as pledged by the private sector⁵⁹.

According to the HBOR, 7 decisions on investment into projects were made in 2013, and the approved investment into business entities was 340.5 million kuna, of which 50% relates to the share of the Republic of Croatia. Funds were invested in companies operating in the wood industry, renewable energy resources sector, construction and tourism sectors. The companies that were invested in employed a total of 1719 workers, and they included both start-up companies and companies that have been active for long period, but due to the circumstances in the economy had a need for additional capital for the purpose of expanding their business operations, and companies in the process of restructuring, which needed additional capital in order to survive in the market and enable further growth⁶⁰.

57 Official Gazette, NN 150/05

58 Official Gazette, NN 16/13

59 Annual Report of the Croatian Bank for Reconstruction and Development Group for 2013, Croatian Bank for Reconstruction and Development, 2014, p. 20

60 Annual Report of the Croatian Bank for Reconstruction and Development Group for 2013, Croatian Bank for Reconstruction and Development, 2014, p. 20

Prosperus ECF⁶¹ - Pre-bankruptcy settlement as an opportunity to restructure HTP Orebić d.d.

In April of 2014, Prosperus ECF, as the financial investor, and tourism company Laguna Novigrad d.d., as the strategic investor, invested 30 million kuna of equity in HTP Orebić d.d. together. The investment was made through recapitalization of the company through the pre-bankruptcy settlement procedure.

HTP Orebić d.d. is the largest hotel and tourism company on the Pelješac peninsula. Company's accommodation capacities include two hotels, apartments and annexes, with a total of 281 rooms and 676 beds. During the summer season, the company has over 80 thousand overnight stays and employs 110 employees.

Because of many years of negative business results, in July of 2013 the company has initiated the process of pre-bankruptcy settlement with the aim of finding a strategic partner that will carry out the restructuring of the company. After the General Meeting of the company confirmed the entry of Prosperus ECF and Laguna Novigrad d.d. in the company's ownership structure, the recapitalization funds were used to carry out financial restructuring, which included settling all outstanding obligations towards employees, the state, suppliers and banks. The next step will include investments in reconstruction of accommodation capacities and the implementation of a whole series of activities aimed at optimizing performance. The purpose of the investment is to create a successful and profitable company that will be the backbone of the tourist offer and thus directly contribute to further development of tourism on the Pelješac peninsula.

5.4. Business angels

CRANE (CRoatian Angel NETwork) – Croatian umbrella association of business angels⁶² (www.crane.hr) is a non-profit association founded in 2008, whose members are successful entrepreneurs and investors who want to multiply their knowledge, experience and earned money by investing in entrepreneurial ventures and enable new entrepreneurs to cross the path from the idea, founding the company to establishing in the market and making a profit.

From 2008 to 2011 CRANE recorded a small number of projects (Table 32), while there is no data for 2012. In 2013 CRANE recorded one investment, in the total amount of 200,000.00 HRK, which indicates poor development of this type of financing of business ventures in Croatia.

61 Source: Prosperus ECF, 2014

62 Business angels are investors that provide seed capital needed for project realization to entrepreneurs, help by transferring their own entrepreneurial and managerial experiences 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.

Table 32: Croatian Business Angels Network – investments from 2008 to 2013

	Number of projects / investments	Amount (HRK)	Average investment amount (HRK)
2008	1	1,800,000	1,800,000
2009	3	1,029,000	343,000
2010	2	1,131,500	565,750
2011	5	2,634,100	526,820
2012	2	<i>Data not available</i>	
2013	1	200.000	200,000
Total	14	6,794,600	566,217

Source: CRANE, 2014 (2013)

In Western economies, business angels are managers and entrepreneurs at the end of their business careers, with extensive experience and accumulated capital, which they invest in entrepreneurial projects. Some federal states in the USA have introduced tax relief as a measure to promote this type of investment. Some countries have a “matching” program through which the state (e.g. Germany, Spain) matches every amount invested in the project. Such and similar measures can increase the attractiveness of this type of investment.

5.5. Government incentive programs and subsidized credit lines

The Government of the Republic of Croatia through promotion of investment⁶³, grants (Entrepreneurial Impulse program grants) and loan programs, implements measures aimed at promoting the development of the small and medium enterprise sector.

Grants of the Ministry of Entrepreneurship and Crafts

In 2013, Government measures, implemented on the basis of annual operational plans for promotion of small and medium entrepreneurship are a part of the **2011–2015 Program of the Government of the Republic of Croatia**. The amount of approved grants has been continuously declining since 2011 – based on the Entrepreneurial Impulse – plan to encourage entrepreneurship and crafts for 2013, Ministry of Entrepreneurship and Crafts has approved grants in the amount of 136,421,106.05 HRK, which is 17.6% less compared to 2012 when the total amount of grants approved to entrepreneurship and crafts was 165,595,421.00 HRK, and 31.4% less compared to 2011, when the total amount of grants approved to entrepreneurship and crafts was 198,848,066.00 HRK.

Projects from the Entrepreneurial Impulse 2013 were financed within 4 program areas with integrated implementation activities – Development of micro-entrepreneurship and crafts,

⁶³ Act on Investment Promotion and Development of Investment Climate has been in effect since September 2012, with the objective of “promotion of economic growth and pursuing of the economic policy of the Republic of Croatia, its involvement in the international trade flows and strengthening the investment and competitive capacity of Croatian enterprises”. Source: Act on Investment Promotion and Development of Investment Climate, NN 112/12, 28/13.

Strengthening of business competitiveness of entrepreneurs and craftsmen, Development of entrepreneurship infrastructure and business environment, and Training for entrepreneurship and crafts and preservation of traditional and artistic crafts. A total of 1,761 grants in the total amount of 136,421,106.05 kuna were approved within these program areas (Table 33).

Table 33: Grants approved from the Entrepreneurial Impulse 2013 program, Ministry of Entrepreneurship and Crafts

Measure/project		Number of approved grants	Approved amount – HRK
MEASURE A		122	21,841,887.55
A1	Micro-entrepreneurship and crafts	66	12,177,564.10
A2	Entrepreneurship of creative industries	16	2,828,372.15
A3	Young people and beginners in entrepreneurship	27	3,721,582.05
A4	Cooperative entrepreneurship	6	1,012,317.18
A5	Strengthening of business competitiveness of clusters	7	2,102,052.07
MEASURE B		114	76,209,315.41
B1	Strengthening of business competitiveness	103	72,209,315.41
B3	Encouraging innovative entrepreneurship	11	4,000,000.00
MEASURE C		62	26,809,018.28
C1	Business zones	11	9,967,248.58
C2	Technological parks and business incubators	22	13,647,076.65
C3	Development agencies and business centers	29	3,194,693.05
MEASURE D		1463	11,560,884.81
D1.1	Education of entrepreneurs, craftsmen and cooperative members	10	796,115.01
D1.2	Academic entrepreneurship – knowledge for economy	4	375,442.09
D1.3	Pupil's cooperative and pupil's enterprise	26	228,097.60
D1.4	Promotion and encouragement of creation of youth entrepreneurial culture	4	261,656.03
D2.1	Lifelong learning for craftsmen	1273	3,122,816.98
D2.2	Computer competence of craftsmen	30	1,168,099.20
D2.3	Scholarships for pupils in craft occupations	17	1,384,800.00
D2.4	Master craftsmen school	6	1,025,369.91
D2.5	Apprenticeship for craft occupations	60	1,142,081.97
D3	Preservation of artistic and traditional crafts	33	2,056,406.02
TOTAL		1761	136,421,106.05

Source: Ministry of Entrepreneurship and Crafts, 2014

In January of 2014, Ministry of Entrepreneurship and Crafts adopted the Entrepreneurial Impulse 2014 – Program to Encourage Entrepreneurship and Crafts, which encompasses 4 thematic units: Enhancing the competitiveness of small business by raising the innovativeness of entrepreneurs, Improving the entrepreneurial environment and encouraging investment and internationalisation, Promotion and learning for entrepreneurship and crafts, and Easier access to financing.

According to the Entrepreneurial Impulse program for 2014, financing of grants in the amount of 1,265,648,165 HRK is planned, of which the largest amount is allocated for projects within the program area Easier access to financing (529,150,870 HRK), followed by program areas Enhancing the competitiveness of small business (413,825,760 HRK), Promotion and learning for entrepreneurship and crafts (248,080,998 HRK), and the lowest amount is allocated for the Improving the entrepreneurial environment program area (74,590,537 HRK).

Credit lines of the Ministry of Entrepreneurship and Crafts for the development of small business at the local level⁶⁴

In 2013, Ministry of Entrepreneurship and Crafts implemented two credit lines that strengthen the development of small and medium enterprises at the local level: “Local projects for small business development” and “Local development projects – microcrediting”. The objective of these credit lines is to facilitate access to financial resources for the development of small and medium enterprises, and the preservation of small and medium enterprises in conditions of slowdown in economic growth by granting loans with subsidized interest.

“Local projects for small business development” is a credit line for encouraging investments through granting loans in the amount from 200,000 to 5,000,000 HRK. Loan funds are aimed at crafts, small and medium enterprises and cooperatives, and the purpose of crediting is exclusively purchase, construction, renovation or expansion of business facilities, procurement of equipment, and modernization of business. 96 loans in the total amount of 137,166,843 HRK were granted through the “Local projects for small business development” credit line in 2013, which is 37%, or 81.677.622 HRK less compared to 2012.

“Local development projects – microcrediting” is a credit line intended for crafts, small and medium enterprises, cooperatives and institutions. The loan amount ranges between 35,000 and 200,000 HRK, with a repayment period of up to five years and subsidized variable interest rate of up to 9%. Loan funds can be used for purchase, construction, renovation or expansion of business facilities, procurement of equipment and permanent working capital. 19 loans in the total amount of 3,019,054 HRK were granted within this credit line in 2013, which is 60% or 4,490,480 HRK less compared to 2012.

In addition to the mentioned credit lines, the Ministry of Entrepreneurship and Crafts pays subsidized interest for loans that were approved within projects that are no longer active, and were implemented in the period from 2004 to 2009: Local development projects – Entrepreneur, Local development projects – microcrediting for 2007 and Local development projects – microcrediting for 2008. The total amount paid for interest subsidies under these programs in 2013 was 27,756,793 HRK.

⁶⁴ Source: Entrepreneurial Impulse 2014 – Program to Encourage Entrepreneurship and Crafts, Ministry of Entrepreneurship and Crafts, January 2014

Croatian Bank for Reconstruction and development (HBOR)

Croatian Bank for Reconstruction and development finances the development of small and medium enterprises through subsidized credit lines. Loan programs are implemented directly and / or through commercial banks, and the loan terms depend on purpose, type and area of investment. The objectives that HBOR wants to achieve through loan programs are the development of entrepreneurial ventures, strengthening the competitiveness of crafts, small and medium enterprises, balanced regional development, job creation, and support to enterprises when entering new foreign markets.

During 2013, HBOR continued to encourage entrepreneurs to make new investments, that is, to launch new investment cycles, to maintain and improve liquidity, and continued with the measures that have been launched and proved to be successful in 2012 – lowering interest rates by one percentage point for new investments in agriculture and fisheries, tourism, industry, environmental protection and energy efficiency, and the model of risk sharing, with which for small and medium enterprises with large investments (above 9 million kuna) HBOR assumes 50% of the risk, while commercial banks assume the other 50% of the loan amount. For small and medium enterprises, HBOR assumes the risk up to 40% of the total loan amount with guarantee of HAMAG BICRO, and the commercial bank assumes risk up to 60% of the total loan amount.

During 2013, 1,080 loans in the amount of 3,502,665,000 HRK were approved to small and medium entrepreneurs across all programs, which is a decrease of 23% compared to 2012 when 1,352 loans in the total amount of 4,575,633,000 HRK were approved (Table 34). Compared to the previous year, there was a small decrease in the average size of loans granted in 2013, from 3,384,344 HRK in 2012 to 3,243,208 HRK in 2013 (reduction of 4%).

The number of micro entrepreneurs in the structure of borrowers has increased significantly in 2013, to whom 489 loans were granted. During 2013, small and medium entrepreneurs used the funds from 23 HBOR's loan programs, and the largest increase in the number of approved loans was recorded within the programs for business venture start-up, for women entrepreneurs (25% more loans in relation to 2012), as well as for investments in environmental protection, energy efficiency and renewable energy sources projects, for which 76 loans with the average value of 2.400.000 kuna were approved during 2013, and 23 loans with the average value of 20.000.000 kuna in 2012.

Table 34: Overview of loans granted to small and medium enterprises by HBOR in 2012 and 2013, by loan groups

HBOR loan programs	2012			2013		
	Number of loans granted	Total amount of funds granted (HRK)	Average loan amount (HRK)	Number of loans granted	Total amount of funds granted (HRK)	Average loan amount (HRK)
Loans for SMEs in special state concern areas, on islands and for agriculture	151	634,272,000	4,200,477	122	205,816,000	1,687,016
Loans for SMEs for start-up and development of entrepreneurship	462	1,514,828,000	3,278,848	403	1,293,712,000	3,210,203
Loans for SMEs for tourism	71	448,621,000	6,318,606	73	576,545,000	7,897,877
Loans for SMEs for financial restructuring	20	107,215,000	5,360,750	38	131,538,000	3,461,526
Loans for SMEs for export	150	630,173,000	4,201,153	108	437,187,000	4,048,028
Loans for SMEs for working capital	498	1,240,522,000	2,491,008	336	857,867,000	2,553,176
TOTAL	1,352	4,575,633,000	3,384,344	1,080	3,502,665,000	3,243,208

Source: HBOR – Croatian Bank for Reconstruction and Development, 2014

In August of 2013, the Croatian Bank for Reconstruction and Development and the Ministry of Entrepreneurship and Crafts signed the **Agreement on business cooperation on the implementation of favourable financing of youth entrepreneurship and / or beginners**, and the **Contract on the order for performing subsidization of interest rates on loans granted for youth entrepreneurship and / or beginners**, according to which the Ministry subsidized the interest rate on loans granted to beginners and young entrepreneurs with two percentage points, in the total amount of 3,000,000 HRK. Also, a new program was introduced in cooperation with the Ministry – **Youth Entrepreneurship**.

During 2013, HBOR has undertaken activities necessary for the implementation of the new program for **micro loans with CIP guarantee instrument** (Competitiveness and Innovation Framework Programme), which is implemented in cooperation with the European Investment Fund (EIF). In the second half of 2014, HBOR and European Investment Fund signed the Guarantee contract within the Special Entrepreneurship and Innovation Programme (CIP-EIP) with the aim to encourage commercial banks to extend credit to micro entrepreneurs, especially beginners. CIP is the guarantee program of the European Investment Fund, which HBOR will use to encourage commercial banks to provide financing to micro entrepreneurs, especially beginners, with the aim of self-employment, establishment of crafts and enterprisers, modernization and expansion of existing businesses and increasing the number of new jobs, since the guarantee will cover 75% of the loan principal. HBOR and the commercial bank will share the risk in the ratio of 70%–30%, while micro entrepreneurs' bills of exchange and debentures, that is, insurance on the equipment to be purchased will be sufficient security. Implementation of the program is expected in the second quarter of 2014.

Croatian Credit Insurance (HKO)

Croatian Credit Insurance⁶⁵ d.d. (HKO) specializes in insurance of short-term receivables arising from sales of goods and services between business entities. HKO insures receivables of all business entities (regardless of their economic activity and size) that sell goods and services with deferred payment. The purpose of insurance of receivables is to protect liquidity and assets, i.e., ensure collection of payment, enable more secure entry into business relations with new buyers, and reduce costs of additional measures for collection of receivables.

According to the HBOR's Annual Report⁶⁶ for 2013, HKO had two main insurance products in 2013: insurance of export receivables and insurance of domestic receivables. In 2013, HKO concluded 47 insurance contracts, of which 35 contracts were related to the insurance of export receivables and 12 contracts were related to the insurance of domestic receivables. A total of 1,564 credit limits were covered by the insurance, which is 57.7% more in relation to the previous year. The total volume of insured transaction in 2013 amounted to 2,669.9 million kuna. The total charged premium in 2013 amounted to 9 million kuna, which is an increase of 17.3% in relation to 2012, when it stood at 7.7 million kuna.

In 2013, HKO paid 11 indemnities, related to buyers in Bosnia and Herzegovina, Montenegro, England, Italy, Slovenia and Croatia. The total amount of payments for the insured cases was 3.08 million kuna.

Croatian Agency for SMEs, Innovations and Investments (HAMAG–BICRO)

Croatian Agency for SMEs, Innovations and Investments – HAMAG BICRO was created in 2014 by merging the Croatian Agency for SMEs and Investments (HAMAG INVEST) and the Business Innovation Center of Croatia (BICRO) with the aim of strategic creation of a unique system that will provide support to entrepreneurs through all the stages of business development. The Agency's activities include the promotion of establishment, development and investment in small enterprises, financing the operation and development of SMEs by loans and issuing guarantees for approved loans, and providing grants for research, development and application of modern technologies. The Agency also provides financial support to innovative and technology oriented SMEs in Croatia, and is focused on developing and coordinating national policy measures related to innovation and the necessary financial interests with the ultimate goal to motivate the private and public sector to invest in research and development.

In 2013, when HAMAG INVEST operated independently, it received 619 requests for guarantees, which, compared to 2012, when 359 requests were received, represents an increase of 72%. The biggest increase was recorded in the number of requests for Letters of intent, due to which the share of requests received under the guarantee program "New entrepreneurs" exceeded one third of the total number of requests. Compared to 2012, there has been an increase in the share of requests received from beginner entrepreneurs (from 21% to 34%), a decline of requests towards the "Liquidity" program (from 28% to 26%) and a decline of requests towards the "Growth" program (from 27% to 24%).

65 Croatian Credit Insurance is a joint stock company owned by HBOR since 2010

66 Annual Report of the Croatian Bank for Reconstruction and Development Group for 2013, Croatian Bank for Reconstruction and Development, 2014, p. 44

HAMAG INVEST approved 410 guarantees in 2013, representing an increase of 69% in relation to 2012, when 243 guarantees were approved. The majority of guarantees in 2013 were approved under the “New entrepreneurs” guarantee program, followed by “Growth” and “Liquidity” programs. The amount of approved guarantees increased by 43% (from 315,000,000 HRK in 2012 to 450,962,000 HRK in 2013), and the amount of investments increased by 54% (from 924,000,000 HRK in 2012 to 1,423,059,000 HRK in 2013; Table 35).

Table 35: Statistics of guarantees issued by HAMAG INVEST and amount of investments covered by guarantees in 2011, 2012 and 2013

	2011	2012	2013
Number if guarantees issued	112	243	410
Amount of issued guarantees (HRK)	154,264,185	315,000,000	450,962,000
Amount of investments covered by guarantees (HRK)	494,269,086	924,000,000	1,423,059,000

Source: HAMAG – Croatian Agency for SMEs, 2013; HAMAG INVEST, Annual Report 2013, p. 12

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

In 2013, when Business Innovation Center of Croatia operated independently, it encouraged the private and public sector to invest in research and development through the following programs:

- **POC** pre-seed capital program for projects that are at the level of ideas or concepts, prototypes, and protection of intellectual property;
- **RAZUM** seed capital program intended for the development of ideas into products;
- **IRCRO** program, which encourages small and medium enterprises to cooperate with scientific and research institutions;
- **EUREKA** program, which is a European initiative for financing market-oriented projects associated with different fields of technology.

In 2013, BICRO has organised nine educational workshops, three business meetings, five info days and a series of conferences (organised independently or with partners) aimed at encouraging the exchange of knowledge and experiences, and networking and realization of cooperation between science and economy. A total of 51 new projects in the total amount of 15,316,462.83 HRK were co-financed through BICRO's programs in 2013. The average amount of an individual grant was 300,322.78 HRK (Table 36).

Table 36: Projects funded by BICRO programs in 2013

Program	Number of projects	Amount of awarded grants (HRK)	Average grant amount (HRK)
POC	49	13,048,755.5	266,301.12
PoC Private	22	6,111,349.55	277,788.61
PoC Public	27	6,937,405.95	256,940.96
IRCRO	0	0 (new contract)	0
RAZUM	0	0 (new contract)	0
EUREKA	2	2,267,706.83	1,133,853.415
Total:	51	15,316,462.83	300,322.78

Source: Business Innovation Center of Croatia – BICRO, 2014

6. Education for entrepreneurship

Entrepreneurship competence is one of the eight key lifelong competences⁶⁷ which are a combination of knowledge, skills and attitudes which are necessary for personal fulfilment and development, active citizenship, social inclusion and employment.

Learning about entrepreneurship and for entrepreneurship represents an important aspect of curricula in EU member countries. In 2010, Croatia has adopted the **National Strategy for Entrepreneurial Learning 2010–2014**, which lists the reasons for learning for entrepreneurship, proposal of implementation of the program of learning for entrepreneurship within the educational system, as well as the expected results of entrepreneurship education development.

Some of the most important measures of the Action plan for implementation of the Strategy for the period from 2010 to 2014⁶⁸ are: development of positive attitude and sensitizing the public about entrepreneurship, increasing the 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, increasing the capacities of educational institutions for the introduction of education for entrepreneurship, increasing the competences of educators, teachers and trainers for education for entrepreneurship, and strengthening cooperation and networking between educational institutions, scientific-research and business entities on entrepreneurship programs.

For the purpose of implementing the National Strategy for Entrepreneurial Learning, International Conference on Entrepreneurial Learning – ICEL is organised on an annual basis. In 2014, the fourth ICEL4 conference was held under the title “Entrepreneurial Learning: Challenges and Opportunities for Society (Economy) Development”, organised by the University College of Economics, Entrepreneurship and Management Nikola Šubić Zrinski.⁶⁹

Results of the GEM research for 2013 indicate a slight decline of the grade of perception of quality of education for entrepreneurship at primary and secondary levels of education in relation to 2012 (from 1.95 in 2012, to 1.86 in 2013), and with such a grade Croatia still remains below the average of countries involved in the GEM research. The perception of the quality of education for entrepreneurship at the tertiary level in 2013 remained at the same level as in 2012, and is, both in 2013 and in the previous year, below the average of countries involved in the GEM research (Table 37).

67 Other competences are: 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 and ability of cultural expression. Source: Key Competences for Lifelong Learning – European Reference Framework, European Communities, 2007

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

69 The first ICEL conference was held in 2011 in Zagreb, the second in 2012 in Novi Sad, and the third in 2013 in Zagreb
Source: <http://www.iceconf.eu/>, downloaded on November 14, 2014

Table 37: Perception of quality of education for entrepreneurial activity in 2012 and 2013 (grades ranging from 1 to 5)

	Grade 5 indicates:	2012		2013	
		Average	Croatia	Average	Croatia
Education and training (primary and secondary level of education)	Primary and secondary level of education encourages creativity, independence, proactivity; provides information on market principles and puts emphasis on entrepreneurship	2.05	1.95	2.08	1.86
Education and training (tertiary level of education)	There are enough university courses on entrepreneurship, business education is at the world level; vocational, professional and continuing education provides good preparation for self-employment	2.80	2.65	2.85	2.63

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

In Croatian primary school education, entrepreneurship is still only sporadically mentioned in the curriculum and is promoted depending on teachers' and / or principals' preferences and knowledge.

In secondary education, entrepreneurship is recognized as a set of knowledge and skills only in vocational schools as a mandatory subject in the curriculum of economy schools, and through the training firm project⁷⁰. In Croatia, the work in the training firm expanded within the school subject Vocational practice, and is generally an elective subject. In order for the business activities of training firms to reflect reality as accurately as possible, Central Office for Training Firms (SUVT) was founded in 2007. SUVT operates within the Agency for Vocational Education and Training and Adult Education (www.aso.hr) and maintains the register of all the training firms in Croatia⁷¹. In April of 2013, organised by the Agency for Vocational Education and Training and Adult Education, Business and trade school Čakovec and State commission for implementing the Young Entrepreneur competition and the state festival – Training Firms Fair, Training Firms Fair was held

70 In 2003, Ministry of Science, Education and Sport began to systematically promote spreading the idea of training firm, by joining the ECO NET project. The ECO NET project (www.econet-see.com) was 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. The aim of the project is strengthening and propagating the teaching concept of training firm in Croatia through professional development of teachers in 4 pilot schools. The following schools were included in the pilot project: First Economy School Zagreb, Second Economy School Zagreb, Economy School Velika Gorica and Economy and Administration School Bjelovar. Besides teachers from these four pilot schools, the target group of various professional vocal conferences were teachers from twenty other schools in Croatia. Agency for Vocational Education and Training and Adult Education ensures further propagation of knowledge and experiences by organizing and implementing professional training of teachers working in economy and trade schools, which are introducing the subject Vocational practice (training firm is also a part of their curriculum). Training firms exist in almost all European countries, while there are about seven thousand of them around the world. Business contacts of Croatian training firms range from Austria, through Romania, all the way to the USA. Source: "Training firm – door to the world of entrepreneurship (manual for teachers)", Agency for Vocational Education and Training and Adult Education, Zagreb, 2009, p.8

71 The "Enterprising, healthy and creative" program is especially designed for teachers and pupils of vocational schools that teach economy, entrepreneurship, tourism and nutrition, and each of the schools involved in the program works on an individual product within the training firm. Source: Agency for Vocational Education and Training and Adult Education., downloaded on November 10, 2014

in Čakovec, at which 12 training firms with the guidance of 12 mentors from all vocational schools in the Republic of Croatia participated. In October of 2013, International Exhibition Forum of Young Training Firms was held in Ogulin, organised by the Gymnasium Bernardin Frankopan, within the Comenius multilateral project "Enterprising, healthy and creative", which aims to exchange experiences and opinions, and to point out the advantages of cooperation and joint appearance on the market.

The first programs in entrepreneurship at the tertiary level of education were started in 2000 at the J.J. Strossmayer University of Osijek, Faculty of Economics, at the postgraduate level⁷² (www.ices.hr) and at the VERN Polytechnic in Zagreb (www.vern.hr). Table 38 gives an overview of programs in entrepreneurship at undergraduate, graduate and / or postgraduate levels of education at Croatian universities, while Table 39 gives an overview of polytechnics and Table 40 lists colleges with programs in entrepreneurship.

Table 38: List of universities in Croatia with entrepreneurship programs at undergraduate, graduate and / or postgraduate levels of study

University / Faculty	Public / private	Undergraduate study	Graduate study	Postgraduate study	
				Specialist	Doctoral
J.J. Strossmayer University of Osijek – Faculty of Economics	Public	Entrepreneurship	Entrepreneurship	Entrepreneurship	Entrepreneurship and Innovativeness
University of Zagreb – Faculty of Economics	Public	Entrepreneurship (Bjelovar) ***	-	Strategic Entrepreneurship ***	-
		Economics of Entrepreneurship (Varaždin)		Entrepreneurship and entrepreneurial management	
University of Split – Faculty of Economics	Public	Small Enterprise Management	-	-	-
University of Rijeka – Faculty of Economics	Public	Entrepreneurship	Entrepreneurship	-	-
Juraj Dobrila University of Pula – Faculty of Economics and Tourism "Dr. Mijo Mirković"	Public	Management and Entrepreneurship	Management and Entrepreneurship	-	-

Source: Agency for Science and Higher Education, 2014, web pages of universities in Croatia, August 2014

⁷² Postgraduate 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 39: List of polytechnics in Croatia with entrepreneurship programs at undergraduate and / or graduate levels of study

Polytechnic	Public / private	Study
VERN Polytechnic	Public	Undergraduate Study Entrepreneurial Economics (Zagreb) *** Specialist Graduate Study Entrepreneurial Management (Zagreb)
Polytechnic of Rijeka – Business Department	Public	Professional Study of Entrepreneurship (Rijeka, Pula, Pazin) *** Specialist Professional Graduate Study of Entrepreneurship (Rijeka)
Nikola Tesla Polytechnic Gospić	Public	Professional Study of Economics of Entrepreneurship (Gospić)
Marko Marulić Polytechnic Knin	Public	Professional Study of Commercial Business with Entrepreneurship (Knin)

Source: Agency for Science and Higher Education, 2014, web pages of universities in Croatia, August 2014

Table 40: List of colleges in Croatia with entrepreneurship programs at undergraduate and / or graduate levels of study

Polytechnic	Public / private	Study
College for Management in Tourism and Informatics in Virovitica	Public	Undergraduate Study Entrepreneurship (Virovitica)
University College of Economics, Entrepreneurship and Management Nikola Šubić Zrinski	Privatno	Professional Study Economy of Entrepreneurship (Zagreb) *** Specialist Graduate Professional Study Management of Small and Medium Enterprises (Zagreb)

Source: Agency for Science and Higher Education, 2014, web pages of universities in Croatia, August 2014

Global Entrepreneurship Week (GEW)⁷³

Global Entrepreneurship Week is the world's largest gathering of the innovators and job creators who turn ideas into start-ups and drive economic growth. GEW encompasses 140 countries with 24,000 partner institutions, and 1,853 partner institutions organised a total of 7,031 activities in 2014.

GEW is celebrated in Croatia since 2008. By the end of 2014, 26 activities were organised through 24 partner institutions, the most active of which are educational institutions – Faculty of Economics in Osijek and student association Entrepreneurs without Borders (EwoB.), which have organised 2 activities in 2014 (EwoB Business Hackathon competition and GEW 2014 – Network to get work) and Business School PAR Rijeka, which has organised 4 activities in 2014 (SenZations, PAR Forum – Start-up Clinic, Žene bez PARdona and Entrepreneurship Week in the Gymnasium).

There are numerous institutions outside the system of formal education that offer education for beginner entrepreneurs and / or already operational enterprises, such as centers for

73 <http://hr.gew.co/>, downloaded: November 18, 2014

entrepreneurship, Croatian Chamber of Economy, Croatian Employers' Association and private enterprises active in the sector of adult education. Within the Entrepreneurial Impulse for 2013, Ministry of Entrepreneurship and Crafts approved 1,463 grants⁷⁴ for education for entrepreneurship and crafts in the amount of 11,560,885 HRK, which is 3.6% less approved grants in relation to 2012, when 1,518 grants in the total amount of 18,463,394 HRK were approved. In 2014, the Ministry plans to allocate 8,300,000 HRK through Entrepreneurial Impulse for Promotion and learning for entrepreneurship and crafts (28% less than in 2013), continuing a declining trend of investment in lifelong learning for entrepreneurial activity.

Educational needs of small and medium enterprises in Croatia

In its publication "Training Needs analysis for SMEs⁷⁵", the South East European Centre for Entrepreneurial Learning – SEECEL identified the needs for education and training in the SME sector. The analysis was conducted in 9 countries (Albania, Bosnia and Herzegovina, Montenegro, Croatia, Kosovo, Macedonia, Serbia and Turkey), with 500 small and medium enterprises operating for over three years surveyed in Croatia.

The analysis has shown that the main reasons for the implementation of additional educational activities are increasing the quality of services or products, improving employee skills, and upgrading knowledge in the field of new technologies. It was determined that training programs in the field of accounting, financial management, production management and product development are the most common and the most useful, while the lowest interest was shown for training in the field of law, intellectual property and innovation management.

Most companies do not define annual plans and budgets for education. The study has shown that: 82% of the surveyed enterprises have financed educational programs by themselves; 85% of enterprises do not use governmental subsidies for education; 12% are not aware of this kind of funding; 37% of respondents obtain information about the offer of educational programs from the media and by word of mouth.

One of the problems identified by this analysis is insufficient cooperation between institutions providing educational services and the economy: 25% use educational services of sectoral chambers in Croatia; 24% use services of private service providers and consulting companies; 18% use services of individual consultants; 15% services of governmental agencies; 14% use services of universities (Extremely poor cooperation between universities and the economy).

74 Grants for education for entrepreneurship and crafts in 2013 were approved through the following projects: Education of entrepreneurs, craftsmen and cooperative members; Academic entrepreneurship – knowledge for economy; Pupil's cooperative and pupil's enterprise; Promotion and encouragement of creation of youth entrepreneurial culture; Lifelong learning for craftsmen; Computer competence of craftsmen; Scholarships for pupils in craft occupations; Master craftsmen school; Apprenticeship for craft occupations; and Preservation of artistic and traditional crafts.

75 "Training Needs Analysis for SMEs", South East European Centre for Entrepreneurial Learning (SEECEL), 2013

7. Access to information and advisory services

Access to information and advisory services is a significant factor in the development of entrepreneurial activity. Grade of perception of quality of commercial and professional infrastructure for support of the development of the SME sector in Croatia does not show a significant difference between 2012 and 2013, while the average grade of perceptions of countries involved in the GEM research shows an increase from 3.02 to 3.70 (Table 41).

Table 41: Perception of quality of commercial and professional infrastructure for support of the development of the small and medium enterprise sector in 2012 and 2013 – grades ranging from 1 to 5

	Grade 5 indicates:	2012		2013	
		Average	Croatia	Average	Croatia
Commercial and professional infrastructure	There are consultancy, professional legal and accounting services; companies can afford them; they are of high quality	3.02	2.78	3.70	2.70

Source: GEM Croatia, CEPOR – SMEs and Entrepreneurship Policy Center, 2014 (2013)

Study of the Consultancy Market in Croatia⁷⁶

In June of 2014, CEPOR conducted a Study of the market of consultancy services in Croatia, within which a comprehensive assessment of the state of the market of consultancy services for micro, small and medium enterprises (MSME) and the supporting business infrastructure in Croatia. The Study was financed by the Business Advisory Services (BAS) program of the European Bank for Reconstruction and Development, and the purpose of the Study is to produce recommendations for intervention by HAMAG-INVEST, that is, HAMAG-BICRO in facilitating the access of micro, small and medium enterprises (MSME) to consultancy services, and to give guidelines to providers of consultancy services on the needs and the potential for market development. Results of the Study are based on secondary research and a survey of consultants for MSME and decision makers in MSMEs, conducted in May of 2014.

Main results of the Study

The advisory infrastructure for the development of the MSME sector in Croatia consists of a network of business support institutions (BSI) and private professional consulting companies. The BSI network consists of 46 regional development agencies, 44 centers for entrepreneurship, 38 business incubators, 15 business and technology parks and about 300 business zones. BSI services are aimed primarily at providing information and advisory services related to preparation of business plans, and submission of project applications for published tenders. In contrast to most BSIs, professional consulting companies provide, in addition to the mentioned services of business plan preparation and submission of project applications for tenders, more complex and more specialised advisory services.

There are 2,799 private consulting companies (FINA, 2014), more than half of which are registered in the City of Zagreb (59%), they most often have three employees and the majority are domestically owned (91%). In the period from 2011 to 2014, 22% of MSMEs hired a consultant, mostly to solve

⁷⁶ "Study of the Consultancy Market in Croatia". CEPOR – SMEs and Entrepreneurship Policy Center, Zagreb, 2014, www.cepor.hr

problems of legal nature, problems related to preparation of a business plan, problems in financial management, or management in general. Of all the enterprises that have used consultants, only 55% were fully satisfied with the service and will certainly again decide to use consultancy services in the future.

Most MSMEs have obtained information about a consultant through a recommendation (which is the channel of promotion and sales that is most commonly used by consultants). The process of selecting a consultant is vague and undeveloped. Consultants insufficiently promote their service, and only 25% have developed a marketing and sales strategy.

The most important criterion for the selection of consultants is expertise and knowledge, followed by an understanding of the business problem and the experience of the consultant. The least important criteria are origin of the consulting company, geographic distance and price. The same criteria have also been recognised as the most important and the least important by the consultants, indicating consultants' awareness of their position from the perspective of MSMEs. In most cases, non-users of consulting services did not use consultants because they managed to solve their problem on their own.

Certification programs and associations of professional consultants have an important role in building trust and recognition of quality consultants. The vast majority of consulting companies for MSME is familiar with the work of associations of consultants in Croatia (89%), and every other consulting company is a member of an association. However, from the perspective of MSMEs, memberships in professional associations of consultants are not currently recognised as a proof of quality, and therefore do not constitute a reference for consultants. MSMEs that seek consulting assistance would be more willing to consider the use of consultancy services if the consultant is ready to participate in the risk of the decision made on the basis of consulting support (by providing free advice before starting cooperation, implementing a free-of-charge pilot project, defining the price of consulting service in correlation with the result achieved).

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

Croatian Chamber of Economy (CCE) – Centre for Entrepreneurship, Innovations and Technological Development, www.hgk.hr

The Industry and Technology Department operates as a part of CCE since September 2014, within which Centre for Entrepreneurship, Innovations and Technological Development operates, which aims to influence the creation of favourable entrepreneurial climate, encourage the development of economy and entrepreneurship, new employment and revive areas of special state concern. Centre's activities in 2013 were focused on providing systematic horizontal support to SMEs, particularly innovative businesses and clusters, and thus the Centre sponsored and co-organised national and international innovation fairs in Russia, Switzerland, United States, Germany, United Kingdom, Croatia and Belgium. Also, in 2013 the Centre organised "Innovation Missions" in London, Brussels and Moscow, which provided Croatian companies with opportunities to find business partners and commercialise their innovations. In 2013, the Centre organised a series of seminars and trainings on the following topics: innovation and its protection and pre-diagnostic examination of intellectual property in SMEs, in cooperation with the State Intellectual Property Office, challenges of small and medium entrepreneurship, insurance in entrepreneurship and crafts, how to make good decisions and grow in a crisis, how to be a more successful exporter, etc.

Croatian Chamber of Trades and Crafts (CCTC), www.hok.hr

Promoting crafts and craftsmanship, representing the interests of craftsmen before state authorities in shaping the economic system, giving opinions and suggestions to state authorities when enacting legislation in the field of craftsmanship, establishing commissions for apprentice and master exams, and providing help to craftsmen during the establishment and operation of crafts are the main activities of the CCTC. CCTC is also active in the organisation, co-financing and encouraging appearances of craftsmen at trade fairs in the country and abroad. Participation and presentation of members of the CCTC at trade fairs is co-financed in the amount from 30% to 50%, while for local trade fairs CCTC grants aid to the organisers. In 2013, CCTC has co-financed appearance of 323 craftsmen at nine international trade fairs, and appearance of 587 craftsmen at nine regional trade fairs.

Croatian Employers' Association (CEA) – Small and Medium Sized Enterprises' Association, www.hup.hr

Small and Medium Sized Enterprises' Association of the Croatian Employers' Association participates in the drafting of legislation and implementation of activities and projects aimed at promoting the interests of small and medium enterprises. During 2013, the Association participated in the drafting of regulations in the field of labour legislation, plans and employment measures for 2013, the Act on Vocational Rehabilitation and Employment of persons with Disabilities, the Crafts Act, the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020, the Financial Operations and Pre-Bankruptcy Settlement Act, the Value Added Tax Act and the Regulation on Value Added Tax. The Association has actively participated in the preparation of the Youth Guarantee through a representative in the Youth Guarantee Council working, while in October 2013 it launched an initiative to establish the Coordination Council of Service Industry Companies. Furthermore, in 2013, representatives of the Association participated in 31 national and international conferences, round tables, forums and seminars on topics related to the small and medium enterprise sector, investments, VAT, EU, employment, etc. The association has also participated in two studies on small and medium enterprises carried out by the European Commission and in one study that was implemented by UEAPME – European Association of Crafts, Small and Medium-sized Enterprises.

Croatian Employers' Association – CEA:

HCEA Score 2013 – a system of indicators that measure the achievement of CEA's goals and the results of reforms⁷⁷ and Business expectations in 2015⁷⁸

Uln September of 2013, CEA has published a strategic document entitled "What we advocate: goals and recommendations for overcoming the crisis and economic growth", in which goals and recommendations are defined for 13 areas – productivity and competitiveness, fiscal consolidation, public administration, burden on the economy, investment and business barriers, the judiciary, labour market, education, health and pension system and territorial constitution, efficiency of public companies, supply of capital, entrepreneurial climate, encouraging investment and social dialog.

77 "CEA Score 2013", Croatian Employers' Association, December 2013, <http://www.arhivanalitika.hr/dat/HupSkor2013%201%20final.pdf>, downloaded on December 16, 2014

78 Results of the study Business expectations of CEA in 2015, December 2014, <http://www.hup.hr/ovu-godinu-poslodavci-ocijenili-izrazito-teskom-ne-ocekiju-poboljsanje-ni-u-2015.aspx>, downloaded on December 18, 2014

For each of these goals (except for social dialogue, because it is a too complex phenomenon that cannot be easily measured), CEA has developed CEA Score – a system of indicators that measure the achievement of goals and the results of reforms. CEA Score does not show the results of statistical measurements, but instead combines the existing and published indicators, and it does not measure the intensity of efforts in the implementation of economic policies, but their result, i.e., the degree of achievement of CEA's goals.

The total value of the Score in Croatia in 2013 amounted to 31 (0 – the worst value, 100 – the best value), which is not enough for a passing grade. The value of the Score in 2013 stagnates in relation to the values observed in years 2011 and 2012 (in 2011, the value of the Score was 32, and in 2012 it was 30). The lowest value was recorded in the areas of productivity and competitiveness (15) and entrepreneurial climate (15), followed by the judiciary (19), fiscal consolidation (22), labour market (22), encouraging investment (29), education, health and pension system and territorial constitution (30), investment and business barriers (38), efficiency of public companies (39), burden on the economy (42), public administration (43), while only the area of supply of capital recorded a passing grade (53).

In 2013, in relation to the analysed 2011 and 2012, the positive developments were manifested in increased efficiency of operations of public companies, a decrease in the number of enterprises operating at a loss, better offer of loans for enterprises, and in a relatively high level of productivity measured by real GDP. On the other hand, the negative changes were manifested in a slow decrease of interest rate, the debt to equity ratio exiting the normal intervals, the weakening of consolidation efforts in expenditures, and declining confidence of entrepreneurs.

According to the results of the Business expectations in 2015 study, CEA member enterprises marked 2014 as extremely difficult for Croatian entrepreneurs, and the general state of the economy was rated very negatively, receiving the lowest grade. For the third year 70% of respondents state the same obstacles in business: insolvency (17%), inefficient public administration (16.6%), tax burden (15.7%), followed by unclear strategy for the development of the country (10.9%), rigid labour legislation (5.7%), and obstacles to conditions for financing entrepreneurs (4.8%).

Furthermore, more than two-fifths of respondents think that the state of the economy will be even worse in 2015, and nearly half of respondents believe that the negative state from 2014 will remain. The study has shown that pessimism prevails among entrepreneurs, with the biggest business pessimism recorded among small entrepreneurs (69.2%). The most pessimistic are the entrepreneurs from the regions of Dalmatia (55.6%) and Slavonia (42.1%), and the least pessimistic are entrepreneurs from the North Adriatic region (18.2%) and the North West region (14.3%).

SMEs and Entrepreneurship Policy Center CEPOR, www.cepor.hr

CEPOR is the first think-tank in Croatia whose goal is to influence the public-political environment emphasizing the role of small and medium enterprises in the development of Croatian economy and contribute to the development of entrepreneurial culture and stimulating institutional and regulatory framework for entrepreneurial activity. CEPOR conducts independent research, prepares recommendations for government institutions for the purpose of building legislative and institutional capacity for designing and implementing effective and non-discriminatory development policies, i.e., develops policy instruments and strategic documents focused on the issues of SMEs and entrepreneurship.

In 2013, CEPOR conducted the research and published the analysis of the situation of the small and medium enterprise sector in 2012 in the publication “*SME Report for Croatia 2013*”, which includes the results of GEM research for Croatia, and policy reviews on topics *Entrepreneurial education* and *Creating preconditions for the regulation of the book market and spreading the culture of reading in the Republic of Croatia*. Through the organisation of 14 educational workshops and two round tables intended for entrepreneurs, representatives of business support institutions and institutions responsible for the implementation, monitoring and evaluation of policies towards SMEs, in 2013 CEPOR has initiated such topics as entrepreneurial education, self-employment, franchising, how to maintain the family business, generational transfer in family businesses, culture as an obstacle or an incentive in Croatian business environment, etc.

The most important activities carried out by CEPOR in 2014 were production of the Study of the Consultancy Market in Croatia, preparation of the mini guide “Business Transfer”, within the Improving Information to the Croatian Business Community – BIZimpact II project, creation of the Study for the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, organisation of the Family Business Forum, preparation of the research basis for the study of the European Commission about women entrepreneurs in Europe, and encouraging discussion on topics such as women entrepreneurship, transfer of business, perspectives of the development of the market of consultancy services for micro, small and medium enterprises in Croatia, etc.

Advisory support for family businesses in Croatia – CEPOR’s Center for Family Businesses and Business Transfer

Family businesses are an important part of every economy, especially in the developed countries where a lot of attention and research is dedicated to family businesses. The concept of family business is not officially defined in Croatia, which prevents identification, monitoring of development or projection of influence of family businesses on the Croatian economy. It is assumed that 50% of employees in Croatia works in family businesses, that most micro and small enterprises in Croatia are family businesses, and that they are owned by the first generation of entrepreneurs who manage them at the same time.

One of the major problems of sustainability of family businesses is the issue of the transfer of ownership and management of the enterprise after the withdrawal of the founder from the control (and ownership) function in the enterprise, which, due to the connection of these two functions in the role of the founder of a family business, is their specificity. The complexity of this process is enhanced by the fact that the majority of owners of family businesses in Croatia do not have personal experience of inheriting businesses from previous generations.

*In order to encourage the development of the market segment of advisory services intended for family businesses, especially in the process of business transfer, CEPOR launched the **Center for Family Businesses and Business Transfer in 2014**, which aims to provide expert – advisory and educational assistance to owners of family businesses in the process of business transfer.*

In October of 2013 and December of 2014, CEPOR organised the Family Business Forum, and prepared a mini guide for the business community on the topic of Business Transfer within the EU project BIZimpact II – Improving Information to the Croatian Business Community⁷⁹.

Since 2014, CEPOR is a member of TRANSEO⁸⁰ – European Association for SME Transfer.

79 http://www.bizimpact.hr/download/documents/read/prijenos-poslovanja_106, downloaded on December 15, 2014

80 TRANSEO – European Association for SME Transfer, <http://www.transeo-association.eu/>

European Bank for Reconstruction and Development (EBRD), www.ebrd.com
Small Business Support Team (SBS)

Through the Small Business Support team – SBS, European Bank for Reconstruction and Development provides support to small and medium enterprises in accessing professional business information and advisory services significant for achieving growth, exports and increasing employment, with a special emphasis on increasing the capacity to compete in the EU market and the areas of women entrepreneurship and energy efficiency. Since the start of operation in Croatia in 1999, the SBS team has awarded 5 million EUR of donor funds, to nearly 600 enterprises. In the period from 2011 to 2013, SBS's clients have achieved an increase in turnover by an average of 7% (51% enterprises), a significant increase in employment (a total of 342 new jobs), and secured access to external sources of financing necessary for enterprise growth (30% of enterprises).

Entrepreneurial centers

Entrepreneurial centers are part of the business support infrastructure, whose objective is to provide advisory and educational services for the launching and development of entrepreneurial ventures (information about possibilities for starting a business venture and incentive measures, advice for conducting business, help in preparation of business plans, etc.). Entrepreneurial centers organise seminars and other forms of additional education and cooperate with local and regional administration on implementation of development programs. Centers operate as parts of county/city administration, as independent enterprises or as associations i.e., nongovernmental organisations, and are financed from local budgets, donations of international organisations, European Union projects, Ministry of Entrepreneurship and Crafts aids and own sources of financing. Over the years of work some of entrepreneurial centers have developed into regional development agencies. In 2013, over 50 entrepreneurial centers operated in Croatia, and in 2014 there were 44 entrepreneurial centers⁸¹.

Entrepreneurial Center Pakrac – an example of good practice of entrepreneurial centers

Entrepreneurial Center Pakrac (www.pc-pakrac.hr), the first entrepreneurial center established in Požega-Slavonia County in 2000, and one of the oldest in the Republic of Croatia, is an example of good practice of entrepreneurial centers. Through its activity, the Center has a leading role in economic development and the promotion of entrepreneurship at the local level, with the following activities: counselling, creation of business plans, preparation or participation in implementation and preparation of EU projects, training, book-keeping services, consulting and services of preparation of projects for tenders of the Ministry of Entrepreneurship and Crafts, and rental of space. In the last 12 years, the Center has prepared or participated in implementation of more than 15 EU projects, and is the only entrepreneurial center in Croatia that has used funds from all three available programs for infrastructural projects. Each year, Center on average holds over 200 hours of training with participation of more than 15 trainers and experts in the fields of economics, marketing, informatics and entrepreneurship, as well as 120 attendees.

81 CEPOR, Map of institutional support of entrepreneurship development – Entrepreneurial centers, www.cepor.hr

Business incubators

According to the EU definition, business incubator is a limited space that gathers newly created companies that are just beginning to operate and do not have their own space. Incubators provide shared infrastructure (computer equipment, accounting services), intellectual and business services in order to increase the success and survival of newly established entrepreneurial ventures. The incubation period lasts up to three years, after which companies become independent and give way to other enterprises. Business incubators are one of the tools for generating new small enterprises, which become financially self-sustainable and independent upon exiting incubators.

There are 38 incubators in Croatia⁸². Incubators, same as entrepreneurial centres, are financed from local budgets, donations of international organisations, European Union projects, Ministry of Economy, Labour and Entrepreneurship funds, and sales of their services.

Zagreb Incubator of Entrepreneurship – an example of good practice of business incubators

Zagreb Incubator of Entrepreneurship (www.zipzg.com), which was founded in 2012 as the first incubator focused exclusively on high-tech projects, is an example of good practice of business incubators. In order to encourage and popularise launching entrepreneurial projects, ZIP organises start-up camps, conferences, trainings and motivational workshops, with over 40 domestic and foreign mentors working on the programs. Since 2012, 31 teams have passed through ZIP's programs, and 16 companies were established in Croatia and abroad.

Business and technology parks

Business parks are registered legal persons that provide physical space, land and resources for accommodation of businesses entities on a commercial basis. Business parks in Croatia are: Business Park Bjelovar, Business Park Virovitica, Business Park Zagreb, Business Park Međimurje and Business Park Karlovac.

Technology Parks connect experts and entrepreneurs with the intention of achieving economic goals with the help on new technologies. Technology parks place emphasis on development and scientific-research activities, and they are established primarily in the vicinity of higher education institutions and research centers i.e. important economic-technological systems. Technology parks⁸³ in Croatia are: Technology Park Varaždin, Technology – Innovation Centre of Rijeka, Technology Park Zagreb, Technology Center Split, Technology Development Centre – Regional Development Agency of Brod-Posavina County, Technology Department – Business Incubator BIOS, Technology Innovation Centre Međimurje, Science and Technology Park of the University of Rijeka, Technology Park BISC Nova Gradiška and Technology Park Vinkovci.

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

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

Technology Park Varaždin – an example of good practice of technology parks

Technology Park Varaždin (www.tp-vz.hr) is an example of good practice of technology parks in Croatia. The main activities are focused on the implementation of the incubation process for technologically innovative “start-up” enterprises, establishment of a mechanism for improvement of the existing technologically innovative enterprises, improving the transfer of knowledge to the business community, networking of enterprises, educational institutions, development agencies and innovative individuals, and on building perception of the importance of innovation for economic development. Since its establishment in 2002 until the end of 2014, Technology Park Varaždin has incubated more than 60 technologically innovative enterprises with over 400 employees, and has implemented 10 EU projects. By the end of 2015, Technology Park Varaždin will complete the project for preparation of construction of a new building and equipping of a research and development laboratory, and the construction itself will begin in 2016.

Entrepreneurial zones

Entrepreneurial zones promote development of small and medium enterprises by providing benefits to entrepreneurs in construction of business premises on land that is fully equipped with infrastructure. The objective of the development of entrepreneurial zones at the level of local and regional administration is to encourage balanced development and increase employment. There are about 370 entrepreneurial zones in Croatia⁸⁴.

Entrepreneurial Zone Pisarovina – an example of good practice of entrepreneurial zones

Entrepreneurial Zone Pisarovina (www.pisarovina.hr), whose total area is 100 hectares, and is intended exclusively for carrying out manufacturing, industrial, storage and trading activities, is an example of good practice of entrepreneurial zones in Croatia. By the end of 2014, 52 entrepreneurs have invested in the zone, with the major benefits for investors being: cooperation and assistance in the preparation of spatial planning documents and permits, carried out geomechanical study, continuous investment in infrastructure development and low operating costs (public utility fees and municipal surtax).

Development agencies

Development agencies encourage the development of small and medium enterprises by providing financial support, conducting training programs, developing entrepreneurial infrastructure, informing and advising entrepreneurs. Development agencies provide services to potential foreign investors, while regional development agencies initiate and coordinate interregional and international projects aimed at creating a favourable entrepreneurial climate. There are 46 development agencies in Croatia, some of which are regional⁸⁵.

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

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

LORA – an example of good practice of local development agencies

Local Development Agency Business Park Bjelovar LORA d.o.o. (www.poslovni-park.hr) is an example of good practice of local development agencies. The main goal of LORA is to create better preconditions for economic development of the region through implementation of development projects, and to provide support to sustainable development processes in the Bjelovar region. The main activities are preparation of strategic documents, investment studies and business plans (development strategies and plans, sector analyses); managing the business incubator; providing information to potential investors through the work of the Info center for investors; advising entrepreneurs during the process of application for tenders of ministries and EU funds; preparation, implementation and administration of projects financed by the EU; promoting e-Business of entrepreneurs; education for entrepreneurs (over 200 users of various education programs on annual basis), local and regional self-government units and associations. Since its establishment in 2002 until 2014, LORA has implemented 32 projects as a project leader or partner. In 2013, by providing advisory and consulting services and project application services to small and medium enterprises, the Agency has secured the amount of 7,877,222 HRK from national and international funds.

European Enterprise Network (EEN)

European Enterprise Network (www.een.hr) provides support and advisory services to entrepreneurs in Europe with the aim 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 large business entities, research centers and European universities. EEN is composed of almost 600 partner organisations and institutions (chambers, agencies, institutes, etc.), it provides contacts and connections in 49 countries and 83 consortiums, and connects over 4,000 experts in the field of entrepreneurship, innovation and technology transfer. EEN's network in Croatia consists of regional partners in Osijek (Technology Development Centre – Tera Tehnopolis), Rijeka (Science and Technology Park of the University of Rijeka – STeP Ri), Split (Technology Transfer Office), Varaždin (Technology park) and Zagreb (Croatian Chamber of Economy, HAMAG-BICRO).

In 2013, the network of regional EEN partners in Croatia organised 34 direct meetings with enterprises, organised 21 trainings for entrepreneurs on doing business in the EU, enrolled 120 Croatian companies in an online system that provides opportunities to enter foreign markets, promoted 420 profiles of foreign companies, received 265 foreign requests for profiles of Croatian companies, and processed 400 requests of Croatian companies for profiles of foreign companies, organised 7 events with the participation of 246 Croatian companies, and organised two business missions⁸⁶.

86 Source: Croatian Chamber of Economy, 2014

8. Croatia as a member of the European Union

Croatian accession to the European Union has contributed to significant changes in the Croatian economy, including the small and medium enterprise sector.

The changes are, with a somewhat higher level of intensity, evident in the area of **business regulation**, (changes in trade agreements and tariffs, the elimination of customs duties with the EU, Croatian withdrawal from the CEFTA agreement and increase in the price of exports of Croatian products to the member countries of CEFTA, the abolition of the zero rate of VAT on some products, the necessity of meeting environmental and technical standards of the EU as a precondition for selling Croatian products in the EU market, harmonisation of public procurement aimed at increasing the possibilities for participation of SMEs); and in the area of **support to small and medium enterprises** through the increased availability of EU funds. More significant intensity of changes is still expected in the area of **business and investment climate** (changes in policy and practice of issuing construction permits, taxes, licences, and the impact on payment discipline, legal procedures, promotion and protection of investments), and in the area of **market conditions**, i.e., possibilities for small and medium enterprises to enter the EU market. In addition to removing technical barriers to operation of Croatian companies in the EU market, it is of exceptional importance to strengthen the competitiveness of the SME sector in order to increase export activities and improve access to learning and innovation through more intensive collaboration with more developed foreign enterprises.

Access to finance from European Union funds

- **Instrument for Pre-Accession Assistance – IPA**

Until joining the European Union, funding from the Instrument for Pre-Accession Assistance – IPA for the period 2007–2013 was available to Croatia. The financial value of the IPA program for the Republic of Croatia in that period was 997.6 million EUR⁸⁷, and it was allocated to the following programs: transition assistance and institution building, cross-border cooperation, regional development, human resources development and rural development. The funds that were available for 2013 amounted to 93.5 million EUR, which is 9% of the total funds allocated in the period from 2007 to 2013 (Table 42).

Table 42: Financial allocation of available IPA funds by programs, for the period 2007–2013, in million EUR

Components of IPA program	2007	2008	2009	2010	2011	2012	2013
Transition assistance and institution building	49.61	45.37	45.60	39.48	39.96	39.97	17.44
Cross-border cooperation	9.69	14.73	15.90	15.60	15.87	16.44	9.75
Regional development	45.05	47.60	49.70	56.80	58.20	57.45	30.09
Human resources development	11.38	12.70	14.20	15.70	16.00	15.90	8.55
Rural development	25.50	25.60	25.80	26.00	26.50	25.82	27.70
Total	141.23	146.00	151.20	153.58	156.53	155.58	93.52

Source: *Structural investment funds, 2013*

⁸⁷ Source: <http://www.strukturnifondovi.hr/ipa2007-2013>, downloaded on December 04, 2013

According to the Government of the Republic of Croatia⁸⁸, in the period from January 1 to December 31, 2013, the European Commission has transferred a total of 127.01 million euro to the account of the National Fund, i.e., 30.38% of the total transferred amount of 418.03 million euro since the beginning of the implementation of the IPA program. The total amount transferred in 2013 was 57% higher than in 2012, when the total amount of transferred funds amounted to 80.63 million euro.

According to the same data, projects worth 133.89 million euro were contracted in 2013, i.e. 23.93% of the total contracted funds in 2013, which amount to 559.47 million euro. In the same period, end users and contractors were paid a total amount of 133.28 million euro (19% more than in 2012), i.e., 35.85% of the total paid amount since the start of implementation, which is 371.77 million euro. By the end of 2013, 66.45% of the total amount contracted since the beginning of the implementation of the IPA program was paid (Table 43).

Table 43: Financial overview of the IPA pre-accession program 2007–2013 for the Republic of Croatia

	December 31, 2012	December 31, 2013
Total allocated funds, million EUR	693.73	1,254.66
Contracted funds, million EUR	111.47	133.89
Contracted / total allocated, %	16.07%	10.67%
Transferred funds from the European Commission, million EUR	80.63	127.01
Total funds allocated by the European Commission / total allocated funds, %	11.62%	10.12%
Paid to end users, million EUR	111.47	133.28
Paid / total contracted, %	27.91%	23.82%

Source: Report on the use of pre-accession EU assistance funds, <http://www.strukturnifondovi.hr/izvjesca-o-koristenju-pretpriustupnih-programa-pomoci-europske-unije>, downloaded on November 25, 2014

Total contracted funds from the Instrument for Pre-Accession Assistance – IPA for 2013 are 559.47 million euro, and have increased by 26.7% compared to 2012, when the total contracted funds amounted to 410.09 million euro.

88 "Report on the use of pre-accession EU assistance programs for the period from January 1 to June 30, 2013", November 2013 and "Report on the use of pre-accession EU assistance programs for the period from July 1 to December 31, 2013", September 2014, Government of the Republic of Croatia, <http://www.strukturnifondovi.hr/izvjesca-o-koristenju-pretpriustupnih-programa-pomoci-europske-unije>, downloaded on November 25, 2014

EUčinkovitost – research on IPA program funds (2007–2013)⁸⁹

According to the results of the EUčinkovitost research conducted in 2014, which covered funds allocated through the IPA program (2007–2013), of the total number of EU projects, 67.1% of projects were awarded to the public sector, 11.8% to the private profit sector, and 21.1% to the private non-profit sector. By regions, the largest number of projects was awarded to Continental Croatia (74.3%), which encompasses 14 counties and about 67% of population, 25.3% of projects were awarded to Adriatic Croatia, which encompasses 7 counties and 33% of population, while 0.4% of projects were awarded to international organisations.

The research shows that the average time from submission of project proposal to signing of contract was 14 months and 17 days, that, although the achievement of the set results is 95%, the number of projects in which those results are fully sustainable is only 50%, while 73.1% of users prepare projects as continuation of the previous ones. Furthermore, project users have spent 15% more time than planned on project administration, and project users' satisfaction with the work of contracting bodies is 3.44 (on a scale from 1 (worst) to 5 (best)).

The time required from submission of a report to disbursement of funds is 11 months and 23 days, and 69% of users use their own resources to bridge the financial gap that occurs from the moment the funds are spent to the disbursement of the funds upon the approval of the report, while 31% of users borrow the funds or use a loan.

Only 2.23% of reports were approved without requests for changes or amendments, and the most common reasons for inadmissibility of costs were irregularities in the conduct of public procurement, unjustified budget overruns, and unacceptable end results of the project. Expert assistance in public procurement is the most common service that users consider worthwhile investing in, in order to increase the success of EU projects, followed by expert assistance in managing the implementation of the project, lectures and workshops in the field of project implementation, expert assistance in project development, and lectures and workshops in the field of development of project ideas.

• **Cohesion Policy**

By joining the European Union, Croatia became a beneficiary of financial resources from European funds aimed at supporting the implementation of European Union's policies in member states.

Cohesion Policy is the second financially most important common policy of the European Union, with the main objective to achieve balanced development within the EU and strengthen economic, social and territorial cohesion. The European Union has identified three areas / objectives whose achievement is a prerequisite for achieving the main objectives of the Cohesion Policy, namely:

1. Convergence, i.e., stimulating growth and employment in the least developed regions;
2. Regional competitiveness and employment, i.e., strengthening regional competitiveness and attractiveness, and employment, by anticipating economic and social changes;
3. European Territorial cooperation, i.e., strengthening cooperation at cross-border, transnational and interregional levels.

⁸⁹ Research on IPA program funds (2007–2013) for supporting projects of private and public organisations in Croatia allocated through tenders for awarding grants was conducted by Projekt Jednako Razvoj d.o.o. in 2014. The research does not include IPARD programs and cross-border programs with EU member countries. The research involved 390 EU projects (67.7%) of the total of 576 EU projects that make up the population of the research.

The main instruments for achieving the objectives of the Cohesion Policy are Cohesion Fund, European Regional Development Fund and European Social Fund, while investment projects in fisheries and agriculture within the Common Agricultural Policy and Common Fisheries Policy are financed through European Agricultural Fund for Rural Development and European Maritime and Fisheries Fund (Table 44).

Table 44: Allocations for Croatia within the Cohesion Policy for the period of 2014–2020

Cohesion Policy instrument	Allocation for Croatia (billion EUR)
Cohesion Fund	2.56
European Regional Development Fund	4.32
European Social Fund	1.52
European Agricultural Fund for Rural Development	2.03
European Maritime and Fisheries Fund	0.25
Total	10.68

Source: *Regional development and EU structural funds – opportunities and challenges for the Croatian economy*, Croatian Chamber of Economy, http://www.poslovnih.hr/media/article_upload/files/81/81374f7a7eaca2f476c7fe1610cd8fa.pdf, downloaded on March 24, 2015

For the first six months of membership, i.e., during the second half of 2013, Croatia had 800 million euro at its disposal, of which 449.4 million euro was earmarked for the implementation of the Cohesion Policy⁹⁰. In the financial period from 2014 to 2020, 8 billion euro is foreseen for Croatia, which accounts for about 68.5% of total value of the national envelope whose total estimated value is 11.7 billion euro⁹¹.

- **Cohesion Fund**

The Cohesion Fund aims to reduce economic and social disparities among member states, and Cohesion Fund resources are intended for large-scale projects (at least 25 million euro) whose beneficiaries can be public authorities, local and regional self-government units, utility companies owned by local and regional self-governments, ministries, agencies dealing with transport and environment, and other similar organisations. The activities financed from this Fund in the environmental sector are improvement of environmental infrastructure with the aim of adopting EU standards for environmental protection and efficient use of energy and use of renewable energy sources, while the activities financed within the transport sector are Trans-European Transport Networks and transport infrastructure.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is 2.56 billion euro, and it is allowed to finance up to 85% of project costs.

90 <http://www.strukturifondovi.hr/eu-fondovi>, downloaded on December 1, 2014

91 "EU funds 2014–2020 – Mini guide through European structural and investment funds with examples of projects", Institute for Entrepreneurship Development and European Projects, 2013, http://www.eu-projekti.info/eu/wp-content/uploads/2013/06/EU-fondovi-brosura_web.pdf, downloaded on December 1, 2014

Example of good practice of utilisation of funds from the Cohesion Fund in the Czech Republic⁹²

Upgrading of the water supply system in the Severozapad region in the Czech Republic, has extended and infrastructurally enhanced the existing system of sewage disposal in the cities of Cheb and Mariánské Lázně, with the consequence of the implementation of the project being a reduction in pollution and eutrophication of surface waters. In addition to significantly increased quality of life, the direct result of the implementation of this project were 300 new jobs in the Severozapad region. The total value of the project amounted to 21,965,548 euro, while the amount of co-financing from EU funds was 15,414,543 euro.

• European Regional Development Fund

European Regional Development Fund is a structural fund which is aimed at strengthening economic and social cohesion, and is used for investments in small and medium enterprises, production, strengthening the tourism offer, investments in informatisation of the society, and regional and local infrastructure. The beneficiaries of the Fund are state administration bodies, small and medium enterprises and scientific and research centers, and the activities that can be financed are improvement of municipal waste collection and disposal, remediation and closure of inadequate landfills and remediation of highly polluted sites, ensuring favourable conditions for the conservation of nature and biodiversity, surveying and mapping marine habitats with the purpose of defining proposals for ecological network Natura 2000 in the sea, improving visitor infrastructure in protected areas, improving the evaluation of air quality, contribution to the security of energy supply, reduction of climate change and strengthening the competitiveness of the Croatian economy through activities such as improving the business environment, increasing competitiveness of small and medium enterprises and conditions for technology transfer and supporting knowledge-based economy activities.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is 4.32 billion euro, and it is allowed to finance from 50 to 75% of project costs.

• European Social Fund

European Social Fund is a structural fund the purpose of which is to achieve the strategic objectives of employment policy in European regions that are affected by high unemployment rate, i.e., integration of groups that are long-term unemployed or otherwise disadvantaged in the labour market. The beneficiaries of this Fund are organisations from the public, business and civil sectors, and the activities that are eligible for funding are encouraging investment in human resources through education, training and retraining, supporting the return of unemployed to active labour force, adjustment to economic changes, improving access to the labour market for all the unemployed, social inclusion of disadvantaged people and providing support to employment services.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is 1.52 billion euro, and it is allowed to finance from 50 to 75% of project costs.

⁹² EU funds 2014–2020 – Mini guide through European structural and investment funds with examples of projects*, Institute for Entrepreneurship Development and European Projects, 2013, http://www.eu-projekti.info/eu/wp-content/uploads/2013/06/EU-fondovi-brosura_web.pdf, downloaded on December 1, 2014

Example of good practice of utilisation of funds from the European Social Fund in Ireland⁹³

The “Second Chance – Adult Education in Ireland” project provides constant support and individual approach to long-term unemployed due to unfavourable levels of education. The project covers 94 centers throughout Ireland, and the “second chance” scheme for acquiring new qualifications was created as a response to low levels of general and vocational education of the long-term unemployed population. The project promotes social inclusion of the unemployed and their families by providing the possibility to take professional state examinations, which guarantee retraining. The project also focuses on strengthening self-confidence in everyday situations from which people were excluded during the period of unemployment.

Each year 5000 people participate in the project, and centers hold trainings that last from two to three years. Persons older than 21, unemployed for half a year, single parents, people with developmental disabilities and other dependent persons are eligible to apply. Trainings are free of charge and attendants receive scholarships corresponding to the offered benefits.

The total value of the project is 195,127,652 euro, and the amount of co-financing from EU funds is 65,128,652 euro.

• European Agricultural Fund for Rural Development

European Agricultural Fund for Rural Development aims to strengthen European rural development policy and simplify its implementation. The beneficiaries of this Fund are agricultural economic entities, agricultural organisations, associations and trade unions, environmental protection associations, organisations providing services in culture, including the media, women’s associations, farmers, foresters and youth. Activities that are financed from this Fund are aimed at strengthening the competitiveness of the agricultural and forestry sectors, environmental protection and development of natural resources, and the improvement of living conditions and economic diversification in rural areas.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is 2.03 billion euro, and it is allowed to finance up to 85% of project costs.

93 EU funds 2014–2020 – Mini guide through European structural and investment funds with examples of projects”, Institute for Entrepreneurship Development and European Projects, 2013, http://www.eu-projekti.info/eu/wp-content/uploads/2013/06/EU-fondovi-brosura_web.pdf, downloaded on December 1, 2014

Example of good practice of utilisation of funds from the European Agricultural Fund for Rural Development in Lithuania⁹⁴

The “Rural Area Information Technology Broadband Network – Rain” project has improved the availability of broadband services in rural parts of Lithuania, bringing benefits to individuals, enterprises, and a wide network of public institutions and services. The technical solutions are planned for a longer period of time and are focused on eliminating digital inaccessibility of rural areas. Through this project, 340 new jobs will be created, 140 of which for the long-term (a minimum of 20 years). Around 660,000 citizens, 2,000 enterprises and 9.000 public institutions benefit directly from this project. Also, implementation of the project changes the image of rural parts as unattractive for commercial investment in broadband electronic communication infrastructure.

The total value of this project is 50,125,500 euro, and the amount of EU co-financing is 42,606,600 euro.

• European Maritime and Fisheries Fund

European Maritime and Fisheries Fund covers all sectors of the industry – maritime and freshwater fishing, aquaculture and processing and trade in fish products. The beneficiaries of this Fund are economic entities and associations, and the activities that are financed are adjustment of the fishing fleet, aquaculture, processing and marketing of fish on the fish product market, freshwater fishing, actions aimed at achieving the common interest of the whole EU territory, sustainable development of fisheries areas and technical assistance for financing the administrative apparatus of the Fund.

The total amount of funds from this Fund for the period 2014–2020 for Croatia is 0.25 billion euro, and it is allowed to finance up to 85% of project costs.

Example of good practice of utilisation of funds from the European Maritime and Fisheries Fund in the United Kingdom⁹⁵

The “Expansion of Fish Frying Plant in the United Kingdom” project finances the expansion of the factory and installation of new equipment for frying and freezing fish. With this investment, the factory area is increased by 59%, and the new facilities will be fully compatible with the existing installations for thermal treatment of fish. The expansion of production capacity will enable employment of five additional workers, and thus it will be possible to process larger quantities of locally caught fish.

The total value of the project is 1,227,572 euro, and the amount co-financed from the EU Fund is 245,514 euro.

94 EU funds 2014–2020 – Mini guide through European structural and investment funds with examples of projects”, Institute for Entrepreneurship Development and European Projects, 2013, http://www.eu-projekti.info/eu/wp-content/uploads/2013/06/EU-fondovi-brosura_web.pdf, downloaded on December 1, 2014

95 EU funds 2014–2020 – Mini guide through European structural and investment funds with examples of projects”, Institute for Entrepreneurship Development and European Projects, 2013, http://www.eu-projekti.info/eu/wp-content/uploads/2013/06/EU-fondovi-brosura_web.pdf, downloaded on December 1, 2014

Conclusion

SME Report for Croatia 2014 provides an overview of the situation in the small and medium enterprise in Croatia in 2013 and 2014. The report was initiated by the need to consolidate a multitude fragmented information and data on small and medium enterprises, and provides a comprehensive insight into the issues and development trends of this important sector of the economy. Similar representations of the state of small and medium enterprises are also published in other countries, e.g. Slovenia⁹⁶, Bulgaria⁹⁷, Italy⁹⁸ and at the level of the whole European Union⁹⁹.

Results of national and international studies indicate a high level of consensus on the problems, causes and recommendations concerning the state of the small and medium enterprise sector in Croatia. Removal of obstacles and development of a vibrant small and medium enterprise sector can be achieved with political will and coordinated activity of all the relevant stakeholders in the Republic of Croatia.

Analysing the results and recommendations of national and international studies whose results are presented and discussed in this Report, the following conclusions can be identified:

Situation in the small and medium enterprise sector in Croatia

Small and medium enterprise sector has a very important role in the Croatian economy. In 2013, the share of small and medium enterprises in total income was 52.1%, and increase of 1.1 percentage point in relation to the previous year. The share of small and medium enterprises in total exports in 2013 was 48.2%, which is a slight increase compared to 2012. In 2013, small and medium enterprises are still the largest employer in Croatia, with the share in employment of 68%. Despite the still present unfavourable trend development of economic activity in Croatia, in 2013 compared to the previous year, small enterprises have recorded an increase in employment of 1.9%, medium enterprises an increase of 5.5%, while a decline in employment of 2.7% was recorded in large enterprises.

In 2013 an increase in the number of business entities by 4% was recorded, but the structure of the economy with regard to enterprise size remained unchanged. The share of small and medium enterprises in the total number of business entities in Croatia in 2013 was 99.7% (100,841 business entities), while the number of large enterprises in Croatia was only 350 (0.3%).

Encouraging the development of women entrepreneurship

The results of GEM research indicate significant obstacles and ineffectiveness of applied programs and measures for the development of women entrepreneurship in Croatia, and the need for a wider spectrum of policy instruments and programs as an incentive for the development of women's entrepreneurial ventures. Although there are programs aimed at encouraging entrepreneurial activity of women, it is still significantly lower than the activity of the male population (in

96 Sirec, K., Rebernik, M. (eds): „Stanje slovenskog podjetništva iz izzivi izobraženja za podjetnost – Slovenski podjetniški observatorij 2013“, Univerza v Mariboru, Ekonomska – poslovna fakulteta, 2014

97 Annual Report on SMEs in Bulgaria 2008 – Annual Report on the Condition and Development of Small and Medium-sized Enterprises in Bulgaria, Economic Policy Directorate & Center for Economic Development & Agency Economica, 2008

98 Italy country report on SMEs needs, Italian National Agency for New Technologies, Energy and Sustainable Economic Development, 2009

99 Annual Report on European SMEs 2013/2014, European Commission, 2014

2013, according to GEM research, TEA index for women was 2.24 times lower than TEA index for men). The objective of the implementation of the Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020¹⁰⁰, which was adopted by the Government of the Republic of Croatia in June of 2014, is to reduce the gap between entrepreneurial activity of women and men to the value of TEA indicator in the EU, which is 1.86. Analysis of the Report on Implementation of the Strategy 2010–2013 has identified the still present key issues of women entrepreneurship in Croatia: underrepresentation in entrepreneurial activities and employment, significant predomination in unemployment, incoherence of activities for strengthening women entrepreneurship, and significant underrepresentation in management and underrepresentation in ownership structure.

Legislative and institutional framework

The institutional and legislative framework for the development of the small and medium enterprise sector in Croatia cannot be assessed as stimulating. Reports of international research projects for many years as the main obstacles to the development of small and medium enterprises in Croatia emphasize the complexity of legislative procedures in starting and carrying out entrepreneurial activities, which also have a negative impact on the level of corruption, which has remained virtually unchanged in the past several years. Regular evaluation of the effects of the legislative framework on the environment in which small and medium enterprises operate, especially when introducing new legal regulations, should be implemented by the Government in accordance with the Think Small First principle adopted by the European Union.

Still present in 2013 is the excessive involvement of the Ministry of Entrepreneurship and Crafts in operational programs that should be transferred to implementing agencies and institutions (such as HAMAG BICRO and HBOR). The role of Croatian Employers' Association, Croatian Chamber of Economy, Croatian Chamber of Trades and Crafts and CEPOR – SMEs and Entrepreneurship Policy Center in developing policies related to the small and medium enterprise sector should be more visible and emphasized.

Access to financing

Bearing in mind the type of money needed for different stages of development of entrepreneurial ventures, access to financing in Croatia for small and medium enterprises can be assessed as very limited. Bank loans dominate, and there is a lack of non-traditional sources of financing for riskier stages of entrepreneurial ventures, such as venture capital funds and business angels, which, although recognised, are still not often used as an important source of financing for small and medium enterprises in Croatia.

The characteristics of the implementation of Government's support programs in providing access to financing for small and medium enterprises in Croatia are: (1) inability to evaluate the effectiveness of funding programs because of the lack of detailed feedback on the contribution of existing loan programs to the creation of new jobs, retaining of existing jobs or launching of new entrepreneurial ventures; (2) non-transparency of efficiency, incoherence and lack of coordination between funding programs intended for small and medium enterprises, which are implemented by relevant ministries; (3) operational implementation of funding programs by the Ministry of Entrepreneurship and Crafts, which represents a departure from the Ministry's primary role – focusing on policy and regulatory aspects of the small and medium enterprise sector.

¹⁰⁰ Strategy of Women Entrepreneurship Development in the Republic of Croatia 2014–2020, Government of the Republic of Croatia, Ministry of Entrepreneurship and Crafts, 2014

Education for entrepreneurship

Education for and about entrepreneurship is insufficiently represented at all formal levels of education. Entrepreneurial education as knowledge and skill required to achieve entrepreneurial competence is still not recognised and is minimally represented in the curriculum at the primary level of the Croatian education system. In secondary education, entrepreneurship is recognised as an important set of knowledge and skills only in vocational schools, and is introduced as a mandatory subject in the curriculum of economy secondary schools. In the higher education system, entrepreneurship is present on at least one level of study at five Croatian universities, and at four polytechnics and two colleges.

Non-formal education for entrepreneurship is conducted primarily by business support institutions, and it is mainly focused on the topics that are suggested and co-financed by the Ministry of Entrepreneurship and Crafts through the Training for entrepreneurship and crafts and preservation of traditional and artistic crafts project.

Access to information and advisory services

Access to information and advisory services has still not improved, and the results of GEM research in Croatia indicate stagnation of the grade on the perception of quality of professional infrastructural support for the development of the small and medium enterprise sector in 2013, and a worse grade of commercial and professional infrastructure in Croatia compared to other countries involved in the GEM research. According to the results of the Study of the Consultancy Market in Croatia from 2014, advisory infrastructure for the development of the MSME sector in Croatia consists of business support institutions and private professional consulting companies. Services of business support institutions are primarily focused on providing information and advisory services related to the preparation of business plans and submission of project applications for published tenders, while professional consultants, in contrast to most business support institutions, provide more complex and more specialised advisory services.

Croatia as a member of the EU

Accession of the Republic of Croatia to the European Union has generated significant changes for the Croatian economy, which have affected the small and medium enterprise sector in the area of business regulation, investment and business environment, support to small and medium enterprises and conditions on the markets of these enterprises. The survival and development of Croatian small and medium enterprises in the European Union market depend on their competitiveness and ability to adapt to the challenges of a demanding market, new regulations and fierce competition in the European Union.

Until joining the European Union, funding from the Instrument for Pre-Accession Assistance – IPA for the period 2007–2013, which amounted to 997.6 million EUR, was available to Croatia, while by joining the European Union, Croatia became a beneficiary of financial resources from European funds aimed at supporting the implementation of the European Union Cohesion Policy in member states. The main instruments for achieving the objectives of the Cohesion Policy are Cohesion Fund, European Regional Development Fund, European Social Fund, and European Maritime and Fisheries Fund and European Agricultural Fund for Rural Development. For the first six months of membership in the EU, i.e., during the second half of 2013, Croatia had 800 million euro at its disposal, of which 449.4 million euro was earmarked for the implementation of the Cohesion Policy, and in the financial period from 2014 to 2020, 8 billion euro is foreseen for Croatia.

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Reviewers comments

Miroslav Rebernik, Ph.D.
University of Maribor, Slovenia
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“The reviewed Croatian SME observatory titled „SME Report for Croatia 2014“ that also includes some research from the GEM - Global Entrepreneurship Monitor research is based on an up-to-date analysis of SME sector and entrepreneurial processes in Croatia. The reviewed monograph brings new, valuable information about small and medium sized companies in Croatia, and represents the valuable source not only to researchers but also to policy makers and educators. Namely, the modern evidence-based policy relies heavily on reliable data that allow dependable international comparisons of the SME sector and entrepreneurial processes in a given country, which is exactly the content that this monograph represents. Its cognitive value and scope of novelty is very good, as well as its methodological correctness and application value.”

Bahrija Umihanić, Ph.D.
Faculty of Economics, University of Tuzla, BiH

“I consider the publication of the SME Report for Croatia 2014 including the results of GEM – Global Entrepreneurship Monitor research for Croatia for 2013 about the issues of the small and medium enterprise sector extremely useful, firstly for competent institutions and the public, because the Report represents a relevant and consistent information base for decision-making (policies, programs and measures) that will result in improved conditions for entrepreneurial activity, enable the strengthening and promotion of entrepreneurial culture and the growth of small and medium enterprises, resulting in increased employment capacity, stronger contribution to total income and export potential of Croatia. The practice of developed countries shows that makers of policies aimed at improving the state of the economy rely on indicators of relevant studies and the recommendations of experts, which further contributes to the significance of this Report as a basis for promoting the approach that is reflected in putting research in the function of formulating policies for the development of entrepreneurship in Croatia.”



EUROPEAN FUND FOR SOUTHEAST EUROPE



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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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